

CABNET HOLDINGS BERHAD (1121987-D)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT – FIRST QUARTER ENDED 31 MARCH 2018

PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORT

A1 Basis of Preparation

This condensed consolidated interim financial statement (“Condensed Report”) is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting, Rule 9.22 and Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing Requirements”).

This Condensed Report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017. The explanatory notes attached to the Condensed Report provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2017.

A2 Significant Accounting Policies

The accounting policies and presentation adopted for the interim financial statements are consistent with those adopted as disclosed in the audited financial statements for the financial year ended 31 December 2017, except for the adoption of the following during the current financial period:

| MFRS, Amendments to MFRS and IC Interpretation | | Effective for annual periods beginning on or after |
|--|--|---|
| Amendments to MFRS 2 | Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |
| MFRS 9 | Financial Instruments | 1 January 2018 |
| MFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| Amendments to MFRS 140 | Transfers of Investment Property | 1 January 2018 |
| Annual Improvements to MFRS Standards 2014 – 2016 Cycle | | 1 January 2018 |
| IC Interpretation 22 Foreign Currency Transactions and Advance Consideration | | 1 January 2018 |

The adoption of the above pronouncements did not have any material financial impact to the Group.

The Group has not early adopted any new or revised standards, amendments or IC Interpretations which are applicable to the Group that have been issued by the MASB but are not yet effective for the Group’s current financial year ending 31 December 2018.

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A3 Auditors’ Report of preceding annual financial statements

The preceding year’s audited financial statements of the Group did not contain any qualification.

A4 Seasonal or Cyclical Factors Affecting Operations

The principal business operations of the Group are not significantly affected by any seasonal or cyclical factors.

A5 Unusual Items Affecting the Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group for the current financial period under review.

A6 Material Changes in Estimates

There were no changes in estimates that have a material effect in the current financial quarter and financial period under review.

A7 Changes in Debt and Equity Securities

There were no issuances, cancellations, repurchase, resale or repayment of debts and securities during the financial period under review.

A8 Dividends paid

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

A9 Segmental Reporting

(i) Operating Segments

Information about operating segments has not been reported separately as the Group’s revenue, profit or loss, assets and liabilities are mainly confined to a single operating segment, namely building management solutions which comprise structured cabling, extra low voltage (“ELV”) systems and information technology services as a complimentary offering to building management solutions.

(ii) Geographical Segment

No segmental information is provided on a geographical basis as the Group’s activities are conducted primarily in Malaysia.

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A10 Material Events Subsequent to the end of the Reporting Period

Save for the Proposals (defined hereafter) in note B6 – Status of Corporate Proposals approved by Bursa Securities on 2 May 2018, there were no other material events subsequent to the end of the current financial period that have not been reflected in the interim financial reports for the said period as at the date of this report.

A11 Changes in the Composition of the Group

There were no changes in the composition of the Group in current financial quarter and financial period under review.

A12 Contingent Liabilities and Contingent Assets

As at 31 March 2018, there were no material changes in contingent liabilities since the last audited Statement of Financial Position as at 31 December 2017.

The Group has no contingent assets as at 31 March 2018.

A13 Capital Commitment

Capital commitment for the purchase of property, plant and equipment not provided for in the interim financial statements was as follow:

| | As at 31 March 2018 |
|-------------------------------|----------------------------|
| | RM'000 |
| Property, plant and equipment | 938 |

A14 Significant related party transactions

There were no significant related party transactions in the current financial quarter and financial period under review.

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PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1 Review of Performance

Comparison to preceding year corresponding quarter

For the first quarter ended 31 March 2018, the Group achieved consolidated revenue of RM10.31 million which was approximately 10.34% lower than the preceding year corresponding quarter. The Group's revenue was derived from provision of building management solutions which mainly comprised ELV systems and structured cabling works. The decrease in revenue was mainly due to the completion of a few ELV and structured cabling projects by end of year 2017, whilst the newly secured contracts are still at the preliminary stage. The Group recorded a profit after tax of RM893,000 for the current quarter as compared to RM1.70 million in the preceding year corresponding quarter. Profit after tax reduced by RM808,000 as a result of lower revenue and higher selling and administration costs for the current quarter coupled by the expiry of tax pioneer status for one of the subsidiaries in August 2017.

B2 Material Changes in Profit before Taxation for the Current Quarter with Immediate Preceding Quarter

| | Current Quarter 31 March 2018 RM'000 | Preceding Quarter 31 December 2017 RM'000 |
|---|---|--|
| Revenue | 10,314 | 13,254 |
| Pre-tax profit before non-controlling interests | 1,221 | 1,765 |

For the current quarter, the Group achieved revenue of RM10.31 million, representing a decrease of 22.18% as compared to the preceding quarter ended 31 December 2017. The decrease was mainly due to the completion of few projects in the preceding quarter whilst the newly secured contracts are still at the preliminary stage. The pre-tax profit before non-controlling interests for the Group decreased from RM1.77 million for the preceding quarter to RM1.22 million for the quarter under review mainly due to lower revenue in the current quarter.

B3 Prospects Commentary

The Group will continue to focus on the following business strategies for the future growth and expansion of its business:

- (i) To increase and strengthen its market presence in Johor, while pursuing more opportunities for more projects outside Johor;
- (ii) To strengthen its ELV systems segment with the introduction of its integrated security solutions software, known as Cabnet Integrated Security Solutions; and
- (iii) To offer video monitoring solutions in collaboration with NetPosa Technologies (Hong Kong) Limited.

