

**THETA EDGE BERHAD(260002-W)**  
**(Incorporated in Malaysia)**

**QUARTERLY REPORT**

**(A) Notes to the Condensed Consolidated Interim Financial Statements**

**A.1 Basis of preparation and significant accounting policies**

This interim financial report is based on the unaudited financial statements for the quarter ended 30 June 2012 and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS134, *Interim Financial Reporting* in Malaysia. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

These are the Group's interim financial statements for part of the period covered by the Group's first MFRS framework annual financial statements and MFRS1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied.

The adoption of the MFRSs and Amendments do not have any material impact on the financial statements of the Group and of the Company.

**A.2 Report On The Financial Statements**

The auditors' report on the financial statement for the financial year ended 31 December 2011 was not qualified.

**A.3 Seasonality and cyclicity of operations**

The Group's business operations were not materially affected by any seasonal or cyclical factors.

**A.4 Unusual items**

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence for the current quarter under review and financial year to date.

**A.5 Changes in estimates**

There were no changes in estimates of amounts reported in prior financial years, which have a material effect in the current quarter under review and financial year to date.

## A.6 Debt and equity securities

The Group was not involved in any issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current financial year to date.

## A.7 Dividends

No dividends have been declared and paid during the current quarter under review and financial year to date.

## A.8 Segmental reporting

Segmental reporting for the financial year to date is as follows:

| <b>Group Financial year ended<br/>30 June 2012</b>                           | <b>Information &amp;<br/>Communication<br/>Technology<br/>RM '000</b> | <b>Investment<br/>Holding<br/>And Others<br/>RM '000</b> | <b>Total<br/>RM '000</b> |
|--|---|--|--------------------------|
| <b><u>Revenue</u></b>  |   |  |                          |
| Total Revenue  | 36,396  | -  | 36,396                   |
| <b><u>Results</u></b>  |   |  |                          |
| Loss from operations before depreciation,<br>non-cash item & borrowing costs | (338)   | (2,566)  | (2,904)                  |
| Depreciation   | (1,675)   | (57)   | (1,732)                  |
| Non-cash item  | 315   | -  | 315                      |
| Loss from operations   | (1,698)   | (2,623)  | (4,321)                  |
| Income from short term borrowings, net                                       |   |  | 179                      |
| Loss before taxation   |   |  | (4,142)                  |
| Taxation   |   |  | (2)                      |
| Net loss for the period  |   |  | (4,144)                  |
| <b><u>Other information</u></b>  |   |  |                          |
| Total assets   | 73,710  | 21,055   | 94,765                   |

Analysis by geographical segments has not been presented as the operations of the Group are in Malaysia.

**A.9 Valuation of property, plant and equipment**

The valuations of all property, plant and equipment have been brought forward without amendment from the previous financial statements ended 31 December 2011.

**A.10 Subsequent events**

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

**A.11 Changes in the composition of the Group**

There were no changes in the composition of the Group for the current quarter and financial year ended 30 June 2012 other than the below:

Pursuant to the Joint Venture Agreement (“JVA”) agreement entered into by the Group's wholly owned subsidiary, TH2.0 Sdn Bhd (“TH2.0”) with Taha Alam Sdn. Bhd. (“Taha Alam”) and Islamic Corporation for the Development of the Private Sector (“ICD”) on 24 March 2012, TH2.0 has subscribed for a 50% equity stake in Taha Alam for a total consideration of RM3 million.

**A.12 Changes in contingent liabilities and contingent assets**

(A) There were no contingent assets for the current financial year to date.

(B) The changes in the Group's contingent liabilities since 30 June 2012 are as follows:

- (a) Bank guarantees issued to mainly trade customers decreased from RM 5,390,727 to RM 5,096,310 as at 30 June 2012.
- (b) On 21 November 2001, MSC Trustgate.com Sdn Bhd (MSC) initiated legal proceedings against the Company claiming damages for loss of expected profits amounting to RM23,074,000.00 or in alternative, the sum of RM7,600,000.00 (approximately USD2,000,000.00) against the Company for an alleged breach of condition precedent pursuant to a subscription and shareholders agreement entered with the Company. Full trial was conducted on 5th to 7th January 2011. On 28 January 2011, the High Court gave its decision in favor of the Company and dismissed the claim by MSC with costs. MSC filed a notice of appeal to the Court of Appeal on 28 February 2011 against the decision by the Shah Alam High Court. The Company's solicitor had on 18 May 2011

filed a motion to strike out the said appeal. On 30 June 2011, the Court of Appeal has dismissed the Company's application to strike out the appeal by MSC and also granted an extension of time to MSC to file their appeal record. The hearing of MSC's appeal was held on 20 June 2012. The Court of Appeal adjourned the hearing to 21 September 2012.

