

ICAPITAL.BIZ BERHAD (674900-X)
FINANCIAL REPORT FOR THE PERIOD ENDED 30 NOVEMBER 2014

NOTES TO THE INTERIM FINANCIAL REPORT

PART A - EXPLANATORY NOTES

A1 Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The interim financial statements also comply with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board.

The interim financial statements should be read in conjunction with the audited financial statements of the Company for the financial year ended 31 May 2014. These explanatory notes provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company since the year ended 31 May 2014. The transition to MFRS has no material impact on the Company's reported financial position, financial performance and cash flows.

A2 Changes in Accounting Policies

The Company has not applied in advance the following accounting standards and interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial period :-

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 9 (2009) Financial Instruments	To be announced by MASB
MFRS 9 (2010) Financial Instruments	To be announced by MASB
MFRS 9 Financial Instruments (Hedge Accounting and Amendments to MFRS 7, MFRS 9 and MFRS 139)	To be announced by MASB
Amendments to MFRS 9 and MFRS 7: Mandatory Effective Date of MFRS 9 and Transition Disclosures	To be announced by MASB
Amendments to MFRS 119: Defined Benefit 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

The above accounting standards and interpretations (including the consequential amendments) are not relevant to the Company's operations except as follows:-

MFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Subsequently, this MFRS 9 was amended in year 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition (known as MFRS 9 (2010)). Generally, MFRS 9 replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 divides all financial assets into 2 categories – those measured at amortised cost and those measured at fair value, based on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the MFRS 139 requirement. An entity choosing to measure a financial liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss.

A3 Auditors' opinion on preceding annual financial statements

The Company's Financial Statements for the financial year ended 31 May 2014 were not qualified by the auditors.

A4 Seasonality or cyclicity of operations

As the Company is a closed-end fund, it is dependent on the performance of the companies in which it has invested.

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A5 Individually significant items

There are no significant items affecting the assets, liabilities, equity, net income or cash flows during the current financial year-to-date.

A6 Changes in estimates

There were no significant changes in estimates that have a material effect on the current financial year to-date.

A7 Issuances, cancellations, repurchases, resale and repayments of debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter under review.

A8 Dividend paid

There was no dividend paid during the current financial year-to-date.

A9 Segmental reporting

No segmental information is presented as the Company is a closed-end fund and operates primarily in Malaysia.

The Company's investments are managed as a portfolio of equity investments. The fund manager of the Company is responsible for allocating resources for investment in accordance with the overall investment strategies as set out in the prospectus. The fund manager assesses the performance of the investments portfolio and provides updates to the Board of Directors on the financial performance of the Company's investments.

A10 Valuations of property, plant and equipment

No valuation was carried out as the Company does not have any property, plant and equipment.

A11 Subsequent event

There were no materials events subsequent to the end of the interim period reported on that have not been reflected in the financial statements for the said period.

A12 Changes in the composition of the Company

There were no changes in the composition of the Company during the current financial year-to-date.

A13 Contingent liabilities or contingent assets

There were no contingent liabilities or contingent assets pending as at the date of this report.

A14 Significant related party transactions

The Company has a related party relationship with Capital Dynamics Asset Management Sdn Bhd ("CDAM"), the Fund Manager of the Company. A Director of the Company, YM Tunku Tan Sri Dato' Seri Ahmad Bin Tunku Yahaya is a director of CDAM. YM Tunku retired from the Board of Icapital.biz Berhad effective from 30 November 2014.

The amount transacted with CDAM during the current quarter and cumulative year to-date is as follows:

	Current Quarter Ended		Cumulative Quarter Ended	
	30/11/2014	30/11/2013	30/11/2014	30/11/2013
	RM'000	RM'000	RM'000	RM'000
Fund management fees	<u>809</u>	<u>776</u>	<u>1,622</u>	<u>1,544</u>

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PART B - AS REQUIRED BY THE LISTING REQUIREMENTS

B1 Review of performance

For the six months ended 30 November 2014, the Company recorded a profit before tax of RM7.1 million, compared with a profit before tax of RM7.8 million in the corresponding period of last year.

