

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 year ended 31 December 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 cyclical 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:

Group Financial year ended 31 December 2012	Information & Communication Technology RM '000	Investment Holding And Others RM '000	Total RM '000
<u>Revenue</u>			
Total Revenue	75,292	-	75,292
<u>Results</u>			
Profit/(loss) from operations before depreciation, non-cash item & borrowing costs	(2,556)	(2,671)	(5,227)
Depreciation & Amortisation	(3,389)	(118)	(3,507)
Non-cash item	2,683	(35)	2,648
Loss from operations	(3,262)	(2,824)	(6,086)
Income from short term borrowings, net			317
Share of loss of equity-accounted investees			(1,137)
Loss before taxation			(6,906)
Taxation			(66)
Net loss for the period			(6,972)
<u>Other information</u>			
Total assets	82,958	9,510	92,468

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 31 December 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 31 December 2012 are as follows:

- (a) Bank guarantees issued to mainly trade customers increased from RM 5,388,489 to RM 6,847,082 as at 31 December 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 favour 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.

On 7 September 2012, the Court of Appeal has dismissed MSC Trustgate's appeal and has awarded cost totaling RM30,000.00 to Theta.

A.13 **Material Litigation**

(1) 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 started 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.

(2) 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.

The Court had on 23 January 2013 dismissed the Defendants' Application to strike out the civil suit with cost awarded to the Plaintiff in the sum of RM5,000.00 only. The Court has fixed 25 March 2013 as the date for the case management. The Court has also fixed the trial dates tentatively on 19 August 2013, 20 August 2013 and 29 August 2013.

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 31 December 2012 are as follows:

	RM'000
Approved and not contracted for	-
Approved and contracted for	-
	<u>-</u>

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 31 Dec 2012 RM '000	Balance due from / (to) as at 31 Dec 2012 RM '000
Lembaga Tabung Haji	Sales for Equipment and Services rendered	19,129	5,058
	Rental & Utility expenses	(1,054)	(58)
TH Plantations Berhad	Sales for Equipment and Services rendered	1,397	-
TH Heavy Engineering Berhad (formerly known as Ramunia Holdings Berhad)	Sales for Equipment and Services rendered	800	522
TH Properties Sdn Bhd	Leasing of Computer Equipment	247	44
TH Saribas Sdn Bhd	Sales Services rendered	7	7

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

B.1 Review of performance

The Group reported a revenue of RM75.3 million and loss before taxation of RM6.9 million for the year ended 31 December 2012 as compared to the revenue and loss before taxation for the same period in the previous year of RM58.4 million and RM12.7 million respectively.

The Group's higher revenue for the current year to date of approximately 28.9% was mainly contributed from the increase in the trading of computer equipment and peripherals. The lower gross margins which was insufficient to cover the overheads was due to the thin margins from the higher trading revenue as well as the additional costs due to the delay in the project with the Ministry of Natural Resources and Environment.

The lower loss before taxation for the current year was mainly due to the

- (i) Write back of allowance for doubtful debts due to the recovery of amount of approximately RM2.0 million.
- (ii) recognition of the employees cost pursuant to the granting of Employees Share Option Scheme (ESOS) of approximately RM1.9 million and the allowance for stock obsolescence amounting to approximately RM3.0 million in the previous financial year.

B.2 Material changes in quarterly results

The Group's revenue for the current quarter increased by RM7.7 million to RM23.3 million as compared to that of RM15.6 million for the immediate preceding quarter. The Group reported profit before taxation of RM1.6 million for the current period as compared to the loss before taxation of RM4.4 million in the immediate preceding quarter.

The higher profit before taxation for the current quarter was due to revenues with higher margins as well as the write back of allowance for doubtful debts of RM2.0 million.

B.3 Prospects

The Board anticipates that the financial year 2013 will remain challenging. Barring any unforeseen circumstances, the Board expects a breakeven performance for the financial year ending 2013 as compared to financial year 2012.

According to PIKOM, the ICT spending in Malaysia is expected to be approximately RM30 billion in year 2013. This growth from the previous years is expected to be driven by the various government initiatives such as the communications and content infrastructure focus under the Economic Transformation Programs as well as the Digital Malaysia initiatives to drive digital adoption and solidify an innovative Digital Economy.

However, the IT 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.

The growth of the telecommunication and communication industry on the other hand is expected to remain strong with the roll-out of the long term evolution network (LTE) which will increase not only the internet speed, but also the data traffic, accessibility and mobility of internet to more users and businesses in tandem with the expected increase of smartphone and tablet adoptions.

The business and society landscape are being revolutionized by emerging technologies from the converging forces of social, mobility, cloud and data which will form the basis of the future technology platform. While the Group's immediate action plans are to improve its profitability and increasing its customer base of its current businesses, its medium to long term plans includes building new businesses and developing new intellectual properties for sustainable income within the dynamic evolving ICT landscape. Some of the initiatives are expected to bear results in the medium to long term.

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 to increase its revenues and profitability in view of the growth and expansion of the domestic telecommunication industry.

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 at loss before tax:

	Current Quarter Ended 31/12/2012 RM'000	Current Year To Date Ended 31/12/2012 RM'000
Depreciation & Amortisation	920	3,507
Income from short term investments	110	544
Borrowing costs	11	227
Allowances for doubtful debts no longer required	1,955	2,756

B.6 Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended 31/12/2012 RM '000	Preceding Year Corresponding Quarter Ended 31/12/2011 RM '000	Current Year To Date Ended 31/12/2012 RM '000	Preceding Year Corresponding Period Ended 31/12/2011 RM '000
Corporate Income Tax				
Current Year	20	37	66	43
Under/(over) provision for previous period	-	-	-	20
	<u>20</u>	<u>37</u>	<u>66</u>	<u>63</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 February 2013 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 31/12/2012
01/06/2011	31/5/2016	RM1.05	5,909,000	-	(2,433,000)	3,476,000

(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	11,702	24 months	40%	In progress
Total	30,487	12,645		41%	

B.10 Group borrowings

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

Short Term Borrowings

Unsecured	31/12/2012 RM '000	31/12/2011 RM '000
Revolving Credit	500	1,000
Bank Overdrafts	-	441
Total	500	1,441

Hire Purchase

	31/12/2012 RM '000	31/12/2011 RM '000
Repayable within 12 months	91	20
Payable more than 12 months	297	68
Total	388	88

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 26 February 2013, 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 February 2013, 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 31 December 2012 are computed as follows:

	Individual Quarter		Cumulative Quarter	
	Current Quarter 31/12/2012	Preceding Year Corresponding Quarter 31/12/2011	Current Year To Date 31/12/2012	Preceding Year Corresponding Period 31/12/2011
Net profit/(loss) (RM'000)	1,584	(2,286)	(6,972)	(12,795)
Weighted average number of ordinary shares in issue ('000)	107,241	85,693	107,241	85,693
Basic LPS (sen)	1.48	(2.67)	(6.50)	(14.93)
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.

	31/12/2012 RM'000	31/12/2011 RM'000
Breakdown of accumulated losses of the Group		
- Realised	(49,482)	(40,718)
- Unrealised*	3,902	3,902
Less: Consolidation adjustments	15,740	13,948
Total Group Retained Losses	(29,840)	(22,868)

*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 26 February 2013.