Based on the facts of the matter and opinion from the solicitors, the Company is of the view that the appeal by MSC will very likely be dismissed by the Court of Appeal.

#### **A.13 Material Litigation**

(a) Lityan Applications Sdn Bhd ("LASB") vs. Pertubuhan Keselamatan Sosial ("PERKESO")

On 31 December 1999, Lityan Application Sdn Bhd (LASB) entered into an Agreement with PERKESO with a contract value of RM15,393,348.00 for the provision of the Proposed Development of the Registration, Contributions and Benefit Payment System. In July 2004, a dispute arose regarding the non-compliance of the application software system development under the Agreement. PERKESO had on 9 August 2004 terminated the Agreement on the basis that LASB had failed to fulfill its obligations under the Agreement and PERKESO had imposed Liquidated Damages against LASB. LASB had on 23 August 2004 disputed the termination and made a claim for the remaining amounts due under the said contract. PERKESO had on 3rd November 2004 made a further claim against LASB for all the monies paid to develop the application. LASB had on 7 December 2004 made a counter claim for RM9,190,874.80 against PERKESO for total cost of development. The matter was referred to Arbitration proceedings on 1 June 2006 when both parties were unable to settle the matter amicably. Following a lengthy process for the sourcing and selection of Arbitrators in view of the nature of dispute, the Company has on 15 March 2010, been informed by its Solicitors that the Arbitration proceedings have commenced with the appointment of an Arbitrator, agreed by both Parties. Arbitration stated on 1st June 2011 and completed in November 2011.

LASB has on 3 July 2012, received from its solicitors, a signed copy of the award dated 25 June 2012 on the Arbitration which relates to two broad issues, namely:

- (a) the termination of the Agreement by Perkeso; and
- (b) the alleged increase in scope of work incurred by LASB.

With respect to the above, the arbitrator finds that:

- (a) there was mala fide in the termination of the Agreement which renders the termination wrongful; and

(b) LASB has not proven that Perkeso requested for additional work.

As such the arbitrator has awarded to LASB the following:

- (i) billed but unpaid amount of RM1,828,284;
- (ii) unbilled amount of RM1,362,500.

The arbitrator has also awarded compensation amounting to RM666,000 to Perkeso for delay in the delivery of the project by LASB.

Hence the final award of the arbitration to LASB amounts to RM2,524,784. This takes into account items (i) and (ii) above and a deduction of RM666,000 as compensation to Perkeso.

The arbitrator has also awarded interest on the sum of RM2,524,784 at 8% per annum from the date of the award to the date of realization.

The decision of the arbitration has no financial impact to the Company.

Upon the receipt of the monies pursuant to the award, there will be no material financial impact to the Company for the current financial year ending 31 December 2012.

(b) Inforntial Sdn Bhd (“ISB”) v. Theta Edge Berhad (“Theta”) & 4 ors

On 17 May 2012, a Writ of Summons and Statement of Claim was served on Theta by ISB to claim the following:-

- (i) A declaration that the 1st, 2nd, 3rd, 4th and 5th defendants or any of them have together conspired to act fraudulently against ISB to deprive ISB from recovering on its judgment against Lityan Systems Sdn. Bhd. (“LSSB”) obtained in Kuala Lumpur High Court Suit No S1-22-1665-2004;
- (ii) A declaration that the 1st, 2nd, 3rd, 4th and 5th defendants or any of them have breached Section 257 of the Companies Act, 1965;
- (iii) Damages in the sum of RM2,105,585.23 outstanding as at 3 May 2012;
- (iv) Aggravated and/or exemplary damages;
- (v) Interest at the rate of 4% per annum on any judgment sum from the date this Writ of Summons is filed until full settlement;
- (vi) Costs;
- (vii) Such further and other relief as the Honourable Court deems fit.

