

NETX HOLDINGS BERHAD (533441-W)
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED
31 MARCH 2016**

A. EXPLANATORY NOTES

A1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134 "Interim Financial Reporting" and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the ACE Market.

The report should be read in conjunction with the audited financial statements of the Group for year ended 30 June 2015. The explanatory notes attached to the quarterly financial report provide an explanation on events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2015.

The accounting policies and methods of computation adopted by the Group in the quarterly financial report are consistent with those adopted in the audited financial statements of the Group for the financial year ended 30 June 2015 except for the adoption of the following MFRS and Amendments to MFRS. The adoption of these MFRSs does not have any significant impact on the interim financial statements of the Group and the Company.

<u>MFRS and IC Interpretations (Including the Consequential Amendments)</u>		<u>Effective Date</u>
Annual Improvements to MFRSs 2012 - 2014 Cycle		1 January 2016
MFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 116 and MFRS 141	Agriculture : Bearer Plants	1 January 2016
Amendments to MFRS 127	Equity method in Separate Financial Statements	1 January 2016
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to MFRS 101	Disclosure Initiative	1 January 2016
Amendments to MFRS 10 MFRS 12 and MFRS 128	Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 5, MFRS 7 and MFRS 134	Annual Improvements to MFRSs 2012 - 2014 Cycle	1 January 2016

The following MFRS and Amendments to MFRS have been issued by MASB but are not yet effective to the Group:

<u>MFRS and IC Interpretations (Including the Consequential Amendments)</u>		<u>Effective Date</u>
MFRS 15	Revenue from Contracts with Customers	1 January 2017
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 107	Disclosure Initiative	1 January 2017
MFRS 9	Financial Instruments	1 January 2018
MFRS 16	Leases	1 January 2019

A2 SEASONAL OR CYCLICAL FACTORS

The business operations of the Group are not subject to any seasonal or cyclical factors.

A3 UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period ended 31 March 2016.

A4 CHANGES IN ESTIMATES

There were no changes in estimates that have had any material effect on the financial period under review.

A5 DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial period ended 31 March 2016 except for the reduction of the issued and paid up share capital of the Company via the cancellation of RM0.05 of the par value of the ordinary share of RM0.10 per share to RM0.05 per share on 11 March 2016. The issued and paid up share capital of the Company reduced from RM62,555,303 to RM31,277,652.

A6 DIVIDENDS PAID

No dividends were paid during the financial period under review.

A7 SEGMENTAL INFORMATION

The Group's operating segments are classified according to the nature of activities as follow:-

- Payment services : Involved in terminal services.
Non-payment services : Involved in provision of turnkey solutions on the network infrastructure, security management, research and development of software, system design, integration and installation and provision of IT services.

	Individual Quarter		Cumulative Quarter	
	Ended 31-Mar-16 RM'000	Ended 31-Mar-15 RM'000	Ended 31-Mar-16 RM'000	Ended 31-Mar-15 RM'000
Segment Revenue				
Payment services	60	-	173	-
Non-payment services	3,772	797	9,620	3,222
	<u>3,832</u>	<u>797</u>	<u>9,793</u>	<u>3,222</u>
Eliminations	(16)	-	(64)	-
Group revenue	<u>3,816</u>	<u>797</u>	<u>9,729</u>	<u>3,222</u>
Segment Results				
Payment services	(86)	-	(116)	-
Non-payment services	1,531	(268)	4,764	(897)
Profit before taxation	<u>1,445</u>	<u>(268)</u>	<u>4,648</u>	<u>(897)</u>

A8 VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There were no valuation undertaken for property, plant and equipment.

A9 CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial period under review except for the followings:

- (i) On 18 November 2015, the wholly-owned subsidiary, Ariantec Sdn. Bhd., has incorporated a wholly owned subsidiary in Republic of Seychelles, NetX Digital Limited (“NDL”), with paid up share capital of USD10,000 divided into 10,000 shares of USD1.00 each. The principal activity of NDL is trading of information technology related hardware and software equipment.

A9 CHANGES IN THE COMPOSITION OF THE GROUP (Cont'd.)

- (ii) On 4 May 2016, the Company has acquired First United Technology Limited (“FUTL”), a company incorporated in Hong Kong with paid up share capital of HKD1 divided into 1 share of HKD1.00, for a cash consideration of HKD5,570 (equivalent to RM2,888 at the exchange rate of RM1:HKD1.92861). FUTL is currently a dormant company which has not conducted any business or carried out any trading activities since the date of its incorporation; and its intended principal activity will be providing all kinds of services relating to information technology (IT) including the import, export, supply, assemble, manufacture, sale and purchase of computers hardware and software, system peripherals and other electrical and electronic equipment, computers and computer related equipment and other ancillary services relating to IT and the computer industry.

