ISENTRIC SDN. BHD.
(Incorporated in Malaysia)
Company No: 183309 - K

REVIEW REPORT
for the financial period from 1 July 2013 to 31 December 2013

Contents

	Page
Independent Auditors' Review Report	1
Consolidated Statement of Financial Position	2
Analytical Review on Consolidated Statement of Financial Position	3
Consolidated Statement of Profit or Loss and Other Comprehensive Income	9
Analytical Review on Consolidated Statement of Profit or Loss and Other Comprehensive Income	10

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REVIEW REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF ISENTRIC SDN. BHD.
(Incorporated in Malaysia)
Company No: 183309 - K

We have reviewed the accompanying unaudited consolidated statement of financial position as at 31 December 2013 and unaudited consolidated statement of profit or loss and other comprehensive income for the 6 months financial period then ended as set out on pages 2 to 13. The preparation of the financial statements is the responsibility of the Group's directors.

It is our responsibility to form an independent opinion, based on our review, on the financial information and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our review in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Group personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, we wish to highlight to the Board of Directors that two trade receivables with overdue debts of more than six months for which impairment losses have not been provided for by the Management as detailed in Note 2.3.

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Firm No: AF 1018
Chartered Accountants

28 January 2014

Kuala Lumpur

ISENTRIC SDN. BHD.
(Incorporated in Malaysia)
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013

		31.12.2013 RM	30.6.2013 RM	Variance RM	%
ASSETS					
NON-CURRENT ASSETS					
Property and equipment	2.1	84,828	105,163	(20,335)	-19
Development expenditure	2.2	348,057	274,572	73,485	27
		432,885	379,735	53,150	14
CURRENT ASSETS					
Trade receivables	2.3	5,469,862	6,255,831	(785,969)	-13
Other receivables, deposits and prepayments	2.4	228,565	106,021	122,544	>100
Amount owing by holding company	2.5	55,501	-	55,501	100
Tax refundable		2,338	-	2,338	100
Cash and bank balances	2.6	2,499,928	548,091	1,951,837	>100
TOTAL CURRENT ASSETS		8,256,194	6,909,943	1,346,251	19
TOTAL ASSETS		8,689,079	7,289,678	1,399,401	19
EQUITY AND LIABILITY					
EQUITY					
Share capital		100,000	100,000	-	-
Retained profits		4,743,011	3,445,004	1,298,007	38
TOTAL EQUITY		4,843,011	3,545,004	1,298,007	37
CURRENT LIABILITIES					
Trade payables	2.7	3,184,997	3,507,506	(322,509)	-9
Other payables and accruals	2.8	661,071	228,096	432,975	>100
Provision for taxation		-	9,072	(9,072)	-100
TOTAL CURRENT LIABILITIES		3,846,068	3,744,674	101,394	3
TOTAL EQUITY AND LIABILITY		8,689,079	7,289,678	1,399,401	19

2.1 Property And Equipment ("P&E")

Net Book Value	At 1.7.2013 RM	Additions RM	Depreciation Charge RM	At 31.12.2013 RM
Office equipment	26,924	3,149	(5,488)	24,585
Computer equipment	75,038	11,958	(29,628)	57,368
Renovation	3,201	-	(326)	2,875
	105,163	15,107	(35,442)	84,828

Net Book Value	At 1.1.2013 RM	Additions RM	Depreciation Charge RM	At 30.6.2013 RM
Office equipment	21,289	10,785	(5,150)	26,924
Computer equipment	97,667	8,676	(31,305)	75,038
Renovation	-	3,255	(54)	3,201
	118,956	22,716	(36,509)	105,163

At 31.12.2013	At Cost RM	Accumulated Depreciation RM	Net Book Value RM
Office equipment	59,607	(35,022)	24,585
Computer equipment	188,348	(130,980)	57,368
Renovation	3,255	(380)	2,875
	251,210	(166,382)	84,828

At 30.6.2013	At Cost RM	Accumulated Depreciation RM	Net Book Value RM
Office equipment	56,458	(29,534)	26,924
Computer equipment	176,390	(101,352)	75,038
Renovation	3,255	(54)	3,201
	236,103	(130,940)	105,163

There is no change in the accounting policies for P&E from the previous financial period.

We have discussed with the Management and noted that there is no capital commitment entered by the Group as at 31 December 2013.