Project execution of existing order book remains on-track but potential order books from current sales pipeline remains challenging. This is due to the changing political landscape that causes delay in projects award. The expiry of pioneer status granted by Ministry of International Trade and Industry (MITI) on 7 August 2017 coupled by the challenging business operating conditions with increasing costs, the Board of Directors is cautious of the Group's operational results for the remaining periods for the financial year ending 31 December 2018.

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B4 Variance of Actual Profit from Forecast Profit & Shortfall on Profit Guarantee

There is no profit forecast prepared for public release and no profit guarantee provided by the Group for the current financial period.

B5 Taxation

| | Quarter ended 31.03.2018 | Year-to-date 31.03.2018 |
|--------------------|-----------------------------|----------------------------|
| | RM'000 | RM'000 |
| Income tax: | | |
| - current period | 308 | 308 |
| Deferred tax | 20 | 20 |
| Tax expense | 328 | 328 |

The effective tax rate for the current quarter of 26.9% is higher than the statutory tax rate of 24.0% mainly due to certain expenses not deductible for income tax purpose.

B6 Status of Corporate Proposals

The Board of Directors of the Company had on 19 March 2018 announced that the Company proposes to undertake the following:-

- (i) Proposed bonus issue of 48,750,000 new ordinary shares in the Company (“Bonus Shares”) to be credited as fully paid-up on the basis of 3 Bonus Shares for every 8 existing ordinary shares held in the Company on an entitlement date to be determined and announced later (“Proposed Bonus Issue of Shares”); and
- (ii) Proposed bonus issue of 65,000,000 warrants (“Warrants”) on the basis of 1 warrant for every 2 ordinary shares held in the Company on the same entitlement date as the Proposed Bonus Issue of Shares (“Proposed Bonus Issue of Warrants”).

(Collectively referred to as the “Proposals”).

Following thereto, Bursa Securities had vide its letter dated 2 May 2018, approved the following:

- (i) listing of and quotation for 48,750,000 Bonus Shares to be issued pursuant to the Proposed Bonus Issue of Shares;
- (ii) admission of Warrants to the Official List of the ACE Market and listing of and quotation for 65,000,000 Warrants to be issued pursuant to the Proposed Bonus Issue of Warrants; and
- (iii) listing of and quotation for 65,000,000 new Cabnet shares arising from the exercise of the Warrants,

The Proposals are subject to approvals from shareholders at the forthcoming Extraordinary General Meeting which will be held on 30 May 2018.

Save as above, there were no other corporate proposals announced by the Company as at 24 May 2018 being a date not earlier than 7 days from the date of issue of this quarterly report.

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B6 Status of Corporate Proposals (Cont'd)

Status of Utilisation of Proceeds from the Initial Public Offering (“IPO”)

The gross proceeds arising from the Public Issue of RM11.76 million have been utilised in the following manner as at 24 May 2018 being a date not earlier than 7 days from the date of this report:-

| Purposes | Proposed Utilisation RM'000 | Actual Utilisation RM'000 | Deviation: Surplus/ (deficit) RM'000 | Balance RM'000 | Intended time frame for Utilisation from the date of listing |
|--|--------------------------------|------------------------------|---|-------------------|--|
| Working capital - Purchase of equipment for projects | 5,260 | (3,323) | 591 | 2,528 | Within 24 months |
| R&D expenditure | 500 | (242) | - | 258 | Within 24 months |
| Repayment of bank borrowings | 3,000 | (3,000) | - | - | Within 4 months |
| Estimated listing expenses | 3,000 | (2,409) | *(591) | - | Within 1 month |
| Total | 11,760 | (8,974) | - | 2,786 | |

** The excess of RM591,000 will be utilised for general working capital requirements of the Group.*

The utilisation of proceeds as disclosed above should be read in conjunction with the Prospectus of the Group dated 28 April 2017.

B7 Group Borrowings and Debt Securities

As at 31 March 2018, our Group's total outstanding borrowings, all of which are interest-bearing, were as follows:

| | RM'000 |
|-----------------------------------|--------------|
| (a) Short-term debt | |
| <u>Secured and guaranteed</u> | |
| Bank overdrafts | - |
| Bankers' acceptance | - |
| Hire purchase payables | 254 |
| Term loans | 44 |
| Total short-term debt | 298 |
| (b) Long-term debt | |
| <u>Secured and guaranteed</u> | |
| Hire purchase payables | 631 |
| Term loans | 1,706 |
| | 2,337 |
| Total loans and borrowings | 2,635 |

All the above borrowings are denominated in Ringgit Malaysia.

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B8 Changes in Material Litigation

There were no pending material litigations as at 24 May 2018 being a date not earlier than 7 days from the date of this quarterly report.

B9 Dividends

No dividend is recommended for the current quarter.

B10 Earnings/ (loss) per Share

The basic and diluted earnings per share are calculated as follows:

| | Quarter ended 31.03.2018 | Year-to-date 31.03.2018 |
|---|-----------------------------|----------------------------|
| Profit for the period/ year attributable to ordinary equity holders of the Company (RM'000) | 893 | 893 |
| Weighted average number of ordinary shares in issue ('000) | 130,000 | 130,000 |
| Basic and diluted earnings per share (sen) | 0.69 | 0.69 |

B11 Derivatives

The Group did not enter into any derivatives during the current quarter under review.

B12 Disclosure of gains/losses arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measured at fair value through profit and loss for the current quarter under review.

B 13 Authorised for issue

The interim financial statements were authorised by the Board of Directors in accordance with the resolution of the Directors on 30 May 2018.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)
Company Secretary
Johor Bahru
Date: 30 May 2018
c.c. Securities Commission