CUSCAPI BERHAD
(Company No: 43190-H)

A. NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

A1. Basis of Preparation

The condensed consolidated interim financial statements (Condensed Report) are unaudited and have been prepared in accordance with the requirements outlined in the Malaysian Financial Reporting Standards ("MFRS") No. 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities")

This Condensed Report should be read in conjunction with the audited financial statements for the year ended 31 December 2017. These explanatory notes attached to the Condensed Report provide an explanation of 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 31 December 2017.

The significant accounting policies adopted by the Group in this interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2017 except for the adoption of the following:-

New MFRS, amendments/improvement to MFRSs and new IC Interpretation ("IC Int") with effect from or after 1 January 2018

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
MFRS 1	First-time adoption of MFRSs
MFRS 2	Share-based Payment
MFRS 140	Investment Property
IC Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of the above amendments/improvements to MFRSs did not have any significant effects on the interim financial statements and did not result in significant changes to the Group's existing accounting policies.

New MFRS, amendments/improvement to MFRSs and new IC Interpretation with effect from or after 1 January 2019

<u>New MFRSs</u>	
MFRS 16	Leases
<u>Amendments/Improvements to MFRSs</u>	
MFRS 3	Business Combinations
MFRS 9	Financial Instruments
MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 112	Income Taxes
MFRS 119	Employee Benefits
MFRS 123	Borrowing Costs
MFRS 128	Investments in Associates and Joint Ventures
MFRS 140	Investment Property

New IC Int

IC Int 23	Uncertainty over Income Tax Treatments

The Group plan to adopt the above applicable new MFRSs, amendments/improvements to MFRSs and new IC Int when they become effective.

A2. Auditors' Report

The audit report for the annual financial statements of the Group for the financial year ended 31 December 2017 was not subject to any qualification.

A3. Seasonal or Cyclical Factors

The business operations of the Group during the financial quarter under review are not affected by any significant seasonal or cyclical factors.

A4. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items during the current financial quarter under review.

A5. Changes in Estimates

There were no material changes in the estimates of amounts that have a material effect on the results for the current financial quarter under review.

A6. Debt and Equity Securities

During the current financial quarter, a total of 92,216,551 new ordinary shares amounting to RM24,898,469 were allotted and issued pursuant to the conversion of Warrants

Save for the above, there were no issuance, cancellations, repurchases, resale and repayments of debt and equity securities during the current financial quarter under review.

A7. Dividends Paid

No dividend has been paid during the current financial quarter under review.

A8. Segmental Reporting

The Group is primarily engaged in a single business segment of information technology ("IT") and IT related services. The geographical segmental revenue by region and results for the six (6) months financial period ended 30 June 2018 is as follows:-

30 JUNE 2018	South East Asia RM'000	China RM'000	Elimination RM'000	Consolidation RM'000
External Sales	13,417	2,324	(1,364)	14,377
Segment Results	(667)	(4,500)	-	(4,738)
Finance Cost	(296)	-	-	(296)
Depreciation and Amortisation	(1,736)	(582)	-	(2,318)
Consolidated Loss Before Tax				(7,352)
ASSETS				
Segment Assets	125,014	4,179	-	129,193
LIABILITIES				
Segment Liabilities	18,828	1,924	-	20,752
OTHER INFORMATION				
Capital Expenditure on:-				
property, plant and equipment	232	20	-	252
Development costs	-	-	-	-
Depreciation and Amortisation	1,736	582	-	2,318

A8. Segmental Reporting (Cont'd)

30 JUNE 2017	South East Asia RM'000	China RM'000	Elimination RM'000	Consolidation RM'000
External Sales	15,411	2,884	(2,555)	15,740
Segment Results	(1,279)	(4,370)	-	(5,649)
Finance Cost	(21)	(2)	-	(23)
Depreciation and Amortisation	(1,090)	(2,588)	-	(3,678)
Consolidated Loss Before Tax				(9,350)
ASSETS				
Segment Assets	53,350	8,171	-	61,521
LIABILITIES				
Segment Liabilities	31,250	2,927	-	34,177
OTHER INFORMATION				
Capital Expenditure on:-				
property, plant and equipment	25,332	1,524	-	26,856
Development costs	-	1,052	-	1,052
Depreciation and Amortisation	1,090	2,588	-	3,678

A9. Revaluation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment for the current financial quarter under review.

A10. Subsequent Events

Save for the below, there were no material events subsequent to the current financial quarter to date.

(a) On 25 July 2018, the Company had incorporated a new wholly-owned subsidiary, namely CUSCAPI BLOCKCHAIN SDN BHD ("CBSB") in Malaysia with initial issued share capital of RM100.00. Subsequent to the incorporation, the Company intended to increase the issued share capital of CBSB to RM3,000,000 for its working capital purpose.