A10 CONTINGENT LIABILITIES

There were no material contingent liabilities not provided for as at the date of this report.

A11 MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM REPORTING PERIOD

There were no material events subsequent to the end of the interim reporting period other than the corporate exercise as disclosed in Note B8 (A).

A12 CAPITAL COMMITMENTS

The Group does not have material capital commitments at the balance sheet date.

A13 RELATED PARTY TRANSACTIONS

There were no significant transactions with related parties during the financial period under review.

B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1 PERFORMANCE REVIEW

For the current quarter ended 31 March 2016, the Group recorded revenue of RM3.82 million, higher as compared to RM797k in the corresponding quarter in the previous year mainly due to higher revenue generated from the non-payment services segment. The Group recorded a profit before taxation for the current quarter of RM1.45 million, higher as compared to loss before tax of RM268k in the corresponding quarter in the previous year, mainly due to higher selling prices and higher gross profit margin from the non-payment services segment.

During the quarter ended 31 March 2016, the management made a decision to reduce the stock level in non-payment services segment, in view of the uncertainty on currency fluctuations.

The Group year to-date's revenue ended 31 March 2016 of RM9.73 million, higher by approximately 202% as compared to RM3.22 million in the previous year to-date. The Group recorded a profit before taxation for the current year to-date of RM4.64 million compared to loss before tax of RM0.90 million in the previous year to-date. The improvement in profit before tax was mainly due to higher selling prices and higher gross profit margin in current year of 65% against 2% for the previous year, as a result of extensive product warranties and assurances given to our customer.

B2 COMMENT ON MATERIAL CHANGE IN PERFORMANCE COMPARED WITH PRECEDING QUARTER

	Current Quarter Ended 31.3.2016	Preceding Quarter Ended 31.12.2015
	RM'000	RM'000
Revenue	3,816	4,873
Profit before tax	<u>1,445</u>	<u>2,762</u>

The Group recorded revenue of RM3.82 million in the current quarter, 22% lower as compared to RM4.87 million in the previous quarter was mainly due to lower revenue generated from non-payment services segment. The current quarter profit before tax of RM1.45 million compared to RM2.76 million in the previous quarter, was mainly due to lower revenue generated from the non-payment services segment in the current quarter and unrealized foreign exchange loss of RM523k arising from the strengthening of Ringgit Malaysia against USD.

B3 CURRENT YEAR PROSPECTS

The Group continue to pursue business ventures domestically and internationally to propel future growth and to achieve a solid revenue despite the uncertain market condition.

The Group hope to deliver a reasonable performance despite the challenging economic condition for the financial year ending 30 June 2016.

B4 PROFIT / (LOSS) BEFORE TAX

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended	Preceding Year Corresponding Quarter Ended	Current Year Todate Ended	Preceding Year Todate Ended
	31.3.2016	31.3.2015	31.3.2016	31.3.2015
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) before tax is stated after charging/(crediting) :-				
Depreciation of Property, plant and equipment	40	32	125	94
Loss on disposal of P.P.E	3	-	3	-
Bad debts written off	-	-	26	-
Property, plant and equipment written off	3	-	3	1
Provision of warranty	-	-	1,170	-
Interest expense	48	47	148	142
Unrealised foreign exchange loss/(gain)	523	-	360	-
Interest income	(1)	(8)	(13)	(31)
Rental income	(35)	(19)	(104)	(46)

B5 PROFIT FORECAST OR PROFIT GUARANTEE

There is no profit forecast and profit guarantee provided by the Company.

B6 TAXATION

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended	Preceding Year Corresponding Quarter Ended	Current Year Todate Ended	Preceding Year Todate Ended
	31.3.2016	31.3.2015	31.3.2016	31.3.2015
	RM'000	RM'000	RM'000	RM'000
Current period				
- Income taxation	(11)	-	(11)	-
- Deferred taxation	-	-	-	-
Total	<u>(11)</u>	<u>-</u>	<u>(11)</u>	<u>-</u>

The Malaysian income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated taxable profit for the financial period.

The effective tax rate of the Group for the financial period were lower than the statutory tax rate principally due to unabsorbed losses brought forward.