Theta and the remaining defendants have filed an application to strike out ISB’s suit. The Court has fixed 6 September 2012 as the date for the decision on the application to strike

out the suit as well as the date for case management of the suit, subject to the outcome of the court's decision on the application for striking out.

The solicitors for the Company is of the opinion that the Writ of Summons has no legal basis and that the Defendant has a strong and credible defense. No losses are expected to arise from the Writ of Summons and it is not expected to have any material financial or operational impact on Theta.

#### A.14 Capital Commitments

Capital commitments for the Group in respect of property, plant and equipment not provided for as at 30 June 2012 are as follows:

|                                 |               |
|---------------------------------|---------------|
|                                 | <b>RM'000</b> |
| Approved and not contracted for | -             |
| Approved and contracted for     | -             |
|                                 | <hr/>         |
|                                 | <hr/>         |

#### A.15 Related Party Transactions

The related party transactions of the Group had been entered into in the ordinary course of business. Below are the significant transactions and balances with related parties of the Group during the current financial period.

| Related Parties         | Transactions                              | Transactions for the year ended 30 June 2012<br>RM '000 | Balance due from / (to) as at 30 June 2012<br>RM '000 |
|-------------------------|---|---|---|
| Lembaga Tabung Haji     | Sales for Equipment and Services rendered | 5,663   | 307   |
|                         | Rental & Utility expenses                 | (674)   | (235)   |
| TH Plantations Berhad   | Sales for Equipment and Services rendered | 845   | 11  |
| Ramunia Holdings Berhad | Sales for Equipment and Services rendered | 105   | 7   |
| TH Properties Sdn Bhd   | Leasing of Computer Equipment             | 85  | -   |

## **(B) Notes to the Interim Financial Statements (revised BMSB Listing Requirements)**

### **B.1 Review of performance**

The Group reported a revenue of RM36.4 million and loss before taxation of RM4.1 million for the quarter ended 30 June 2012 as compared to the revenue and loss before taxation for the same period in the previous year of RM30.4 million and RM8.1 million respectively.

The Group's higher revenue for the current period of approximately 19.8% was mainly contributed from the increase in the trading of computer equipment and peripherals. This also resulted in the drop in gross profit which was insufficient to cover the overheads due to the low margins derived from trading revenues in the current period as compared to the same period in the previous year.

The lower loss before taxation for the current period was mainly due to the recognition of the employees cost pursuant to the granting of Employees Share Option Scheme (ESOS) of approximately RM1 million and the allowance for stock obsolescence amounting to approximately RM3 million in same period in the previous year.

### **B.2 Material changes in quarterly results**

The Group's revenue for the current quarter decreased by RM2.3 million to RM17.0 million as compared to that of RM19.4 million revenue for the immediate preceding quarter. The Group reported loss before taxation of RM2.7 million for the current period as compared to the loss before taxation of RM1.5 million in the immediate preceding quarter. The higher loss before taxation in the current quarter was mainly due lower margins from revenues as well as additional costs due to the delay in the project with the Ministry of Natural Resources and Environment.

### **B.3 Prospects**

The Board expects that the financial year 2012 will remain challenging. Barring any unforeseen circumstances, the Board expects improved performance for the financial year ending 2012 as compared to financial year 2011.

According to International Data Corporation's ("IDC") 2012 projections, the ICT spending in Malaysia is expected to grow at a rate of 10.1% where key transformative steps taken by the Government is expected to produce disruptive IT technologies which will become the mainstream and playing critical role in the development the country. However, the ICT business environment remains a challenge for the Industry as a whole and the Theta Group with the increased number of players, diminishing margins and evolving landscape.

With the dynamic evolving ICT landscape, the Group is realigning its business focus to key areas which will create differentiation, branding and long term sustainable income. The Group identified specific niche areas for development and ownership of new intellectual properties (IPs) enhancing existing IP/domain knowledge and building specialized infrastructure and managed services. These areas include amongst others the development of Geographical Information System ("GIS"), Enterprise Hajj Registration and Management System ("EHRAMS"), Accounting for Government agencies and State Treasuries.