The intended and primary business activity of CBSB is to operate a cryptocurrency exchange in Philippines upon obtaining a license issued by Cagayan Economic Zone Authority ("CEZA") and other IT related business; and

(b) On 25 July 2018, the Company also announced that the Company and its wholly-owned subsidiary, Cuscapi Malaysia Sdn Bhd ("Cuscapi Malaysia") had respectively received letters of demand dated 23 July 2018 from Hitachi Systems Digital Services (Singapore) Pte Ltd ("Hitachi") demanding for a sum of RM USD3,600,248.22 and legal cost for the notice.

However the Company and Cuscapi Malaysia believe that they have good grounds to defend and contest against Hitachi's claim.

A11. Changes in the Composition of the Group

There were no changes in the composition of the Group for the current financial quarter under review except as disclosed in note A10 (a) above.

A12 Contingent Liabilities

	Company	
	As at	As at
	30/06/2018	30/06/2017
Corporate guarantees extended:	RM	RM
- to financial institutions for credit facilities	-	700,000
- to a supplier for purchases made by a subsidiary	14,331,935	23,653,098

A13. Capital Commitment

The Company has no material capital commitment in respect of property, plant and equipment as at the date of this report.

A14. Significant Related Party Transactions

There were no significant related party transactions during the financial quarter under review.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1 Review of Performance

B.1.1 Current Year-to-Date Versus Previous Year-to-Date

	Current Second (2nd) Quarter 30 June 2018	Preceding Second (2nd) Quarter 30 June 2017	Variance	
	RM'000	RM'000	RM'000	%
Revenue	14,376,816	15,740,557	(1,363,741)	-9%
PBT	(7,352,011)	(9,349,631)	1,997,620	21%

For the cumulative six (6) months ended 30 June 2018, the Group's revenue and loss before tax decreased by 9% and 21% respectively compared to the corresponding cumulative period ended 30 June 2017 mainly due to the following:-

Description	RM'000	*Note*
Increase in gross profit	2,431,388	1
Increase in other operating income	866,374	2
Increase in operating expenses	(1,026,582)	3
Increase in finance costs	(273,560)	4
Net decrease in PBT	1,997,620	

Notes:-

(1) Increase in gross profit mainly due to reduce in cost of sales as a result of lower amortisation of development cost and depreciation of equipment

(2) Other operating income increased mainly due to realised gain on forex, gain on disposal of motor vehicles and sundry interest income

(3) Operating expenses increased mainly due to non-capitalisation of salary cost to development cost, professional fee, late payment interest charges and compensation expenses

(4) Finance cost increased mainly due to deferred financing cost

B.1.2 Current Year Quarter Versus Preceding Year Quarter

	Current Second (2nd) Quarter 30 June 2018	Preceding Second (2nd) Quarter 30 June 2017	Variance	
	RM'000	RM'000	RM'000	%
Revenue	7,697,727	9,095,938	(1,398,211)	-15%
PBT	(2,971,332)	(4,829,659)	1,858,327	38%

For the current quarter under reviewed, the Group's revenue and loss before tax decreased by 15% and 38% respectively compared to the corresponding quarter ended 30 June 2017 mainly due to reasons as following:-

Description	RM'000	*Note*
Increase in gross profit	1,511,567	1
Increase in other operating income	277,372	2
Decrease in operating expenses	228,370	3
Increase in finance costs	(158,982)	4
Net decrease in PBT	1,858,327	

Notes:-

(1) Increase in gross profit mainly due to reduce in cost of sales as a result of lower depreciation of equipment and lower salary cost

(2) Other operating income increased mainly due to sundry interest income

(3) Operating expenses reduced mainly due to no director fee provided in current quarter under reviewed and lower rental expenses

(4) Finance cost increased mainly due to deferred financing cost

B.1.3 Current Year Quarter Versus Immediate Preceding Quarter

	Current Second (2nd) Quarter 30 June 2018	Preceding First (1st) Quarter 31 March 2018	Variance	
	RM'000	RM'000	RM'000	%
Revenue	7,697,727	6,679,090	1,018,637	15%
PBT	(2,971,332)	(4,380,678)	1,409,346	32%

The Group recorded revenue of RM7.7 million and loss before taxation of RM3 million for current quarter under review as compared to immediate preceding quarter ended 31 March 2018 of RM6.7 million and RM4.4 million respectively mainly due to followings:-

Description	RM'000	*Note*
Increase in gross profit	475,044	1
Decrease in other operating income	(184,779)	2
Decrease in operating expenses	1,160,015	3
Increase in finance costs	(40,933)	4
Net decrease in PBT	**1,409,346**	

Notes:-

(1) Increase in gross profit mainly due to increase of revenue and reduce in cost of sales such as lower direct cost of salary
(2) Other operating income reduced mainly due to lower realised gain on forex and gain on disposal of motor vehicles happened in preceding quarter 31 March 2018
(3) Operating expenses reduced mainly due to professional fee, late payment interest charges and compensation expenses happened in preceding quarter 31 March 2018
(4) Finance cost increased mainly due to deferred financing cost under provided in preceding quarter 31 March 2018

B2. Prospects

With the competitive and challenging business environment expected to continue in the second half of financial year 2018, the Group is committed to focus in developing, enhancing and strengthening our existing solutions and offerings, improving efficiency, managing cost control and attaining prudent financial management.