The lower profit before tax is mainly due to lower revenue as shown in the following table :

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER 30.11.2014 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30.11.2013 RM'000	CURRENT YEAR TO DATE 30.11.2014 RM'000	PRECEDING YEAR CORRESPONDING PERIOD 30.11.2013 RM'000
Revenue Consist of :				
INTEREST				
Interest amount	1,765	1,382	3,495	2,819
DIVIDEND INCOME				
Dividend received	1,165	1,271	2,961	3,235
GAIN/(LOSS) ON DISPOSAL OF QUOTED INVESTMENT				
Gain on disposal of securities	4,190	5,027	4,190	5,027
	7,120	7,680	10,646	11,081

As the company is a closed-end fund, a better indication of its performance would be the movement of its Net Assets Value (NAV). The NAV per share as at 30 November 2014 was RM3.00, compared with NAV per share of RM3.05 as at 31 May 2014.

In the second quarter ended 30 November 2014, the Company's NAV decreased by 1.64% from 31 May 2014.

B2 Comparison with immediate preceding quarter's results

In the second quarter ended 30 November 2014, the Company recorded a profit after tax of RM4.9 million, compared with RM2.2 million in the preceding quarter. The difference between the two quarters' performance is due mainly to profit on disposal of securities in the current quarter. For the current quarter, the revenue and operating expenses were RM7.1 million and RM1.8 million respectively, compared with RM3.5 million and RM1.8 million for the preceding quarter.

The NAV per share decreased by 2.28% in the second quarter ended 30 November 2014 to RM3.00, compared with the preceding quarter of RM3.07.

The following items are not applicable to the company :

- (a) Interest expense;
- (b) Depreciation and amortization;
- (c) Provision for and write off of receivables;
- (d) Provision for and write off of inventories;
- (e) Gain or loss on disposal of unquoted investments or properties
- (f) Foreign exchange gain or loss;
- (g) Gain or loss on derivatives; and
- (h) Exceptional items (with details).

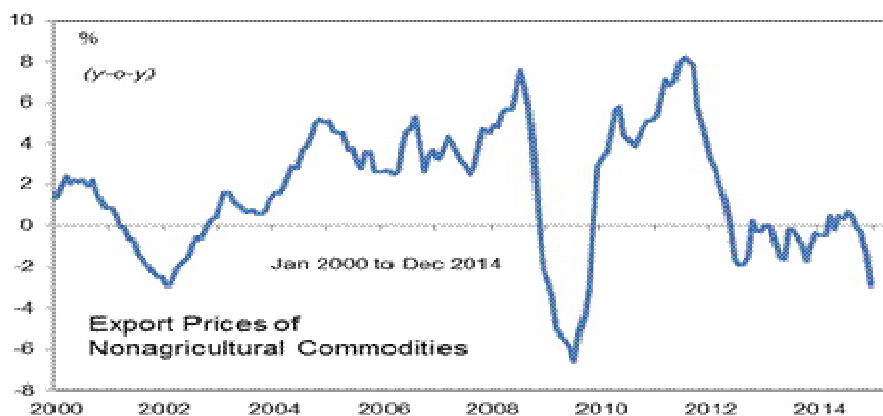
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B3 Commentary by Fund Manager - Prospects

Crude oil price has plunged. Malaysia has revised the 2015 Budget. Even though I have been warning about Malaysia's economic outlook, what if the oil price plunges further to US\$20-40 per barrel, and then stay low for years, as I have been predicting since 2014 ?

First, it is not unrealistic to expect crude oil price to fall further and then stay low for years. Crude oil price plunged 67% in 1985 and then stayed low for years. After double-digit US interest rates in the late Seventies, the Eighties was a period of disinflation, when inflation fell and commodity prices tumbled. The Malaysian economy was very badly affected then. One could argue that the Eighties were different from present day Malaysia. Back then, Malaysia had one of the highest budget and current account deficits. Now, although Malaysia is still suffering from budget deficits, they are much smaller in percentage terms and she is still enjoying current and trade surpluses.

In the Eighties, the global backdrop was disinflation. Now, post the 2008 US-led global financial crisis, the global pricing environment is deflationary. In a sustained deflationary period, product prices can fall and suffer for years. **Figure 1** (source : US Bureau of Labor Statistics) shows how severe global deflation is. Export prices of US non-agricultural commodities have been negative in the last few years, in contrast to the period before mid-2008. China's export prices have been behaving in a similar fashion despite strong wage growth in China's numerous manufacturing sectors. The two largest exporters in the world have been generating negative export prices to all of us. This was before the sudden plunge in oil price which started in 2014, the impact of which will begin to be felt in the coming months. The quantitative easing by the US, Japan and the Eurozone has not helped in staving off global deflation and the US is now starting monetary tightening. In addition, The World Bank and the IMF recently cut their forecasts for the global economy. A small and open economy like Malaysia is vulnerable to global economic and trade conditions. Malaysia's export revenue, which has been under severe stress in recent years, may remain under stress.