2.2 Development Expenditure

	31.12.2013 RM	30.6.2013 RM
At Cost:-		
At 1 July/1 January	1,166,423	951,013
Addition during the financial period	183,014	215,410
	1,349,437	1,166,423
Less: Accumulated amortisation		
At 1 July/1 January	(891,851)	(812,823)
Amortisation during the financial period	(109,529)	(79,028)
At 31 December/30 June	(1,001,380)	(891,851)
At 31 December/30 June	348,057	274,572

Development expenditure of the Group represents direct expenditure and related overheads incurred for the development of mobile solution software and enhancement of existing products.

There is no change in the accounting policies of development expenditure from the previous financial period. The development expenditure is amortised on a straight line method over a period of 3 years when the products are ready for sale or use.

2.3 Trade Receivables ("TR")

	31.12.2013 RM	30.6.2013 RM
Not past due	2,146,832	1,654,408
Past due:-		
- less than 3 months	1,840,556	3,582,156
- 3 to 6 months	478,412	988,973
- over 6 months	1,004,062	30,294
	5,469,862	6,255,831

The normal credit terms of the Group range from 30 to 90 days (30.6.2013 - 30 to 90 days).

As represented by the Management, the decrease in TR from RM6,255,831 to RM5,469,862 (which is RM785,969 or 13%) is mainly due to close monitoring of debt collection by the Management. The TR turnover period improved from 136 days to 112 days. If the overdue debts of more than 6 months are excluded, the TR turnover period will decrease from 135 days to 92 days. Please refer to the table as shown below.

2.3 Trade Receivables ("TR") (Cont'd)

Turnover period		31.12.2013 RM	30.6.2013 RM	Variance RM	%
TR	(i)	5,469,862	6,255,831	(785,969)	-13
Revenue	(ii)	8,773,199	8,272,474^	500,725	6
TR turnover period	(i)/(ii)*180 days	112 days	136 days	(24 days)	-18

Turnover period excluded overdue debts		31.12.2013 RM	30.6.2013 RM	Variance RM	%
TR		5,469,862	6,255,831	(785,969)	-13
Less: debts past due over six months		(1,004,062)	(30,294)	(973,768)	>100
	(i)	4,465,800	6,225,537	(1,759,737)	-28
Revenue	(ii)	8,773,199	8,272,474	500,725	6
TR turnover period	(i)/(ii)*180 days	92 days	135 days	(43 days)	-32

Note:
^ - Extracted from the audited financial statements for the financial period from 1 January to 30 June 2013.

Based on our review, the past due debts of over six months are mainly from the following TR:-

TR		Debts > 6 Months RM	Total Balances RM
Meteorsoft Sdn. Bhd. ("Meteorsoft")	(a)	249,970	249,996
Skyline Theme Sdn. Bhd. ("Skyline")	(b)	670,729	912,012

The Management represented that no impairment losses are to be provided for these TRs due to the following reasons:-

(a) Meteorsoft – There is an on-going software development/commerce platform project performed by Meteorsoft to the Group and the estimated project cost is approximately RM250,000. The project cost will be set off with the outstanding debts once the project is finalised within the next financial year.

(b) Sykline – The Group is currently having on-going projects with Skyline. Skyline had promised to settle the outstanding debt and verbally agreed to repay on a monthly instalment basis commencing from January 2014.

Included in trade receivables of the Group is an amount of RM39,526 (30.6.2013 - RM39,526) owing by a company in which certain directors of the Group have substantial financial interests.

2.4 Other Receivables, Deposits And Prepayments

		31.12.2013 RM	30.6.2013 RM	Variance RM	Variance %
Other receivables	(a)	175,662	50,191	125,471	>100
Deposits	(b)	44,736	45,136	(400)	-1
Prepayments		8,167	10,694	(2,527)	-24
		228,565	106,021	122,544	>100

(a) Other receivables

Other receivables mainly consist of staff advances and excess payment made to Maxis Mobile Service Sdn. Bhd. ("Maxis") amounting to RM38,500 and RM136,970 respectively. The increase in other receivables was due to increase in excess payment made to Maxis which resulted from the finalisation of billings for the month of December 2013, which increased about RM136,970 as compared to the last financial period.

(b) Deposits

Deposits mainly consist of service network deposits paid to Talian Gerak Alih Sdn. Bhd. and NTT MSC Sdn. Bhd. for renting of server rack.

2.5 Amount Owing By Holding Company

The holding company is Donaco International Limited, a company incorporated in Australia.

The amount owing by the holding company relates to staff costs and expenses paid on behalf by the Group for the staff seconded to the holding company.

2.6 Cash And Bank Balances

		31.12.2013 RM	30.6.2013 RM	Variance RM	Variance %
Cash in hand		4,462	3,559	903	25
Cash at banks	(a)	2,495,466	544,532	1,950,934	>100
		2,499,928	548,091	1,951,837	>100

(a) Cash at banks

The significant increase in bank balances by RM1,950,934, was mainly due to no dividend payment during the financial period as compared to the previous financial period.

