

CUSCAPI BERHAD
(Company No: 43190-H)

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

New MFRSs

MFRS 16	Leases
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Amendments/Improvements to MFRSs

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

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 nine (9) months financial period ended 30 September 2018 is as follows:-

30 SEPTEMBER 2018	South East Asia RM'000	China RM'000	Elimination RM'000	Consolidation RM'000
External Sales	20,421	3,147	(1,827)	21,741
Segment Results	(1,170)	(6,929)	-	(8,099)
Finance Cost	(412)	-	-	(412)
Depreciation and Amortisation	(2,603)	(1,157)	-	(3,757)
Consolidated Loss Before Tax				(12,268)
ASSETS				
Segment Assets	120,277	2,676	-	122,953
LIABILITIES				
Segment Liabilities	19,042	489	-	19,531
OTHER INFORMATION				
<i>Capital Expenditure on:-</i>				
<i>property, plant and equipment</i>	808	0	-	808
<i>Development costs</i>	-	-	-	-
<i>Depreciation and Amortisation</i>	2,603	1,157	-	3,757

30 SEPTEMBER 2017	South East Asia RM'000	China RM'000	Elimination RM'000	Consolidation RM'000
External Sales	22,858	3,920	(3,111)	23,667
Segment Results	(2,289)	(7,028)	-	(9,317)
Finance Cost	(30)	(2)	-	(32)
Depreciation and Amortisation	(3,253)	(1,576)	-	(4,829)
Consolidated Loss Before Tax				(14,178)
ASSETS				
Segment Assets	48,696	7,967	-	56,663
LIABILITIES				
Segment Liabilities	29,730	2,167	-	31,897
OTHER INFORMATION				
<i>Capital Expenditure on:-</i>				
<i>property, plant and equipment</i>	13,245	15	-	13,260
<i>Development costs</i>	-	1,665	-	1,665
<i>Depreciation and Amortisation</i>	3,253	1,576	-	4,829

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.

- 1) On 11 October 2018, the Company had entered into a sales and purchase agreement (“SPA”) with Cosmopolitan Avenue Sdn Bhd for the purpose of acquiring a commercial space at MYEG Tower, Empire City with approximately 33,340 square feet for a total consideration of RM20,004,000 subject to the terms and conditions as stipulated in the SPA.
- 2) On 19 November 2018, Cuscapi Berhad has entered into a Share Purchase Agreement (“SPA”) with Litaran Pasifik Sdn Bhd to acquire the entire equity interest in Litar Pasifika Sdn Bhd, which holds a 20% equity interest in Konsortium Multimedia Swasta Sdn Bhd, for a total cash consideration of RM16,000,000 pursuant to the terms and conditions as set out in the SPA. As a result of the acquisition, Litar Pasifika Sdn Bhd will become a wholly-owned subsidiary of Cuscapi Berhad.

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.

A12. Contingent Liabilities

	Company	
	As at 30/09/2018	As at 30/09/2017
	RM	RM
Corporate guarantees extended:		
- to financial institutions for credit facilities	-	700,000
- to a supplier for purchases made by a subsidiary	14,757,397	22,306,911
	<u>14,757,397</u>	<u>22,306,911</u>

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.

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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 Third (3 rd) Quarter 30 Sept 2018	Preceding Third (3 rd) Quarter 30 Sept 2017	Variance	
	RM	RM	RM	%
Revenue	21,741,506	23,667,389	(1,925,883)	-8%
PBT	(12,268,353)	(14,178,381)	1,910,028	13%

For the cumulative nine (9) months ended 30 September 2018, the Group's revenue and loss before tax decreased by 8% and 13% respectively compared to the corresponding cumulative period ended 30 September 2017 mainly due to the following:-

Description	RM	Note
Increase in gross profit	3,206,564	1
Increase in other operating income	1,317,590	2
Increase in operating expenses	(2,234,548)	3
Increase in finance costs	(379,578)	4
Net decrease in PBT	1,910,028	

Notes:-

- (1) Increase in gross profit mainly due to reduce in cost of sales as a result of lower amortisation of development cost, depreciation of equipment and lower direct staff expenses
- (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, impairment of trade receivables and compensation expenses
- (4) Finance cost increased mainly due to deferred financing cost

B.1.2 Current Year Quarter Versus Preceding Year Quarter

	Current Third (3 rd) Quarter 30 Sept 2018	Preceding Third (3 rd) Quarter 30 Sept 2017	Variance	
	RM	RM	RM	%
Revenue	7,364,690	7,926,833	(562,143)	-7%
PBT	(4,916,343)	(4,828,749)	(87,594)	-2%

For the current quarter under reviewed, the Group's revenue and loss before tax decreased by 7% and 2% respectively compared to the corresponding quarter ended 30 September 2017 mainly due to reasons as following:-

Description	RM	Note
Increase in gross profit	775,175	1
Increase in other operating income	451,215	2
Increase in operating expenses	(1,207,967)	3
Increase in finance costs	(106,017)	4
Net increase in PBT	(87,594)	

Notes:-

- (1) Increase in gross profit mainly due to reduce in cost of sales as a result of lower salary cost and lower amortisation of development cost
- (2) Other operating income increased mainly due to sundry interest income and realised gain on forex
- (3) Operating expenses increased mainly due to compensation expenses, impairment of trade receivable and professional fees
- (4) Finance cost increased mainly due to deferred financing cost