For Malaysia, where exports and imports form a substantial part of her open economy, growth in global trade is far more important than global economic growth is. Here, the signs are no less troubling.

“What’s up with world trade growth? After bouncing back in 2010 from the historic low of the Great Recession, it has been surprisingly sluggish. Trade grew by no more than 3 percent in 2012 and 2013, compared with the precrisis average of 7.1 percent (1987–2007). For the first time in over four decades, trade has grown more slowly than the global economy.”

“Will the global trade slowdown persist? Will it have implications for world growth and for countries seeking to use trade as an engine of growth? Our findings show that the 2012–13 slowdown was driven by a structural (and, hence, more durable) change in the trade-income relationship, indicating that the phenomenon is likely to persist in the coming years. This might affect the growth potential of the world economy because trade and income are not independent of one another.”

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Source : Cristina Constantinescu, Aaditya Mattoo, and Michele Ruta in "Finance and Development".

How would Malaysia then fare in a global economy where the world trade slowdown persists, amidst a prolonged global deflationary environment, and where aggregate demand remains sluggish ?

B4 Profit forecast / guarantee

The Company has not given any profit forecast or profit guarantee for the year.

B5 Taxation

	Current Quarter Ended		Cumulative Quarter Ended	
	30/11/2014	30/11/2013	30/11/2014	30/11/2013
	RM'000	RM'000	RM'000	RM'000
Current tax expense	419	371	17	960

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	Current Quarter Ended		Cumulative Quarter Ended	
	30/11/2014	30/11/2013	30/11/2014	30/11/2013
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	5,328	6,028	7,098	7,821
Tax at the statutory rate of 25%	1,332	1,507	1,775	1,955
Tax effects of				
Non-taxable income	(1,048)	(1,257)	(1,048)	(1,257)
Tax-exempt dividends	(291)	(281)	(740)	(484)
Non-deductible expenses	426	402	821	746
Over provision in prior years	-	-	(791)	-
Tax for the financial period	419	371	17	960

B6 Status of corporate proposals

There was no corporate proposal announced during the current quarter or the current financial year-to-date.

B7 Borrowings and debt securities

There were no group borrowings and debt securities outstanding as at the end of the reporting period.

B8 Changes in material litigation

There was no material litigation pending as at the date of this report.

B9 Dividend

The Directors did not declare any dividend for the current quarter ended 30 November 2014.

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B10 Earnings per share

a) Basic earnings per share

The basic earnings per share for the current quarter under review and cumulative year to-date are computed as follows:

	Current Quarter Ended 30/11/2014 RM'000	Cumulative To-Date Ended 30/11/2014 RM'000
Profit after tax (RM'000)	4,909	7,081
No. of ordinary share capital in issue during the current quarter/current year to-date ('000 of shares of RM1.00 each)	140,000	140,000
Basic earnings per share (sen)	3.51	5.06

b) Diluted earnings per share

There are no diluted earnings per share as the Company does not have any convertible financial instruments as at the end of the current quarter.

B11 Net asset value

The net asset value per share is calculated in accordance with the Securities Commission's Guidelines for Public Offerings of Securities of Closed-end Funds.

B12 Investments

As at 30 November 2014, the Company did not have any investments in:

- (1) securities listed on other stock exchanges;
- (2) other investment vehicles;
- (3) securities of unlisted companies; and
- (4) derivatives other than warrants, transferable subscriptions rights and convertible loan stocks.

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B13 Realised and unrealised profits.

The breakdown of the retained profits of the Company as at the end of the reporting period into realised and unrealised profits are presented in accordance with directive issued by Bursa Malaysia Securities Berhad dated 20 December 2010 and prepared in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Main Market Listing Requirements, as issued by the Malaysian Institute of Accountants, as follows:-

	As at 30/11/2014 RM'000	As at 31/05/2014 RM'000
Total retained profits of the Company		
Realised	209,914	202,833
Unrealised	(514)	(514)
Total retained profits as per statement of financial position	<u>209,400</u>	<u>202,319</u>

BY ORDER OF THE BOARD
KUAN HUI FANG (MIA 16876)
THAM WAI YING (MAICSA 7016123)

SECRETARIES

Kuala Lumpur
Date: 27 January 2015