2.7 Trade Payables ("TP")

Turnover period		31.12.2013 RM	30.6.2013 RM	Variance RM	Variance %
TP	(i)	3,184,997	3,507,506	(322,509)	-9
Cost of sales:-					
- sharing with trade partners		3,033,084	3,967,977^^	(934,893)	-24
- purchases		77,189	94,460^^	(17,271)	-18
- network charges		2,202,846	2,103,202^^	99,644	5
	(ii)	5,313,119	6,165,639^^	(852,520)	-14
TP turnover period	(i)/(ii)*180 days	108 days	102 days	6 days	6

Note:
^^ - Extracted from the management accounts from 1 January to 30 June 2013.

The normal credit terms granted to the Group range from 30 to 90 days (30.6.2013 - 30 to 90 days).

The decrease in trade payables by RM322,509 or 9% is attributable to the Group's decision to have its own internal team to provide content for customers. As a result, the cost of sharing with trade partners has decreased significantly by RM934,893 from RM3,967,977 to RM3,033,084.

2.8 Other Payables And Accruals

		31.12.2013 RM	30.6.2013 RM	Variance RM	Variance %
Other payables ("OP")	(a)	585,716	186,340	399,376	>100
Accruals	(b)	75,355	41,756	33,599	80
		661,071	228,096	432,975	>100

(a) OP

The significant increase in OP is mainly attributable to the following:-

	31.12.2013 RM	30.6.2013 RM	Variance RM	Variance %
(i) Universal Service Provision Fund ("USPF") to be contributed to Malaysia Communication and Multimedia Commission ("MCMC")				
- Year 2012	138,660	138,660	-	-
- Year 2013	207,760	-	207,760	100
- Compound	60,000	30,000	30,000	100
	406,420	168,660	237,760	100
(ii) Advances received from Project Lebuhraya Usahasama Berhad	176,914	-	176,914	100

The compound charged by MCMC was due to non-compliance of certain criteria as stated in the MCMC Act, 1998.

(b) Accruals

Accruals mainly consist of staff bonus, audit and professional fees.

The increase in accruals is mainly due to the staff bonus accrued amounting to RM54,279.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 1 JULY 2013 TO 31 DECEMBER 2013

		1.7.2013 to 31.12.2013 ("FP 2013") RM	1.7.2012 to 31.12.2012 ("FP 2012") RM	Variance RM	Variance %
REVENUE	4.1	8,773,199	9,371,991	(598,792)	-6
COST OF SALES	4.2	(6,174,260)	(6,839,002)	(664,742)	-10
GROSS PROFIT ("GP")		2,598,939	2,532,989	65,950	3
OTHER INCOME		2,628	57,280	(54,652)	-95
		2,601,567	2,590,269	11,298	0
ADMINISTRATIVE EXPENSES	4.3	(1,268,118)	(721,490)	(546,628)	76
OTHER EXPENSES	4.4	(35,442)	(37,158)	1,716	-5
PROFIT BEFORE TAXATION ("PBT")		1,298,007	1,831,621	(533,614)	-29
INCOME TAX EXPENSE		-	27,997	(27,997)	-100
PROFIT AFTER TAXATION ("PAT")		1,298,007	1,859,618	(561,611)	-30
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		1,298,007	1,859,618	(561,611)	-30

	FP 2013 %	FP 2012 %
GP Margin	30	27
PBT Margin	15	20
PAT Margin	15	20

4.1 Revenue

The table below shows the revenue categories for the FP 2013 and FP 2012.

		FP 2013	FP 2012	Variance	
		RM	RM	RM	%
Email blasting services	(a)	64,013	-	64,013	100
Maintenance and enhancement	(b)	322,192	210,764	111,428	53
Mobile application and services	(c)	7,537,143	7,361,568	175,575	2
Outsourcing	(d)	366,292	1,144,738	(778,446)	-68
Software licensing	(e)	483,559	654,921	(171,362)	-26
Total revenue		8,773,199	9,371,991	(598,792)	-6

In FP 2013, the Group generated revenue amounting to RM8,773,199 as compared to RM9,371,991 in FP 2012, which represents a 6% decrease as compared to FP 2012. The decrease in revenue was mainly due to the significant decrease in revenue generated from outsourcing activity.

(a) Email blasting services

This is a new service provided by the Group in FP 2013 and the major customers are the financial institutions.