B.1.3 Current Year Quarter Versus Immediate Preceding Quarter

	Current Third (3 rd) Quarter 30 Sept 2018	Preceding Second (2 nd) Quarter 30 June 2018	Variance	
	RM	RM	RM	%
Revenue	7,364,690	7,697,727	(333,037)	-4%
PBT	(4,916,343)	(2,971,332)	(1,945,011)	-65%

The Group recorded revenue of RM7.3 million and loss before taxation of RM5 million for current quarter under review as compared to immediate preceding quarter ended 30 June 2018 of RM7.6 million and RM3 million respectively mainly due to followings:-

Description	RM	Note
Decrease in gross profit	(25,182)	1
Increase in other operating income	34,008	2
Increase in operating expenses	(2,006,817)	3
Decrease in finance costs	52,980	4
Net decrease in PBT	1,945,011	

Notes:-

- (1) Decrease in gross profit mainly due to decrease of revenue in current quarter 30 September 2018 as compared to previous quarter 30 June 2018
- (2) Other operating income increase mainly due to sundry interest income
- (3) Operating expenses increase mainly due to professional fee, compensation expenses and impairment of trade receivable and equipment.
- (4) Finance cost decreased mainly due to lower deferred financing cost

B2. Prospects

The Board is of the view that there is no significant changes to the markets conditions since last report and therefore Cuscapi will adopts similar strategy as mentioned in last quarter. Meanwhile management will continue to seek opportunities to capture future growth, new customers, exploring new market and focusing on operational efficiency to remain competitive in this challenging market.

Barring any unforeseen circumstances, the Board remains positive about the long terms outlook of the business and confident to achieve satisfactory results in 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. 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	6,143,035	6,143,035	-
Business expansion	46,500,000	5,211,152	41,288,848
Estimated expenses for the Proposals	556,965	556,965	-
Total	53,200,000	11,911,152	41,288,848

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

Save for the below, there were no material litigation to the financial quarter to date.

- (a) On 25 July 2018, the Company 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.

Further to that, the Company and its wholly-owned subsidiary, Cuscapi Malaysia Sdn Bhd ("**Cuscapi Malaysia**") had on 25 September 2018 been served with a Writ of Summons and received a Statement of Claim dated 5 September 2018. In view of the legal advice, the Board of Director of the Company is of the opinion that the Companies are in a position to dispute the liability of USD3,600,248.22 or any part thereof.

On 29 October 2018 the Company and Cuscapi Malaysia Sdn Bhd also filed a Defence and Counter Claims through its solicitor against Hitachi Systems Digital Services (Singapore) Pte. Ltd, Her Chor Siong, the former Chief Executive Officer of Cuscapi Berhad and a Director in both Cuscapi Berhad and Cuscapi Malaysia at that material time and Ong Chin Hui, the Chief Executive Officer of Hitachi Singapore and a shareholder with a large number of shares in Cuscapi Berhad at that material time;

Broadly, the Companies had in their Defence and Counter Claim claimed, among others:

- (a) that Her Chor Siong, Ong Chin Hui and/or Hitachi Singapore are involved in a scheme to defraud and cause losses to the Companies as well as make secret profits arising from the arrangements entered into with Hitachi Singapore;
- (b) that Her Chor Siong had breached his fiduciary duties towards the Companies;
- (c) that Ong Chin Hui had dishonestly assisted Her Chor Siong in his breach of fiduciary duties towards the Companies;
- (d) that Hitachi Singapore had dishonestly assisted Her Chor Siong in his breach of fiduciary duties towards the Companies;
- (e) that Hitachi Singapore had knowingly received monies from Cuscapi Malaysia by reason of Her Chor Siong's breach of his fiduciary duties towards the Companies;
- (f) that the agreement for the purchase of REV Hardware tablets and corporate guarantee entered into in 2016 (being the subject matter of Hitachi Singapore's claim) are null and void and unenforceable;
- (g) that the Companies are not liable to Hitachi Singapore for any sums whatsoever;
- (h) that Hitachi Singapore is liable to repay Cuscapi Malaysia USD2,793,334.80;
- (i) that as against the Defendants in the Counter Claim and each of them, the Judgment Sum of USD2,793,334.80;
- (j) that damages are to be assessed against the Defendants in the Counter Claim;
- (k) that the interest rate of 5% per annum on any sum found to be due to the Companies from the date of judgment until the date of full satisfaction; and costs on a solicitors-client basis; and
- (l) that such further orders as the Court deems fit and proper be made.

The Board of Directors of the Company will continue to take all necessary actions and pursue all available remedies to defend and protect the Companies' position.

B11. Dividends

The Board has not recommended any dividend for the financial quarter ended 30 September 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	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Net loss attributable to owners of the parent (RM)	(4,916,343)	(4,835,146)	(12,268,353)	(14,184,391)
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)	(0.59)	(1.01)	(1.76)	(3.10)

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 30/09/18
Total retained losses of Cuscapi and its subsidiaries:	RM
- Realised	(88,597,486)
- Unrealised	(99,428)
Total retained losses c/f	(83,696,914)

B14. Loss for the Current Financial Quarter

Cumulative Period Ended
30/09/2018
RM

Loss for the current financial quarter to date is arrived at after charging :

- Depreciation of plant & equipment	2,132,929
- Amortisation of development costs	1,322,223
- Interest paid	411,676

By Order of the Board

TAN TONG LANG
Secretary
Kuala Lumpur
26th November 2018