B7 DISCLOSURE OF REALISED AND UNREALISED PROFIT/(LOSSES)

	As at	As at
	31.3.2016	30.06.2015
	Unaudited	Audited
	RM'000	RM'000
Total accumulated losses:		
- Realised	(12,937)	(48,871)
- Unrealised	<u>2,296</u>	<u>2,296</u>
Total accumulated losses as per consolidated statement of financial position	<u>(10,641)</u>	<u>(46,575)</u>

B8 STATUS OF CORPORATE PROPOSALS

A) PROPOSED PAR VALUE DEDUCTION, RIGHT ISSUE WITH WARRANTS AND SHARE ISSUANCE SCHEME

On 28 April 2015, the Company proposed to undertake the following:

- (i) Proposed renounceable rights issue of up to 625,553,033 new ordinary shares of RM0.10 each in NetX on the basis of one (1) rights share for every one (1) existing share held, together with up to 625,553,033 free detachable warrants on the basis of one (1) warrant for every one (1) rights share subscribed at an entitlement date to be determined later (“Original Proposed Rights Issue of Shares with Warrants”);

B8 STATUS OF CORPORATE PROPOSALS (CONT'D)

A) PROPOSED PAR VALUE DEDUCTION, RIGHT ISSUE WITH WARRANTS AND SHARE ISSUANCE SCHEME

- (ii) Proposed establishment of a share issuance scheme ("SIS") of up to thirty percent (30%) of the Company's total issued and paid-up share capital (excluding treasury shares, if any) at any one time during the duration of the SIS for the eligible employees of NetX and its subsidiaries ("NetX Group" or "Group") (excluding dormant subsidiaries) ("Proposed SIS"); and
- (iii) Proposed increase in the authorised share capital of NetX from RM70,000,000 comprising 700,000,000 ordinary shares of RM0.10 each in NetX to RM500,000,000 comprising 5,000,000,000 ordinary shares of RM0.10 each in NetX.

On 5 June 2015, the Company has submitted the additional listing application for the above-mentioned Proposals to Bursa Securities.

On 28 August 2015, the Company announced that Bursa Securities approved (the "Approval") for the followings:

- (i) Admission to the Official List and the listing of and quotation for up to 625,553,033 warrants to be issued pursuant to the Original Proposed Rights Issue of Shares with Warrants;
- (ii) Listing of up to 625,553,033 new ordinary shares of RM0.10 each in NetX to be issued pursuant to Original Proposed Rights Issue of Shares with Warrants;
- (iii) Listing of up to 625,553,033 new ordinary shares of RM0.10 each in NetX to be issued pursuant to the exercise of the Warrants;
- (iv) Listing of such number of new ordinary shares of RM0.10 each in NetX representing up to 30% of the total issued and paid-up share capital of NetX (excluding treasury shares, if any) during the duration of the SIS to be issued and allotted pursuant to the Proposed SIS.

on the Ace Market of Bursa Securities.

On 13 October 2015, the Company proposed to reduce the par value of the issued and paid-up share capital of NetX as part of the proposals to be carried out. As such, the earlier proposals as announced on 28 April 2015 will be revised as follows:

- (i) Proposed reduction of the issued and paid up share capital of NetX via the cancellation of RM0.05 of the par value of the ordinary shares of RM0.10 each in NetX to RM0.05 each in NetX ("NetX Shares" or "Shares") pursuant to Section 64 of the Companies Act, 1965 ("Act") "Proposed Par Value Reduction")
- (ii) Proposed renounceable rights issue of up to 625,553,033 new NetX shares ("Rights Shares") on the basis of one (1) Rights Share for every one (1) existing NetX Share held after the Proposed Par Value Reduction, together with up to 625,553,033 free detachable warrants ("Warrants") on the basis of one (1) Warrant for every one (1) Rights Share subscribed at an entitlement date to be determined later ("Entitlement Date") ("Proposed Rights Issue of Shares with Warrants");
- (iii) Proposed SIS: and
- (iv) Proposed increase in the authorised share capital of NetX from RM70,000,000 comprising 700,000,000 ordinary shares of RM0.10 each in NexX to RM250,000,000 comprising 5,000,000,000 NetX Shares ("Proposed Increase in Authorised Share Capital").

(Collectively referred to as the "Proposals")

B8 STATUS OF CORPORATE PROPOSALS (CONT'D)

A) PROPOSED PAR VALUE DEDUCTION, RIGHT ISSUE WITH WARRANTS AND SHARE ISSUANCE SCHEME

On 22 October 2015, the Company announced that the additional listing application for the Proposals has been submitted to Bursa Securities.

On 21 December 2015, the Company announced that Bursa Securities has approved the following:

- (i) The maximum number of shares arising from the revised Proposed Rights Issue of Shares with Warrants remains the same as the Original Proposed Rights Issue of Shares with Warrants;
- (ii) The maximum number of warrants arising from the revised Proposed Rights Issue of Shares with Warrants remains the same as in the Original Proposed Rights Issue of Shares with Warrants;
- (iii) The basis of entitlement under the revised Proposed Rights Issue of Shares with Warrants remains unchanged from the basis in the entitlement in the Original Proposed Rights Issue of Shares with Warrants i.e., one (1) Rights Share with one (1) Warrant for every ordinary share held;
- (iv) The total gross proceeds to be raised has been reduced from RM6,000,000 in the Original Proposed Rights Issue of Shares with Warrants to RM4,500,000 in the revised Proposed Rights Issue of Shares with Warrants;

The utilisation of the proceeds remains the same, except that the amount to be allocated for each of the utilisation (with the exception of estimated expenses in relation to the Proposals, which remains the same) will be reduced accordingly, concurrent with the reduction in the total proceeds to be raised; and

The minimum issue price of the rights shares pursuant to the Original Proposed Rights Issue of Shares with Warrants and the revised Proposed Rights Issue of Shares with Warrants is RM0.10 and RM0.05, respectively as a result of the Proposed Par Value Reduction.