The Group also identified the provision of specialized engineering services, managed services and provision of satellite communication in the telecommunication segment as an area of focus in view of the growth and expansion of the domestic telecommunication industry into achieving higher coverage, enhancing consumer experience, convergence as well as reshaping the communications systems.

Some of these initiatives are expected to only bear results in the medium to long term. Various initiatives internally are being reviewed with the objective to reduce overall costs to improve the financial performance for the current financial year, which includes reducing redundancies and discontinuing loss making business units.

The Group continuously to vigilantly review strategic mergers and acquisitions opportunities as well as synergistic partnership prospects to expand the Group's revenue base and for immediate growth which would provide it with a more level playing field in the current competitive industry landscape.

**B.4 Statement of the Board of Directors' opinion on profit forecast and profit guarantee**

Not applicable as the Group did not publish any profit forecast or profit guarantee.



**B.5 Loss before Tax**

The following amounts have been included in arriving loss before tax:

|                                    | <b>Current<br/>Quarter<br/>Ended<br/>30/6/2012<br/>RM'000</b> | <b>Current Year To<br/>Date<br/>Ended<br/>30/6/2012<br/>RM'000</b> |
|------------------------------------|---|--|
| Depreciation                       | 968   | 1,732  |
| Income from short term investments | 152   | 337  |
| Borrowing costs                    | 114   | 158  |

**B.6 Taxation**

|   | <b>Individual Quarter</b>   |   | <b>Cumulative Quarter</b>   |  |
|---|---|---|---|--|
|   | <b>Current Year<br/>Quarter<br/>Ended<br/>30/6/2012<br/>RM '000</b> | <b>Preceding Year<br/>Corresponding<br/>Quarter Ended<br/>30/6/2011<br/>RM '000</b> | <b>Current Year<br/>To Date<br/>Ended<br/>30/6/2012<br/>RM '000</b> | <b>Preceding Year<br/>Corresponding<br/>Period Ended<br/>30/6/2011<br/>RM '000</b> |
| <b>Corporate Income<br/>Tax</b>               |   |   |   |  |
| Current Year                                  | -   | -   | 2   | -  |
| Under/(over) provision<br>for previous period | -   | -   | -   | -  |
|   | <u>-</u>  | <u>-</u>  | <u>2</u>  | <u>-</u>   |

**B.7 Sale of unquoted investments and/or properties**

The Group was not involved in any sale of unquoted investments and/or properties during the quarter under review.

**B.8 Quoted securities**

There were no quoted securities held by the Group.

## B.9 Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 22 August 2012 the latest practicable date which shall not be earlier than seven (7) days from the date of issue of this quarterly report.

### (a) Employee Share Option Scheme (“ESOS”)

At an Extraordinary General Meeting on 11 May 2011, the Company's shareholders approved the establishment of a five (5) year ESOS of up to ten percent (10%) of the issued and paid-up capital of the Company, commencing from the effective date of 12 May 2011.

Set out below are the details of options over the ordinary shares of the Company under the ESOS:

| Option Date | Option Expiry Date | Exercise Price | Number Of Options Over Ordinary Shares of RM1.00 |           |                   |                 |
|-------------|--------------------|----------------|--|-----------|-------------------|-----------------|
|             |                    |                | Granted as at 14/06/2011                         | Exercised | Lapsed/ Cancelled | As at 30/6/2012 |
| 01/06/2011  | 31/5/2016          | RM1.05         | 5,909,000  | -         | (1,016,000)       | 4,893,000       |

### (b) Rights Issue

On 8 July 2011, the Company announced the completion of the Renounceable Rights Issue together with free warrants with the listing and quotation of 30,487,336 Rights Shares together with 30,487,336 Warrants on the Main Market of Bursa Securities. The proceeds raised RM30.5 million is utilized as follows:

| Purpose                               | Proposed Utilisation | Actual Utilisation | Timeframe | Utilisation | Explanation |
|---------------------------------------|----------------------|--------------------|-----------|-------------|-------------|
|                                       | RM'000               | RM'000             |           | %           |             |
| Expenses relating to the Rights Issue | 1,000                | 943                | 3 months  | 94%         | Completed   |
| Working capital requirements          | 29,487               | 3,874              | 24 months | 13%         | In progress |
| <b>Total</b>                          | <b>30,487</b>        | <b>10,151</b>      |           | <b>33%</b>  |             |

