

ICAPITAL.BIZ BERHAD (674900-X)
FINANCIAL REPORT FOR THE PERIOD ENDED 28 FEBRUARY 2015

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 is an impairment loss on a quoted investment of RM2,159,964 in the current quarter.

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 material 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 ("RPT") with Capital Dynamics Asset Management Sdn Bhd ("CDAM"), the Fund Manager of the Company. A former 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.

Following the amendments to the related party transaction requirements in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), which took effect on 27 January 2015, the provision of investment advisory by Capital Dynamics Sdn Bhd ("CDSB") to the Fund is regarded as a RPT. CDSB is regarded as a related party because it is a person connected with Capital Dynamics Global Private Limited who is a major shareholder of CDAM.

The amounts transacted with CDAM and CDSB during the current quarter and cumulative year to-date are as follows:

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	Current Quarter Ended		Cumulative Quarter Ended	
	28/02/2015	28/02/2014	28/02/2015	28/02/2014
	RM'000	RM'000	RM'000	RM'000
Fund management fees - CDAM	<u>789</u>	<u>777</u>	<u>2,411</u>	<u>2,321</u>
Investment advisory fees - CDSB	<u>789*</u>	<u>777**</u>	<u>2,411*</u>	<u>2,321**</u>

Note: * Effective 27 January 2015, the provision of investment advisory by CDSB to the Company is regarded as a RPT.

** The comparative figures have been adjusted to conform with current year's presentation.

PART B - AS REQUIRED BY THE LISTING REQUIREMENTS

B1 Review of performance

For the nine months ended 28 February 2015, the Company recorded a profit before tax of RM10.4 million, compared with a profit before tax of RM28.3 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 28.02.2015 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 28.02.2014 RM'000	CURRENT YEAR TO DATE 28.02.2015 RM'000	PRECEDING YEAR CORRESPONDING PERIOD 28.02.2014 RM'000
Revenue Consist of :				
INTEREST				
Interest amount	1,877	1,473	5,372	4,292
DIVIDEND INCOME				
Dividend received	1,322	2,165	4,283	5,399
GAIN/(LOSS) ON DISPOSAL OF QUOTED INVESTMENT				
Gain on disposal of securities	4,088	19,685	8,278	24,713
	<u>7,287</u>	<u>23,323</u>	<u>17,933</u>	<u>34,404</u>

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 28 February 2015 was RM2.94, compared with NAV per share of RM3.05 as at 31 May 2014, a decrease of 3.6%.

B2 Comparison with immediate preceding quarter's results

In the third quarter ended 28 February 2015, the Company recorded a lower profit after tax of RM2.9 million, compared with RM4.9 million in the preceding quarter mainly due to impairment loss on a quoted investment in the current quarter. The NAV per share decreased by 2.0% compared to the preceding quarter.

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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).

B3 Commentary by Fund Manager - Prospects

Berkshire Hathaway Chief Executive Warren Buffett said on 2nd March 2015 that he would be wary of putting Harry Wilson or anyone else on the board of General Motors if the focus was on the short-term performance of the automaker. Buffett said on CNBC, "It's just not the way to run a business." Berkshire Hathaway is one of the largest shareholders in General Motors.

Wilson and a group of hedge funds who own almost 2% of GM stock are pressing the automaker to buy back \$8 billion in stock over the 12 months following its June annual meeting, and agree to give Wilson a seat on its board.

Buffett said he was concerned that Wilson's compensation from the hedge funds would be linked to the performance of GM over only two years.

Buffett also told CNBC that companies in the auto industry can burn through cash quickly and he would not be bothered if GM Chief Executive Mary Barra decided the company should hold onto its \$25.2 billion in cash (Berkshire Hathaway itself consistently has around US\$50-60 billion which is still growing).

I have explained in the past AGMs and in other presentations why share buyback does not make business sense for a listed closed-end fund like icapital.biz Bhd as it destroys long-term value. Share buyback may make sense for a listed company with a normal business but not for icapital.biz Bhd. In managing the funds of icapital.biz Bhd, I have been very consistently focusing on long-term value creation, not short-term tricks. As explained above, Buffett makes the same sound advice.

No less important, Warren Buffett was totally against putting Harry Wilson or anyone else on the board of GM if the focus was on the short-term performance. Again, ever since the initial public offering of icapital.biz Bhd way back in 2005, I have been stressing again and again the importance of long-term value creation in achieving sustainable investment success.

Given the nature of a closed-end fund (which, unlike a unit trust, cannot increase its fund size by creating more units) and the peculiarities of the Malaysian economy and stock market, my decision on increasing the level of cash for icapital.biz Bhd is similar to GM – it is a sound decision as it protects the long-term interests of its share owners while creating long-term values.

For share owners of icapital.biz Bhd, the arguments put forward by Warren Buffett in opposing short-term activists like Harry Wilson deserve careful scrutiny and consideration.

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	
	28/02/2015	28/02/2014	28/02/2015	28/02/2014
	RM'000	RM'000	RM'000	RM'000
Current tax expense	435	264	452	1,224
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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:

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	Current Quarter Ended		Cumulative Quarter Ended	
	28/02/2015	28/02/2014	28/02/2015	28/02/2014
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	3,331	20,443	10,429	28,264
Tax at the statutory rate of 25%	833	5,110	2,607	7,066
Tax effects of				
Non-taxable income	(1,022)	(4,921)	(2,069)	(6,178)
Tax-exempt dividends	(331)	(541)	(1,071)	(1,025)
Non-deductible expenses	957	682	1,779	1,427
Over provision in prior years	(2)	(66)	(794)	(66)
Tax for the financial period	435	264	452	1,224

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 28 February 2015.

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	Cumulative To-Date Ended
	28/02/2015	28/02/2015
	RM'000	RM'000
Profit after tax (RM'000)	2,896	9,977
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)	2.07	7.13

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.

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B12 Investments

As at 28 February 2015, 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.

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 28/02/2015 RM'000	As at 31/05/2014 RM'000
Total retained profits of the Company		
Realised	214,970	202,833
Unrealised	(2,674)	(514)
Total retained profits as per statement of financial position	<u>212,296</u>	<u>202,319</u>

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

SECRETARIES

Kuala Lumpur
Date: 18 March 2015