

MTOUCHE TECHNOLOGY BERHAD
Company no. 656395-X
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER
ENDED 30 JUNE 2014**

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER 30 JUNE 2014 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30 JUNE 2013 RM'000	CURRENT YEAR TO-DATE 30 JUNE 2014 RM'000	PRECEDING YEAR CORRESPONDING PERIOD 30 JUNE 2013 RM'000
Revenue	7,563	7,051	14,665	16,258
Cost of sales	(5,516)	(3,234)	(9,599)	(8,985)
Gross profit	<u>2,047</u>	<u>3,817</u>	<u>5,066</u>	<u>7,273</u>
Administrative expenses	(2,599)	(2,460)	(4,905)	(5,018)
Other expenses	(1,173)	(363)	(1,735)	(393)
EBITDA*	<u>(1,725)</u>	<u>994</u>	<u>(1,575)</u>	<u>1,862</u>
Other income	85	58	166	125
Finance costs	(1)	(1)	(2)	(2)
Depreciation and amortisation	(83)	(105)	(164)	(228)
(Loss)/Profit before taxation	<u>(1,724)</u>	<u>946</u>	<u>(1,575)</u>	<u>1,757</u>
Taxation	(38)	(237)	(125)	(417)
(Loss)/Profit for the period	<u>(1,762)</u>	<u>709</u>	<u>(1,700)</u>	<u>1,340</u>
Other comprehensive income/(loss)				
Exchange difference on translating foreign operations	281	(262)	26	(66)
Total comprehensive (loss)/income	<u>(1,481)</u>	<u>447</u>	<u>(1,674)</u>	<u>1,274</u>
Total (loss)/profit attributable to:				
Equity holders of the parent	(1,594)	714	(1,566)	1,362
Minority interests	(168)	(5)	(134)	(22)
	<u>(1,762)</u>	<u>709</u>	<u>(1,700)</u>	<u>1,340</u>
Total comprehensive (loss)/income attributable to :				
Equity holders of the parent	(1,389)	440	(1,548)	1,268
Minority interests	(92)	7	(127)	6
	<u>(1,481)</u>	<u>447</u>	<u>(1,674)</u>	<u>1,274</u>
(Losses)/ Earnings per share attributable to equity holders of the parent				
- Basic and Diluted (sen)	<u>(0.74)</u>	<u>0.32</u>	<u>(0.73)</u>	<u>0.61</u>

* - EBITDA denotes "Earnings Before Interest, Tax, Depreciation and Amortisation"

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 and the accompanying explanatory notes attached to the condensed consolidated interim financial statements on pages 5 to 13.

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER
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STATEMENT OF FINANCIAL POSITION

	AS AT 30 JUNE 2014 (UNAUDITED) RM'000	AS AT 31 DECEMBER 2013 (AUDITED) RM'000
Non-current assets		
Property, plant and equipment	739	790
Intangible assets	2,203	849
Deferred tax assets	802	805
Current assets		
Trade and other receivables	9,406	7,600
Prepayments	641	296
Inventories	18	1
Tax recoverable	281	182
Cash and bank balances	12,483	16,927
	22,829	25,006
Current liabilities		
Borrowings	28	28
Tax payable	400	575
Trade and other payables	9,578	8,381
	10,006	8,984
Net current assets	12,823	16,022
	16,567	18,466
Financed by:		
Capital and reserves		
Equity attributable to equity holders of the parent		
Share capital	23,154	23,154
Share premium	4,864	4,864
Treasury shares	(5,212)	(4,653)
Warrant reserve	9,445	9,445
Capital redemption reserve	4,195	4,195
Other reserves	207	(1,277)
Accumulated losses	(19,295)	(17,729)
	17,358	17,999
Non-controlling interest	(1,067)	177
Total equity	16,291	18,176
Non-current liabilities		
Borrowings	14	28
Deferred tax liabilities	122	122
Defined benefits obligations	140	140
	16,567	18,466
Net assets per share attributable to ordinary equity holders of the parent (sen)	8	8

The unaudited condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 and the accompanying explanatory notes attached to the condensed consolidated interim financial statements on pages 5 to 13.

