

Quarterly report on results for the 4th Quarter ended 31 December 2015

A NOTES TO INTERIM FINANCIAL REPORT

A1 Basis of preparation of Interim Financial Report

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

The condensed consolidated interim financial report should be read in conjunction with the audited consolidated financial statements of the Group for the financial year ended 31 December 2014. The explanatory notes attached to the condensed consolidated interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of Innity Corporation Berhad ("ICB") and its subsidiary companies ("Group") since the financial period ended 31 December 2014.

A2 Significant accounting policies

The Group's significant accounting policies adopted in the preparation of interim financial report are consistent with the audited financial statements for the year ended 31 December 2014.

The following MFRSs and Interpretations were issued by the MASB but not yet effective and have not been adopted by the Group:-

<u>Standard</u>	<u>Title</u>	<u>Effective date</u>
Amendment to MFRS 5	Non-current Assets Held for Sale & Discontinued Operations (annual improvements 2012 – 2014 Cycle)	1 January 2016
Amendment to MFRS 7	Financial Instruments: Disclosures (annual improvements 2012 – 2014 Cycle)	1 January 2016
Amendment to MFRS 119	Employee Benefits (annual improvements 2012 – 2014 Cycle)	1 January 2016
Amendment to MFRS 134	Interim Financial Reporting (annual improvements 2012 – 2014 Cycle)	1 January 2016
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation	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 10, MFRS 12 and MFRS 128	Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 101	Disclosure Initiative	1 January 2016
Amendments to MFRS 127	Equity Method in Separate Financial Statements	1 January 2016

The above mentioned standards, amendments to published standards and interpretations do not result in significant changes in Group's accounting policies upon their initial application except the following MFRSs:-

<u>Standard</u>	<u>Title</u>	<u>Effective date</u>
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 9	Financial Instruments	1 January 2018

The Group is in the process of making an assessment of what the impact of the above new standards is expected to be in the period of initial application.

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A3 Auditor's report on preceding annual financial statements

There was no audit qualification on the financial statements of the Group for the financial year ended 31 December 2014.

A4 Seasonal or cyclical factors

In general, online advertising activities would pick up during the second half of the calendar year especially towards year end.

A5 Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current quarter or financial year-to-date.

A6 Material changes in estimates

There were no changes in estimates that have a material effect in the current financial quarter or financial year-to-date results.

A7 Debt and equity securities

There were no issuance, cancellations, repurchases, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury shares and resale of treasury shares for the current financial quarter.

A8 Dividend paid

There were no dividends paid by the Company during the current financial quarter.

A9 Segment Information

The Company's core activities are principally for the provision of technology-based online advertising solutions and other internet related services. The segment information is presented in respect of the Group's geographical segments which are based on the Group's management and internal reporting structure.

The Group operates mainly in seven geographical areas as follows:

- i) Malaysia;
- ii) Singapore;
- iii) Vietnam;
- iv) Indonesia;
- v) Hong Kong and China;
- vi) Philippines and
- vii) Taiwan

Innity Corporation Berhad

(Company No. 764555-D)

(Incorporated in Malaysia)



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A9 Segment Information (Cont'd)

Cumulative Quarter Ended 31/12/2015

(The figures have not been audited)

Geographical Segments	Malaysia	Singapore	Vietnam	Indonesia	Hong Kong and China	Philippines	Taiwan	Inter-segment Eliminations	Group
Revenue	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue from external customers	30,482	5,907	2,463	13,689	13,432	7,950	643	-	74,566
Inter-Segment Revenue	10,332	70	-	91	(64)	57	-	(10,486)	-
Total Revenue	40,814	5,977	2,463	13,780	13,368	8,007	643	(10,486)	74,566
Segment Results									
Results from operating activities	2,091	(697)	33	(165)	1,567	2,066	(495)	-	4,400
Share of profit of equity-accounted associates, net of tax	50	-	-	-	-	-	-	-	50
Finance costs	(29)	(1)	(35)	(73)	(56)	(6)	-	183	(17)
Profit/(Loss) before tax	2,112	(698)	(2)	(238)	1,511	2,060	(495)	183	4,433
Tax expenses	(466)	-	-	(146)	(122)	(623)	-	-	(1,357)
Profit/(Loss) for the period	1,646	(698)	(2)	(384)	1,389	1,437	(495)	183	3,076
Assets									
Segments assets	24,608	5,633	2,107	11,597	6,058	6,397	1,610	-	58,010
Liabilities									
Segment Liabilities	13,517	2,079	826	3,583	4,240	3,106	224	-	27,575

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A9 Segment Information (Cont'd)

Cumulative Quarter Ended 31/12/2014

(The figures have not been audited)