## B.10 Group borrowings

Details of the Group's borrowings as at the end of the reporting period are as follows:

### Short Term Borrowings

|                     | 30/6/2012<br>RM '000 | 30/6/2011<br>RM '000 |
|---------------------|----------------------|----------------------|
| <b>A) Secured</b>   |                      |                      |
| Revolving credit    | 3,600                | -                    |
| <b>Sub-total</b>    | <b>3,600</b>         | <b>-</b>             |
|                     |                      |                      |
| <b>B) Unsecured</b> |                      |                      |
| Bank Overdrafts     | 842                  | 195                  |
| <b>Sub-total</b>    | <b>842</b>           | <b>195</b>           |
|                     |                      |                      |
| <b>Total</b>        | <b>4,442</b>         | <b>195</b>           |

### Hire Purchase

|                             | 30/6/2012<br>RM '000 | 30/6/2011<br>RM '000 |
|-----------------------------|----------------------|----------------------|
| Repayable within 12 months  | 49                   | -                    |
| Payable more than 12 months | 171                  | -                    |
| <b>Total</b>                | <b>219</b>           | <b>-</b>             |

All the borrowings are denominated in Ringgit Malaysia.

## B.11 Off balance sheet financial instruments

There were no financial instruments with off balance sheet risk as at 22 August 2012, the latest practicable date which shall not be earlier than seven (7) days from the date of issue of this quarterly report.

**B.12 Changes in fair value of financial instruments**

The carrying amounts of the financial instruments of the Group as at the balance sheet date approximate their fair values due to relatively short term maturity of these financial instruments.

**B.13 Changes in material litigations**

Other than those indicated in Note A12 and A13 to the Interim Financial Statements MFRS134, there were no changes in material litigations as at 22 August 2012, the latest practicable date which shall not be earlier than seven (7) days from the date of issue of this quarterly report.

**B.14 Dividends**

No dividends have been paid, declared or proposed since the end of the Company's previous financial year. The Directors do not recommend any interim dividend for the period under review.

**B.15 Profit/(loss) per share**

The basic loss per share for the quarter and year to date ended 30 June 2012 are computed as follows:

|  | <b>Individual Quarter</b>            |   | <b>Cumulative Quarter</b>                     |  |
|--|--------------------------------------|---|---|--|
|  | <b>Current Quarter<br/>30/6/2012</b> | <b>Preceding Year<br/>Corresponding<br/>Quarter<br/>30/6/2011</b> | <b>Current<br/>Year To Date<br/>30/6/2012</b> | <b>Preceding Year<br/>Corresponding<br/>Period<br/>30/6/2011</b> |
| Net loss(RM'000)   | (2,650)                              | (8,866)   | (4,144)                                       | (8,062)  |
| Weighted average number of ordinary shares in issue ('000) | 107,241                              | 70,658  | 107,241                                       | 70,658   |
| Basic LPS (sen)  | (2.47)                               | (12.55)   | (3.86)  | (11.41)  |
| Diluted LPS (sen)  | -                                    | -   | -   | -  |

Diluted LPS is not computed due to the anti-dilutive effect.

**B.16 Realised and Unrealised Retained Profits**

In relation to the Directive by BMSB on 25 March 2010, the determination of realized and unrealized profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to BMSB Listing Requirements, issued by the Malaysian Institute Of Accountants on 20 December 2010.

|   | <b>30/6/2012<br/>RM'000</b> | <b>31/12/2011<br/>RM'000</b> |
|---|-----------------------------|------------------------------|
| Breakdown of retained profits<br>/(accumulated losses) of the Group |                             |                              |
| - Realised  | (59,169)                    | (40,718)                     |
| - Unrealised*   | 3,902                       | 3,902                        |
| Less: Consolidation adjustments                                     | 28,255                      | 13,948                       |
| <b>Total Group Retained Losses</b>                                  | <b>(27,012)</b>             | <b>(22,868)</b>              |

\*Unrealised retained profits/accumulated losses comprise mainly of the recognised deferred tax asset of which probable tax profit will be available against which the deductible temporary differences can be utilized.

**B.17 Authorisation for Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 August 2012.