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STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital RM'000	Share Premium RM'000	Treasury Shares RM'000	Warrant Reserves RM'000	Non-Distributable			Total RM'000	Non- controlling Interests RM'000	Total Equity RM'000
					Capital Redemption Reserve RM'000	Other Reserves RM'000	Accumulated Losses RM'000			
Six (6) months period ended 30 June 2014										
At 1 January 2014	23,154	4,864	(4,653)	9,445	4,195	(1,277)	(17,729)	17,999	177	18,176
Comprehensive income/(loss) :										
Loss, net of tax	-	-	-	-	-	-	(1,566)	(1,566)	(134)	(1,700)
Other comprehensive income:										
Foreign currency translation	-	-	-	-	-	19	-	19	7	26
Total comprehensive income/(loss)	-	-	-	-	-	19	(1,566)	(1,547)	(127)	(1,674)
Transaction with owners:										
Treasury shares :										
Purchased	-	-	(559)	-	-	-	-	(559)	-	(559)
Arising from part disposal in equity interest in subsidiary companies										
	-	-	-	-	-	1,465	-	1,465	(1,117)	348
Total transaction with owners	-	-	(559)	-	-	1,465	-	906	(1,117)	(211)
At 30 June 2014	<u>23,154</u>	<u>4,864</u>	<u>(5,212)</u>	<u>9,445</u>	<u>4,195</u>	<u>207</u>	<u>(19,295)</u>	<u>17,358</u>	<u>(1,067)</u>	<u>16,291</u>
Six (6) months period ended 30 June 2013										
At 1 January 2013	23,154	4,864	(3,118)	9,445	4,195	(569)	(15,699)	22,272	561	22,833
Comprehensive income :										
Profit, net of tax	-	-	-	-	-	-	1,362	1,362	(22)	1,340
Other comprehensive income :										
Foreign currency translation	-	-	-	-	-	(66)	-	(66)	6	(60)
Total comprehensive income	-	-	-	-	-	(66)	1,362	1,296	(16)	1,280
Transaction with owners:										
Treasury shares :										
Purchased	-	-	(979)	-	-	-	-	(979)	-	(979)
Dividends on ordinary shares	-	-	-	-	-	-	(2,218)	(2,218)	-	(2,218)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(206)	(206)
Total transaction with owners	-	-	(979)	-	-	-	(2,218)	(3,197)	(206)	(3,403)
At 30 June 2013	<u>23,154</u>	<u>4,864</u>	<u>(4,097)</u>	<u>9,445</u>	<u>4,195</u>	<u>(635)</u>	<u>(16,555)</u>	<u>20,371</u>	<u>339</u>	<u>20,710</u>

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 and the accompanying explanatory notes attached to the condensed consolidated interim financial statements on pages 5 to 13.

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STATEMENT OF CASH FLOWS

	SIX (6) MONTHS ENDED 30 JUNE 2014 RM'000	SIX (6) MONTHS ENDED 30 JUNE 2013 RM'000
Cash flows from operating activities		
(Loss)/Profit before taxation	(1,575)	1,757
Adjustments for non-cash item:		
Non-cash items	164	228
Non-operating items	57	(398)
Impairment of goodwill	252	-
Plant and equipment written off	1	-
(Loss)/Profit before working capital changes	<u>(1,101)</u>	<u>1,587</u>
Changes in working capital:		
Net change in current assets	(2,168)	242
Net change in current liabilities	<u>1,197</u>	<u>(2,449)</u>
Cash used in operations	<u>(2,072)</u>	<u>(620)</u>
Tax paid	<u>(397)</u>	<u>(47)</u>
Net cash used in operating activities	<u>(2,469)</u>	<u>(667)</u>
Cash flows from investing activities		
Acquisition of plant and equipment	(113)	(329)
Acquisition of intangible assets	(1,354)	-
Interest received	67	125
Net cash used in investing activities	<u>(1,400)</u>	<u>(204)</u>
Cash flows from financing activities		
Purchase of treasury shares	(559)	(979)
Interest paid	(2)	(2)
Dividend paid	-	(2,218)
Repayment of hire purchase	(14)	(13)
Net cash used in financing activities	<u>(575)</u>	<u>(3,212)</u>
Net decrease in cash and cash equivalents	<u>(4,444)</u>	<u>(4,083)</u>
Cash and cash equivalents at 1 January	16,927	21,155
Cash and cash equivalents at end of period (i)	<u><u>12,483</u></u>	<u><u>17,072</u></u>

i) Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

Cash and bank balances	<u>12,483</u>	<u>17,072</u>
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The unaudited condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 and the accompanying explanatory notes attached to the condensed consolidated interim financial statements on pages 5 to 13.

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**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134 INTERIM FINANCIAL REPORTING

A1. Basis of Preparation

These condensed consolidated interim financial statements, for the period ended 30 June 2014, have been prepared in accordance with Malaysian Financial Reporting Standard (“MFRS”) 134 Interim Financial Reporting and Chapter 9, Part K Rule 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad for the ACE Market. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements should be read in conjunction with the latest audited financial statements of mTouche Technology Berhad (“MTB or the Company”) and its subsidiaries (“Group”) for the financial year ended (“FYE”) 31 December 2013 and are available upon request from the Company registered office at Level 10, Menara Hap Seng, No 1 & 3 Jalan P Ramlee, 50250 Kuala Lumpur.

These explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2013.

A2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements of the Group for the year ended 31 December 2013 except for the adoption of the following Standards, Amendments and Issues Committee (“IC”) Interpretations have been issued by the Malaysian Accounting Standards Board (“MASB”) which effective for annual periods beginning on and after:

Description	Effective for annual periods beginning on or after
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendment to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014

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A2. Changes in Accounting Policies (con't)

Adoption of the above standards and interpretations will have no material impact on the financial performance or position of the Group.

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to MFRS 119: Defined Benefits Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011-2013 Cycle	1 July 2014
MFRS 9: Financial Instruments (IFRS 9 issued by IASB in November 2009)	To be announced
MFRS 9: Financial Instruments (IFRS 9 issued by IASB in October 2010)	To be announced
MFRS 9: Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	To be announced

The directors expect that the adoption of the above standards and interpretations will not have any material impact on the financial performance or position of the Group except as discussed below.

MFRS 9: Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies in classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial liabilities. The Group is in the process of making assessment of the impact of the adoption of MFRS 9.

A3. Auditors' Report on the Preceding Annual Financial Statements

The auditor's report on the latest audited financial statements for the year ended 31 December 2013 was not subject to any audit qualification.

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A4. Seasonal or Cyclical Factors of Interim Operations

The results of the Group were not materially affected by any significant seasonal or cyclical factors during the current quarter under review.

A5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group during the current quarter under review.

A6. Material Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial years, which may have a material effect in the current quarter results.

A7. Issuance and Repayment of Debts and Equity Securities

The shareholders of MTB had given their approval for MTB to buy back its own shares at the Extraordinary General Meeting held on 26 August 2008 and such authority was further renewed at the 10th Annual General Meeting of MTB held on 26 June 2014. During the 6 months period ended 30 June 2014, MTB bought back from the open market 2,307,100 ordinary shares of RM0.10 each at an average price of RM0.2425 per share. The total consideration for the shares bought during the 6 months period ended 30 June 2014, including transaction cost was RM559,425, and was financed by internally generated funds. The shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965.

A8. Dividends Paid or Proposed

There were no dividends declared and paid for the current quarter under review.

A9. Segmental Information

The management determines that its geographical segments comprise the following markets which have similar characteristics:

- (i) Matured markets – countries which the Group has achieved stable penetration rate including Malaysia, Singapore, Thailand and Hong Kong.
- (ii) Emerging markets – countries with potential growth and penetration rate including Indonesia, Vietnam, Philippines and Cambodia.

