

THETA EDGE BERHAD (26002-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 2013 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 2012.

For the periods up to and including the year ended 31 December 2012, the Group prepared its financial statement in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS")

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 2012 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:

| Group Financial year ended 30 September 2013 | Information & Communication Technology RM '000 | Investment Holding And Others RM '000 | Total RM '000 |
|--|---|--|--------------------------|
| <u>Revenue</u> | | | |
| Total Revenue | 73,415 | - | 73,415 |
| <u>Results</u> | | | |
| Loss from operations before depreciation, non-cash item & borrowing costs | (1,575) | (2,800) | (4,375) |
| Depreciation | (2,587) | (82) | (2,669) |
| Loss from operations | <u>(4,162)</u> | <u>(2,882)</u> | <u>(7,044)</u> |
| Income from short term borrowings, net | | | 4 |
| Share of loss of equity-accounted investees | | | <u>(455)</u> |
| Loss before taxation | | | (7,495) |
| Taxation | | | - |
| Net loss for the period | | | <u>(7,495)</u> |
| <u>Other information</u> | | | |
| Total asset | 88,254 | 5,906 | 94,160 |

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 2012.

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 September 2013.

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 September 2013 are as follows:

- (a) Bank guarantees issued to mainly trade customers increased from RM7,938,512 to RM8,665,603 as at 30 September 2013.

A.13 Material Litigation

(A) 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 the trial dates tentatively on 19 August 2013, 20 August 2013 and 29 August 2013. The trial commenced on 19 August 2013 and continued on 29 August 2013. The matter is still ongoing and now pending the next Case Management date from the Court to determine the new dates

for the trial to continue. 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 the Company.

A.14 Capital Commitments

There were no major capital commitments for the Group as at the date of this report.

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 period ended 30 Sept 2013 RM '000 | Balance due from / (to) as at 30 Sept 2013 RM '000 |
|---|---|---|---|
| Lembaga Tabung Haji | Sales for Equipment and Services rendered | 16,458 | 944 |
| | Rental & Utility expenses | (272) | (240) |
| TH Plantations Berhad | Sales for Equipment and Services rendered | 850 | 367 |
| THP Development Consultancy Sdn Bhd | Sales for Equipment and Services rendered | 1,065 | 355 |
| TH Heavy Engineering Berhad (formerly known as Ramunia Holdings Berhad) | Sales for Equipment and Services rendered | 2,420 | 2,085 |
| TH Properties Sdn Bhd | Leasing of Computer Equipment | 302 | 140 |
| TH Saribas Sdn Bhd | ICT Services rendered | 21 | - |
| THP Pelita Sadong Sdn Bhd | ICT Services rendered | 7 | - |

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

B.1 Review of performance

The Group reported a revenue of RM 73.4 million and loss before taxation of RM 7.5 million for the year ended 30 September 2013 as compared to the revenue and loss before taxation for the same period in the previous year of RM 52.0 million and RM 8.6 million respectively.

The Group's higher revenue for the current year to date of approximately RM21.4 million or 41.1% was mainly contributed from the completion of some short term projects. The lower gross margins which was insufficient to cover the overheads was due to the thin margins from mainly trading revenue as well as the additional costs due to the delay in some projects

B.2 Material changes in quarterly results

The Group's revenue for the current quarter increased by RM 21.6 million to RM 41.0 million as compared to that of RM 19.4 million for the immediate preceding quarter. The Group reported loss before taxation of RM 2.6 million for the current period as compared to the loss before taxation of RM 1.6 million in the immediate preceding quarter.

B.3 Prospects

The financial year 2013 will remain challenging. These challenges will cause the dampening of the Group's results for the fourth quarter of the current financial year.

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 will 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.

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.

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 30/9/2013 RM'000 | Current Year To Date Ended 30/9/2013 RM'000 |
|------------------------------------|---|--|
| Depreciation | 881 | 2,669 |
| Income from short term investments | (60) | 176 |
| Borrowing costs | 24 | 172 |

B.6 Taxation

| | Individual Quarter | | Cumulative Quarter | |
|---|--|--|--|---|
| | Current Year Quarter Ended 30/9/2013 RM '000 | Preceding Year Corresponding Quarter Ended 30/9/2012 RM '000 | Current Year To Date Ended 30/9/2013 RM '000 | Preceding Year Corresponding Period Ended 30/9/2012 RM '000 |
| Corporate Income Tax | | | | |
| Current Year | - | 44 | - | 46 |
| Under/(over) provision for previous period | - | - | - | - |
| | - | 44 | - | 46 |

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 7 November 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 14/6/2011 | Exercised | Lapsed/ Cancelled | As at 30/9/2013 |
| 1/6/2011 | 31/5/2016 | RM1.05 | 5,909,000 | - | (2,696,000) | 3,213,000 |

(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 | 29,544 | 24 months | 100% | Completed |
| | | | | | |
| Total | 30,487 | 30,487 | | 100% | |

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 | 30/9/2013 RM '000 | 30/9/2012 RM '000 |
|------------------|------------------------------|------------------------------|
| Revolving Credit | 1,004 | - |
| Bank Overdrafts | - | 415 |
| Total | 1,004 | 415 |

Hire Purchase

| | 30/9/2013 RM '000 | 30/9/2012 RM '000 |
|-----------------------------|------------------------------|------------------------------|
| Repayable within 12 months | 91 | 56 |
| Payable more than 12 months | 229 | 127 |
| Total | 320 | 183 |

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 7 November 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 A13 to the Interim Financial Statements MFRS134, there were no changes in material litigations as at 7 November 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 Loss per share

The basic loss per share for the quarter and year to date ended 30 September 2013 are computed as follows:

| | Individual Quarter | | Cumulative Quarter | |
|---|------------------------------|---|--------------------------------------|--|
| | Current Quarter 30/9/2013 | Preceding Year Corresponding Quarter 30/9/2012 | Current Year To Date 30/9/2013 | Preceding Year Corresponding Period 30/9/2012 |
| Net loss (RM'000) | (2,613) | (4,412) | (7,495) | (8,556) |
| Weighted average number of ordinary shares in issue ('000) | 107,241 | 107,241 | 107,241 | 107,241 |
| Basic LPS (sen) | (2.44) | (4.11) | (6.99) | (7.98) |
| 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.

| | 30/9/2013 RM'000 | 30/9/2012 RM'000 |
|--|-----------------------------|-----------------------------|
| Breakdown of accumulated losses of the Group | | |
| - Realised | (61,932) | (62,610) |
| - Unrealised* | 3,902 | 3,902 |
| Less: Consolidation adjustments | 20,695 | 27,284 |
| Total Group Retained Losses | (37,335) | (31,424) |

*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 14 November 2013.