Geographical Segments	Malaysia	Singapore	Vietnam	Indonesia	Hong Kong and China	Philippines	Taiwan	Inter-segment Eliminations	Group
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue									
Revenue from external customers	21,004	6,066	2,609	4,761	7,060	2,746	-	-	44,245
Inter-Segment Revenue	952	99	134	403	237	136	-	(1,962)	-
Total Revenue	21,956	6,165	2,743	5,164	7,297	2,882	-	(1,962)	44,245
Segment Results									
Results from operating activities	(419)	529	79	247	410	478	-	-	1,324
Share of loss of equity-accounted associates, net of tax	(61)	-	-	-	-	-	-	-	(61)
Finance costs	(46)	(15)	(32)	(70)	(71)	(4)	-	213	(25)
Profit/(Loss) before tax	(526)	514	47	177	339	474	-	213	1,238
Tax expenses	(245)	(21)	-	(154)	(8)	(142)	-	-	(570)
Profit/(Loss) for the period	(771)	493	47	23	331	332	-	213	668
Assets									
Segments assets	29,422	4,732	2,031	6,947	3,855	3,077	-	(8,428)	41,636
Liabilities									
Segment Liabilities	8,110	1,466	2,300	4,655	4,979	2,175	-	(8,675)	15,010

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A10 Valuation of property, plant and equipment

There was no valuation of property, plant and equipment in the current quarter.

A11 Material events subsequent to the end of the quarter

There were no material events subsequent to the end of the current reporting period.

A12 Changes in the composition of the Group

There were no material changes in the composition of the Group for the current financial quarter.

A13 Contingent liabilities

The Company's subsidiary, Innity Sdn Bhd ("ISB") Interpretation of Section 21C of the Promotion of Investment Act 1986 in respect of the amount of income exempted from tax is different from the Tax Authority. On 24 November 2014, the Tax Authority replied with different interpretation of the exempted income. The subsidiary has on 8 April 2015 filed an official appeal by submitting the prescribed Form Q to the Special Commissioners of Income Tax ("SCIT") and now is pending on hearing on 2 March 2016. The Group, therefore, is contingently liable for income tax expense amounting to RM447,340 should SCIT decides to uphold Tax Authority interpretation and the Group decides not to pursue the next course of action.

Save as disclosed above, there were no other contingent liabilities that may have a material impact on the financial position and business of the Group as at reporting date.

A14 Capital Commitment

As at 31 December 2015, the Group has no material capital commitments in respect of property, plant and equipment.

A15 Significant related party transactions

The following were the significant related party transactions:-

	Cumulative Year to date	
	31 December 2015 RM	31 December 2014 RM
The use of DAC Platform and "MarketOne" and "Yield One"	323,929	591,872
Sales of advertisement space	800,742	1,241,765
Purchase of advertisement space	129,084	644,362
Purchase of online recruitment services	-	10,843
	<u>1,253,755</u>	<u>2,488,842</u>

The above transactions had been entered into in the ordinary course of business on normal commercial terms not materially different from those obtainable in transactions with unrelated parties.

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B DISCLOSURE REQUIREMENTS AS SET OUT IN APPENDIX 9B OF BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS FOR THE ACE MARKET

B1 Review of performance

During the financial period under review, the Group registered higher revenue of RM23.77 million and Profit Before Tax ("PBT") of RM2.25 million compared to revenue of RM10.79 million and PBT of RM967,000 respectively in the previous corresponding period. Generally all the segments contributed positively to the higher revenue in the current quarter except China and Vietnam segments. The improved PBT was in tandem with the higher revenue achieved.

Malaysia segment registered higher revenue of RM8.5 million in the current quarter as compared to RM5.1 million in the preceding year's corresponding quarter, representing approximately 66% increase in revenue. The segment continues to benefit from new revenue stream derived from the exclusive Yahoo reseller partnership. The PBT for the current quarter grew at 1702% compared to the same period last year and it was mainly attributed to the increase in revenue.

During the current quarter, Singapore segment's revenue was 129% higher at RM1.89 million as compared to RM825,000 in the preceding year's corresponding quarter. The increase in revenue was mainly due to advertisers allocating their advertising budget towards the year end festive season to attract higher spending and efforts have also been placed to educate customers on the new products in the previous quarter which show signs of improvement. Despite the increase in revenue, the PBT for the quarter dropped by 88%. The lower product mix margin and higher operating costs have led to the lower PBT achieved.

During the current quarter, Indonesia segment revenue was recorded at RM6.0 million, an increase by 521% from RM972,000 reported in the same period corresponding year. Indonesia segment continued to pick up strongly buoyed by Yahoo sales. Despite the increase in revenue, the segment incurred a loss before tax ("LBT") of RM229,000 as compared to PBT of RM42,000 in the same quarter of previous year. The negative result was due to the lower product mix margin and the doubtful debts provision.