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A9. Segmental Information (con't)

Segmental information by geographical segments for the six (6) months period ended 30 June 2014.

	Matured markets RM'000	Emerging markets RM'000	Elimination RM'000	Total RM'000
Revenue				
Sales to external customers	11,038	3,627	-	14,665
Inter-segment sales	1,357	-	(1,357)	-
Total revenue	<u>12,395</u>	<u>3,627</u>	<u>(1,357)</u>	<u>14,665</u>
Results				
Loss before taxation	(1,482)	(538)	(445)	(1,575)
Taxation				(125)
Loss for the period				<u>(1,700)</u>

Segmental information by geographical segments for the six (6) months period ended 30 June 2013.

	Matured markets RM'000	Emerging markets RM'000	Elimination RM'000	Total RM'000
Revenue				
Sales to external customers	14,398	1,860	-	16,258
Inter-segment sales	-	-	-	-
Total revenue	<u>14,398</u>	<u>1,860</u>	<u>-</u>	<u>16,258</u>
Results				
Profit/ (Loss) before taxation	2,288	(480)	(51)	1,757
Taxation				(417)
Profit for the period				<u>1,340</u>

A10. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment during the current quarter under review.

A11. Material Events Subsequent To the End of the Quarter

There were no material events subsequent to the end of the current quarter.

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A12. Changes in Composition of the Group

There were no changes in the composition of the Group for the current quarter under review.

A13. Contingent Assets or Changes on Contingent Liabilities

During the current quarter, mTouche (Hong Kong) Ltd, a wholly owned subsidiary of the Company was issued with an additional tax assessment by the Inland Revenue Department of Hong Kong for an amount of HKD 1,159,752 (RM488,314) for the year of assessment 2007/2008. An objection to this additional tax assessment was made to the Inland Revenue Department of Hong Kong during the current quarter as this additional assessment was in relation to profits derived outside Hong Kong.

A14. Significant Related Party Transaction

The Directors of MTB are of the opinion that there are no related party transactions which would have material impact on the financial position and the business of the Group during the current financial quarter.

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B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENT OF BURSA SECURITIES FOR THE ACE MARKET

B1. Review of Performance

For the cumulative quarter ended 30 June 2014, the Group achieved Revenue of approximately RM14.7 million and Loss Before Taxation (“LBT”) of RM1.6 million. Revenue from matured market had decreased by RM2.0 million from RM14.4 million to RM12.4 million whereas revenue from emerging markets increased by RM1.7 million from RM1.9 million to RM3.6 million as compared to the preceding corresponding quarter. The decrease in revenue from matured market was mainly due to lower WAP revenue whereas the increase in revenue from emerging market is contributed by higher WAP and telco revenue. The Gross Profit Margin decreased by 27% from 54% to 27% as compared to the preceding corresponding quarter due to increase of cost of service.

B2. Material Changes in Profit Before Taxation In Comparison to the Previous Quarter

The Group recorded an increase of 7.0% in Revenue which increased from RM7.1 million for the previous quarter to RM7.6 million for the current quarter. The Group’s Gross Profit for the current quarter had decreased by 47.4% from RM3.8 million to RM2.0 million compared to previous quarter. The Group’s performance deteriorated from a RM0.1 million profit before tax in the previous quarter to a LBT of RM1.7 million in the current quarter. The decrease in profit is mainly attributable to increase of cost of services and foreign exchange losses. There were no material expenses incurred in the quarter under review except as disclosed in Note B12.

B3. Future Prospect

The Group will continue to focus on its core mobile messaging services and drive the existing and new products across the seven (7) main countries of operation ie Malaysia, Singapore, Thailand, Hong Kong, Indonesia, Vietnam and Cambodia.

Barring unforeseen circumstances, the Directors of MTB are optimistic of the prospects ahead.

B4. Variance on Profit Forecast

Not applicable as the Group has not issued any profit forecast.