In view of the above:

- (i) the Approval is applicable to the revised Proposed Rights Issue of Shares with Warrants;
- (ii) NetX must complete the implementation of the revised Proposed Rights Issue of Shares with Warrants within six (6) months from the date of the letter dated 17 December 2015;
- (iii) NetX must issue the circular relating to the revised Proposed Rights Issue of Shares with Warrants within fourteen (14) market date from the date of the letter dated 17 December 2015.

On 21 January 2016, the shareholders have at the Extraordinary General Meeting (EGM) approved the Proposals.

On 23 March 2016, the Company announced that an office copy of the sealed order of the High Court of Malaya confirming the Par Value Reduction has been lodged with the Companies of Commission of Malaysia on 11 March 2016, upon which the Par Value Reduction took effect.

On 4 May 2016, the Company announced that the issue price of Rights Shares is fixed at RM0.05 each and the exercise price of Warrants is fixed at RM0.05 each.

B8 STATUS OF CORPORATE PROPOSALS (CONT'D)**A) PROPOSED PAR VALUE DEDUCTION, RIGHT ISSUE WITH WARRANTS AND SHARE ISSUANCE SCHEME**

On 16 May 2016, the Company announced that the abridged prospectus together with the notice of provisional allotment and rights subscription form have been registered with the Securities Commission Malaysia on 13 May 2016 and lodged with the Registrar of Companies on 16 May 2016. The Company's securities is traded and quoted "Ex-Rights Issue" as from 16 May 2016.

The trading of rights commenced on 19 May 2016 and the last day for Acceptance, Renunciation and Payment will be 2 June 2016.

B) STATUS OF UTILISATION OF PROCEEDS RAISED FROM PRIVATE PLACEMENT

Following the completion of private placement exercise on 18 November 2013, the following are the status of utilisation of the proceeds in the financial quarter under review:-

Purpose	Proposed Utilisation	Actual Utilisation	Unutilised Proceeds	Deviation	Intended Timeframe for Utilisation
	RM'000	RM'000	RM'000	RM'000	
Working capital	3,380	4,080	-	700	Within 24 months
Future projects funding	2,200	1,500	-	(700)	Within 24 months
Estimated expenses in relation to proposed private placement	100	100	-		Within 1 month
	5,680	5,680	-	-	

The Board has on 20 November 2015 approved the balance of the proceeds from Private Placement for future projects funding to be utilised as working capital.

B9 GROUP BORROWINGS AND DEBT SECURITIES

	As at 31.3.2016 Unaudited RM'000	As at 30.06.2015 Audited RM'000
Short term borrowing		
Secured	<u>270</u>	<u>258</u>
Long term borrowing		
Secured	<u>2,947</u>	<u>3,150</u>

B10 DIVIDEND PAYABLE

No dividend was declared or paid in the current period under review.

B11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit/(loss) attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The basic earnings per share was calculated as follows:

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended 31.3.2016	Preceding Year Corresponding Quarter Ended 31.3.2015	Current Year To date Ended 31.3.2016	Preceding Year To date Ended 31.3.2015
Net profit/(loss) attributable to owners of the parent (RM)	1,449,000	(268,000)	4,656,000	(897,000)
Weighted average number of ordinary shares	625,553,033	625,553,033	625,553,033	625,553,033
Basic profit/(loss) per share (sen)	0.23	(0.04)	0.74	(0.14)

(b) Diluted

The diluted profit/(loss) per share of the Group has not been presented as there are no dilutive potential ordinary share during the financial period.

B12 AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the year ended 30 June 2015 was qualified in respect of the remaining goodwill for non-electronic payment services. The carrying amount of the cash-generating unit, non-electronic payment services, inclusive of goodwill as of the year end exceeded its recoverable amount. The details of the qualification has been announced on 29 October 2015.

The directors and management of the Group is pursuing more business ventures to improve the performance of the Group in order to justify the carrying amount of the remaining goodwill.

B13 AUTHORISATION FOR ISSUE

The interim financial statements are authorised for issue by the Board of Directors in accordance with a resolution of the directors.