Vietnam segment recorded a decline in revenue and PBT by 25% and 122% respectively as compared to the previous year's corresponding quarter. The decrease in revenue was mainly due to reduced spending from existing clients. The LBT incurred was mainly due to the decline in revenue.

During the current quarter, Hong Kong's segment achieved a higher revenue and PBT at RM4.24 million and RM301,000 as compared to revenue of RM1.72 million and PBT of RM280,000 respectively in the preceding year's corresponding quarter, representing approximately 146% and 7% increase respectively. Hong Kong segment continuously benefited from exclusive partnership that brought in a variety of quality inventories, consequently strengthening the market share. The improved PBT was in tandem with the higher revenue achieved. China segment revenue and PBT did not contribute significantly to the Group's result as a whole. The China market remains challenging as the segment is experiencing a transitional period in the process of revising its business strategy and to streamline operations by minimising costs.

For the quarter under review, the Philippines segment revenue gained 90% to RM2.04 million from RM1.07 million with PBT improving by 72% from RM230,000 to RM396,000. The overall demand for digital advertising in the Philippines is at a healthy growth, where majority of the key agencies have pegged their digital media allocation at 10% of their total media spend in 4th quarter this year due to the maturity of the market to recognize the importance of digital medium in their marketing communication channels compared to last year corresponding quarter. The positive PBT was in tandem with the increase in revenue.

For the Taiwan segment, although the operation began in December 2014, there was no revenue comparable in 4th quarter, therefore comparable results can only be reflected in the first quarter of 2016.

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B2 Variation of results against immediate preceding quarter

	Current quarter 31 December 2015 RM'000	Preceding quarter 30 September 2015 RM'000
Revenue	23,773	18,583
PBT	2,253	1,816

For the 4th Quarter ended 31 December 2015, the Group revenue rose to RM23.77 million from RM18.58 million in the preceding quarter, representing an increase of 28%. Generally all the segments contributed positively to the revenue, except China and Vietnam segments.

The Group recorded a PBT of RM2.25 million in the current quarter as compared to PBT of RM1.82 million in the preceding quarter, representing approximately 24% increase in PBT. The increase in PBT was mainly due to higher revenue and higher product margin achieved.

B3 Prospects for the next financial year

Due to the volatility of current economic and foreign exchange situation in the global market, the Board is cautious in its business outlook in the medium term. However, in the longer term, the Board remains optimistic and will continue to innovate and deliver effective data-driven online marketing ad solutions. The solutions will focus on mobile, content and social marketing tools catering to a broad spectrum of industries to help advertisers increase advertisement engagement and ROI for their campaigns.

Additionally, we will continue to focus on pushing our services across the region with a particular focus on Malaysia, Hong Kong, the Philippines, Indonesia, and Singapore. Also, in line with our commitment to deliver top-notch results to our clients, we expect to improve our programmatic offerings by partnering with leading technology and data providers in the region.

B4 Revenue or profit estimate

The Group did not previously announce or disclose any revenue or profit estimate, forecast, projection or internal targets for the financial period ended 31 December 2015.

B5 Profit for the period

	Quarter ended		Year-to-date ended	
	31 December 2015 RM'000	31 December 2014 RM'000	31 December 2015 RM'000	31 December 2014 RM'000
Profit for the period is arrived at after charging:				
Allowance for doubtful debts				
-Trade receivables	943	400	943	400
Amortisation of development expenditure	173	233	1,038	929
Depreciation	150	77	436	313
Development expenditure written off	112	108	112	108

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B5 Profit for the period (Cont'd)

	Quarter ended		Year-to-date ended	
	31 December 2015 RM'000	31 December 2014 RM'000	31 December 2015 RM'000	31 December 2014 RM'000
Profit for the period is arrived at after charging:				
Interest expense				
- term loans	2	3	17	25
Loss on disposal of plant and equipment	4	1	6	1
Loss/(Gain) on foreign exchange				
- realised	341	(22)	769	29
- unrealised	819	1	1,683	1
Loss on re-measurement of previously held stake	-	-	25	-
Plant and equipment written off	-	-	31	-
Retirement benefits	97	76	97	76
And (crediting):				
Allowance for doubtful debts no longer required	(81)	-	(81)	(7)
Interest income	(34)	(31)	(185)	(197)
Gain on disposal of plant and equipment	(2)	-	(4)	-
Gain on foreign exchange				
- realised	(758)	(43)	(1,333)	(91)
- unrealised	(370)	(478)	(2,203)	(478)
Other income				
- Miscellaneous	(222)	(90)	(409)	(119)