(b) Maintenance and enhancement

The maintenance and enhancement fees remain to be a stable income for the Group. The increase in maintenance and enhancement fees in FP 2013 as compared to FP 2012 is mainly due to new short codes services provided to an existing customer.

(c) Mobile application and services

The increase in mobile application and services is mainly due to the increase in revenue of the bulk SMS services and premium SMS provided to financial institutions.

(d) Outsourcing

This revenue is solely generated from the short code services provided by Skyline by using the communication infrastructure of a mobile company. Due to the limitation of this short code services provided by Skyline, most of the customers prefer to subscribe other short code services providers whom are able to send the messages to most of the mobile companies subscribers. Hence, there was significant decrease in outsourcing revenue as compared to the previous financial period.

(e) Software licensing

This revenue is dependent on the functions and features required by financial institution customers for its mobile banking platform, which were installed to facilitate Short Message Service, Unstructured Supplementary Service Data and application-driven banking functionalities. The decrease in software licensing revenue was due to lesser demand from customers.

We have reviewed the sales cut off procedures and credit notes issued after FP 2013 carried out by the management and noted no exceptions.

4.2 Cost Of Sales ("COS")

		FP 2013 RM	FP 2012 RM	Variance RM	Variance %
Sharing with trade partner					
- Mobile application and services		2,834,013	3,459,648	(625,635)	-18
- Outsourcing		199,071	649,124	(450,053)	-69
	(a)	3,033,084	4,108,772	(1,075,688)	-26
Purchases					
- Mobile application and services		77,189	3,000	74,189	>100
Personnel costs					
- Mobile application and services		388,669	323,384	65,285	20
- Software licensing		30,088	26,299	3,789	14
		418,757	349,683	69,074	20
Network charges					
- Mobile application and services		2,175,819	2,144,840	30,979	1
- Email blasting		27,027	-	27,027	100
	(b)	2,202,846	2,144,840	58,006	3
Server co-location fees					
- Maintenance and enhancement		29,399	27,930	1,469	5
Consultants' engagement fees					
- Maintenance and enhancement		175,516	-	175,516	100
- Software licensing		127,940	109,452	18,488	17
		303,456	109,452	194,004	>100
Amortisation of development expenditure		109,529	95,325	14,204	15
Total COS		6,174,260	6,839,002	(664,742)	-10

COS mainly comprise content provider's cost of sharing with trade partners, network charges, personnel costs and consultants' engagement fees.

(a) Sharing with trade partners

The decrease in cost of sharing with trade partners was attributable to the Group's decision to grow its own internal team to develop content provider for mobile application and services.

4.2 Cost Of Sales ("COS") (Cont'd)

(b) Network charges

The increase in network charges by RM58,006 or 3% as compared to the previous financial period was in line with the increase in revenue of mobile application and services.

We have reviewed the purchase cut off procedures carried out by the Management and noted no exceptions.

4.3 Administrative Expenses

		FP 2013	FP 2012	Variance	
		RM	RM	RM	%
Payroll expenses	(a)	524,847	396,596	128,251	32
Other administrative expenses	(b)	743,271	324,894	418,377	>100
		1,268,118	721,490	546,628	76

Administrative expenses mainly consist of payroll expenses for staff and directors, advertisement fees, entertainment expenses and rental of office.

(a) Payroll expenses

	FP 2013	FP 2012	Variance	
	RM	RM	RM	%
Director's remuneration	120,000	84,000	36,000	43
Salaries	254,889	185,390	69,499	37
Company annual trip	34,732	-	34,732	100
Others	115,226	127,206	(11,980)	-9
	524,847	396,596	128,251	32

The increase in director's remuneration was due to the increase of RM6,000 per month for the director.

The increase of salaries by RM69,499 or 37% was mainly due to the salary increments approved in the first half of year 2013.

4.3 Administrative Expenses (Cont'd)

(b) Other administrative expenses

	FP 2013 RM	FP 2012 RM	Variance RM	Variance %
Advertisement fees	196,909	17,665	179,244	>100
Consultant fees	48,031	24,583	23,448	95
Compound	30,653	10,000	20,653	>100
USPF contribution	207,760	-	207,760	100
Others	259,918	272,646	(12,728)	-5
	743,271	324,894	418,377	>100

The significant increase in advertisement fees was due to advertising the Group services via the digital advertising channels to promote the services.

The USPF contribution was provided for MCMC in year 2013 for the equitable and balanced distribution of information and communications infrastructure.

4.4 Other Expenses

The other expenses remained fairly constant. The other expenses are in respect of depreciation of P&E and realised loss on foreign exchange.