Further, the Group will continue to look for future prospective businesses and/or assets to be acquired which will largely be complimentary to the existing business of Cuscapi. These will in turn create more value to the shareholders and improve performance in the coming years.

B3. Profit Forecast

No financial forecast was announced or made hence there was no comparison between actual results and forecast.

B4. Taxation

There is no tax provision for the current quarter and financial year-to-date under review mainly because the Company and the Group are still at loss making position.

B5. Profit on Sale of Unquoted Investments and/or Properties

There were no disposals of unquoted investments or properties during the current financial quarter under review.

B6. Purchase or Disposal of Quoted Securities

There were no purchases and disposals of quoted securities during the current financial quarter under review.

B7. Corporate Proposals

(a) Status of Corporate Proposals

As announced on 31 July 2018, the Company proposed to vary the utilisation of proceeds of up to RM18.00 million raised from the issuance that completed on 20 March 2018.

The details of which are set out as follows:

Details of utilisation	Original proposed utilisation of the Issuance Proceeds	Amount utilised as the 20 July 2018	Balance yet to be utilised as at the 20July 2018	Revised proposed utilisation of the Issuance Proceeds which is yet to be utilised as at the LPD	Variation		Original timeframe for the utilisation (from the Completion Date)	Revised timeframe for the utilisation (from the date of EGM for the Proposed Variation)
	RM	RM	RM	RM	RM	%		
Working capital	6,000,000	6,143,035	-	-	143,035	0.27	Within 1 year from the Completion Date	Utilised
Business expansion	46,500,000	1,776,700	44,723,300	26,723,300	(18,000,000)	(33.83)	Within 2 years from the Completion Date	No change
Estimated expenses for the Issuance	700,000	556,965	-	-	(143,035)	(0.27)	Within 1 month from the Completion Date	Utilised
Future prospective businesses and/or assets to be acquired	-	-	-	18,000,000	18,000,000	33.83	-	Within 1 year from the EGM date
Total	53,200,000	8,476,700	44,723,300	44,723,300	-	-		

Bursa Malaysia Securities Bhd has via letter dated 3 August 2018 approved the above proposal and an Extraordinary General Meetings will be held on 27 August 2018 for the approval of the above proposal.

Save for the above, there were no corporate proposals announced but not completed as at to date.

(b) Status of Utilisation of Proceeds

The details of the utilisation of the proceeds from the issuance that completed on 20 March 2018 for the current quarter under review are as follows:-

Description	Proposed Utilisation RM	Actual Utilisation RM	Balance Unutilised RM
Working capital	6,000,000	6,130,405	(130,405)
Business expansion	46,500,000	1,347,113	45,152,887
Estimated expenses for the Proposals	700,000	556,965	143,035
Total	53,200,000	8,034,483	45,165,517

B8. Group Borrowings and Debt Securities

There were no borrowings and issued of debt securities as at the current financial quarter to date.

B9. Off Balance Sheet Financial Instruments

The Company does not have any financial instruments with off balance sheet risk during the current financial quarter to date.

B10. Material Litigation

During the current financial quarter to date, the Group is not engaged in any material litigation either as plaintiff or defendant and the directors do not have any knowledge of any proceedings pending or threatened against the Company or its subsidiaries which might materially and adversely affect the position or business of the Group, except as per disclosed in A10 (b) above.

B11. Dividends

The Board has not recommended any dividend for the financial quarter ended 30 June 2018.

B12. Earnings Per Share

Basic earnings per share

The earnings per share are calculated by dividing the net profit attributable to ordinary owners of the parent by the weighted average number of ordinary shares in issue during the current financial quarter to date.

	Individual Quarter Ended		Cumulative Quarter Ended	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Net loss attributable to owners of the parent (RM)	(2,971,332)	(4,829,659)	(7,352,011)	(9,349,244)
Weighted average number of ordinary shares in issue	835,053,728	479,359,421	695,275,211	457,807,797
Basic loss per share (sen)	(0.36)	(1.01)	(1.06)	(2.04)

The profit/(loss) for the period attributable to ordinary equity holders of the parent is not subjected to any dilutive elements.

B13. Realised/Unrealised Retained Profits/Losses

	Cumulative Period ended 30/06/18
Total retained losses of Cuscapi and its subsidiaries:	RM
- Realised	(83,685,848)
- Unrealised	(94,723)
Total retained losses c/f	(83,780,571)

B14. Loss for the Current Financial Quarter

	Cumulative Period Ended 30/06/2018 RM
Loss for the current financial quarter to date is arrived at after charging :	
- Depreciation of plant & equipment	1,432,566
- Amortisation of development costs	885,275
- Interest paid	296,126

By Order of the Board

TAN TONG LANG
Secretary
Kuala Lumpur
27th August 2018