B6 Income tax expense

	Quarter ended		Year-to-date ended	
	31 December 2015 RM'000	31 December 2014 RM'000	31 December 2015 RM'000	31 December 2014 RM'000
Current year income tax				
- Malaysia	274	23	338	73
- Overseas	533	326	1,035	371
Overprovision in prior year				
- Malaysia	-	-	(3)	-
Underprovision in prior year				
- Overseas	7	-	-	-
	814	349	1,370	444
Deferred tax liabilities/(assets)				
- Malaysia	131	173	131	173
- Overseas	(144)	(47)	(144)	(47)
	(13)	126	(13)	126
	801	475	1,357	570

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B6 Income tax expense (Cont'd)

Malaysian segment's effective tax rate is lower than the statutory tax rate due to Malaysian Subsidiary's MSC status, which allows it to be tax exempted until September 2015. However the non operating income is chargeable to tax based on current year income tax rate.

A provision of taxation is provided in the Philippines, Hong Kong and Indonesia segments based on current year's income tax rate. Indonesia segment's effective tax rate for the current year is higher than the statutory tax rate primarily due to certain expenses not deductible for tax purposes.

B7 Group borrowings and debt securities

	As at 31 December 2015 RM'000	As at 31 December 2014 RM'000
Short term borrowings:-		
Secured		
Term Loans	33	38
Bank Overdrafts	-	-
	<hr/> 33	<hr/> 38
Long term Borrowings:-		
Secured		
Term Loans	172	206
	<hr/> 172	<hr/> 206

The Group does not have any foreign currency borrowings.

B8 Material Litigation

As at 19 February 2016 (being the date not earlier than 7 days before the date of this announcement), neither the Company nor its subsidiary companies are engaged in any litigation or arbitration, either as plaintiff or defendant which has a material effect on the financial position of the Company or its subsidiary companies and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or its subsidiary companies.

B9 Dividend

There was no dividend declared for the current quarter or the financial year to date.

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B10 Earnings per share

Basic earnings per ordinary share	Current Quarter 31 December 2015	Current Year to Date 31 December 2015
Profit after tax and non controlling interest (RM'000)	1,477	2,935
Number of issued ordinary shares ('000)	138,403	138,403
Basic earnings per ordinary share (sen)	1.07	2.12

Diluted earnings per share is not computed as the Company does not have any convertible financial instruments as at 31 December 2015.

B11 Status of corporate proposals

There are no corporate proposals announced but not yet completed as at 19 February 2016 (being the date not earlier than 7 days before the date of this announcement).

B12 Realised and Unrealised Profit/(Losses) Disclosure

The retained profits as at 31 December 2015 and 31 December 2014 are analysed as follows:

	As at 31 December 2015	As at 31 December 2014
Total retained profits/(accumulated losses) of the Company and Subsidiaries		
-Realised	12,790,010	10,688,609
-Unrealised	(1,040,012)	(1,026,818)
	11,749,998	9,661,791
Total share of accumulated losses from an associate		
-Realised	(521,243)	(635,673)
	11,228,755	9,026,118
Add: Consolidation adjustments	2,234,714	1,774,729
Total Group retained profits	13,463,469	10,800,847

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010. The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements as stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

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B13 Utilisation of proceeds – 12,582,128 new ordinary shares subscription

On 20 September 2012, ICB raised gross proceeds of RM6.67 million from the subscription of 12,582,128 new ordinary shares pertaining to the conditional Subscription Agreement (“SA”) with DAC, and has utilised approximately 76% of the proceeds as at 31 December 2015.

The gross proceeds raised from the subscription are expected to be utilised in the following manner:

Purpose	Planned utilisation as stated in the circular	(i)Change of utilisation	Revised utilisation	Actual utilisation as at 31 December 2015	Balance unutilised		Intended time frame for utilisation from listing date	(ii)Revised Intended time frame
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	%		
Working capital	6,169	51	6,220	(5,840)	380	6.1	20 September 2014	20 September 2016
(i)Defrayment of listing expenses	500	(51)	449	(449)	-	-	20 November 2012	Utilised
Total	6,669	-	6,669	(6,289)	380	6.1		

- (i) Any surplus of funds following payment of listing expenses not being utilised within 2 months after the completion of the subscription, will be utilised as working capital for the Group.
- (ii) An announcement has been made on 25 August 2014 on the extension of time for utilisation of proceeds from the subscription of 12,582,128 new ordinary shares.

B14 Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with the Board of Directors' meeting held on 24 February 2016.

On Behalf of the Board

Phang Chee Leong
Executive Chairman

Date: 25 February 2016