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B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30.6.2014 RM'000	Preceding year corresponding quarter 30.6.2013 RM'000	Current year to date 30.6.2014 RM'000	Preceding year corresponding period 30.6.2013 RM'000
Current tax expense:				
Malaysian income tax	-	-	-	-
Foreign tax	(38)	(237)	(123)	(417)
	(38)	(237)	(123)	(417)
Deferred tax	-	-	(2)	-
	(38)	(237)	(125)	(417)

Malaysian income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit for the year. Taxation for other jurisdiction is calculated at the rate prevailing in the respective jurisdiction.

No provision for taxation has been made on the chargeable income of MTB, as there was no income tax liability imposed on the approved qualifying activities based on the Pioneer Status incentive awarded to MTB as a Multimedia Super Corridor Status company under Section 4A of the Promotion of Investment Act, 1986, except for the interest income earned from fixed deposit which are taxable and overseas withholding taxes.

B6. Status of Corporate Proposals

There was no corporate proposal announced but not completed in the interval from the date of the last report and the date of this announcement.

B7. Borrowings and Debt Securities

Save as disclosed below, there were no other borrowings or debt securities in the Group as at 30 June 2014.

Short Term Borrowings

	As at 30.6.2014 RM'000	As at 31.12.2013 RM'000 (Audited)
Hire Purchase	28	28
	28	28

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B7. Borrowings and Debt Securities (con't)

Long Term Borrowings

	As at 30.6.2014 RM'000	As at 31.12.2013 RM'000 (Audited)
Hire Purchase	14	28
	14	28
	14	28

B8. Material Litigation

There is no pending material litigation for the current quarter and financial year under review.

B9. Dividends

No dividend was declared and paid during the current quarter under review.

B10. (Losses)/Earnings Per Share

The (losses)/earnings per share has been calculated based on the (loss)/profit for the period attributable to ordinary equity holder divided by the weighted number of ordinary shares of RM0.10 each in issue during the period, excluding treasury shares held by the Company.

	Second quarter ended		Six months ended	
	30.6.2014	30.6.2013	30.6.2014	30.6.2013
(Loss)/Profit for the period attributable to the ordinary equity holder RM ('000)	(1,594)	714	(1,566)	1,362
Weighted average number of ordinary shares in issue ('000)	215,538	222,363	215,538	222,363
Basic (loss)/earnings per share attributable to equity holders (sen)	(0.74)	0.32	(0.73)	0.61
Diluted (loss)/earnings per share attributable to equity holders (sen)	(0.74)	0.32	(0.73)	0.61

The outstanding warrants have been excluded from the computation of diluted earnings per share as the exercise of warrants to ordinary shares would be antidilutive. There were no other transactions involving the potential dilution of ordinary shares in issue.

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B11. Disclosure of Realised and Unrealised (Losses)/ Profits

	As at 30.6.2014 RM'000	As at 31.12.2013 RM'000 (Audited)
Total accumulated (losses)/ profits of MTB and its subsidiaries :		
- Realised	(17,882)	(16,718)
- Unrealised	489	1,642
	(17,393)	(15,076)
Add: Consolidated adjustments	(1,902)	(2,653)
	(19,295)	(17,729)

Unrealised (losses)/ profits include unrealised gain/loss on foreign exchange and deferred tax.

B12. (Loss)/Profit Before Tax

The following items have been included in arriving at profit before tax:

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30.6.2014 RM'000	Preceding year quarter 30.6.2013 RM'000	Current year to-date 30.6.2014 RM'000	Preceding year to-date 30.6.2013 RM'000
Interest income	(32)	(58)	(67)	(125)
Other income	(53)	-	(99)	-
Interest expenses	1	1	2	2
Depreciation and amortisation	83	105	164	228
Write-off of plant and equipment	-	-	1	-
Impairment of goodwill	-	-	252	-
Foreign exchange loss/(gain)	575	(84)	174	(446)

The following items are not applicable for the quarter/ year:

1. Provision for and write-off of receivables
2. Provision for and write off of inventories
3. (Gain)/loss on derivatives
4. Loss on disposal of unquoted investments
5. Exceptional items