Compugates Holdings Berhad

(Company No. 669287 - H)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2016

PART A – EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS ("FRS") 134

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134 - Interim Financial Reporting issued by the Malaysian Accounting Standards Board and International Accounting Standard ("IAS") 34 : Interim Financial Reporting issued by the International Accounting Standard Board ("IASB") and Appendix 9B Part A of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015. The explanatory notes attached to the interim financial statements 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 2015.

2. Changes in Accounting Policies

The accounting policies and methods of computation adopted in this period in these financial statements of the Group are consistent with those adopted for the annual financial statements of the Group for the financial year ended 31 December 2015 except for the following:

(i) Adoption of the following amendments/improvements to Financial Reporting Standards ("FRSs"):

Amendments/Improvements to FRS	
FRS 10	Consolidated Financial statements
FRS 11	Joint Arrangements
FRS 12	Disclosures of Interests in Other Entities
FRS 14	Regulatory Deferral Accounts
FRS 101	Presentation of Financial Statements
FRS 116	Property, plant and equipment
FRS 127	Separate financial statements
FRS 128	Investments in Associates and Joint Ventures
FRS 138	Intangible Assets
FRS 141	Agriculture: Bearer Plants
Annual improvements to FRSs 2012-2014 Cycle	

The adoption of the above new amendments/improvements to FRSs did not have any significant impact on the financial results and position of the Group.

2. Changes in Accounting Policies (cont'd)

(ii) New FRS, Amendments/Improvements to FRSs and New IC Int that are issued, but not yet effective and have not been early adopted

The followings are standards and amendments which are effective and have been adopted by the Group and the Company:

		Effective for financial periods beginning on or after
Amendments/Improvements to FRSs		
FRS 10	Consolidated Financial statements	1 January 2016
FRS 11	Joint Arrangements	1 January 2016
FRS 12	Disclosures of Interests in Other Entities	1 January 2016
FRS 14	Regulatory Deferral Accounts	1 January 2016
FRS 101	Presentation of Financial Statements	1 January 2016
FRS 116	Property, plant and equipment	1 January 2016
FRS 127	Separate financial statements	1 January 2016
FRS 128	Investments in Associates and Joint Ventures	1 January 2016
FRS 138	Intangible Assets	1 January 2016
FRS 141	Agriculture: Bearer Plants	1 January 2016

Annual improvements to FRSs 2012-2014 Cycle issued in November 2014

The initial application of the above standards, amendments and interpretation are not expected to have any significant financial impacts to the financial statements except for FRS 9.

(iii) MFRS Framework issued but not yet effective

In conjunction with the planned convergence of FRSs with International Financial Reporting Standards as issued by the International Accounting Standards Board on 1 January 2012, the MASB had on 19 November 2011 issued a new MASB approved accounting standards, MFRSs ("MFRSs Framework") for application in the annual periods beginning on or after 1 January 2012.

2. Changes in Accounting Policies (cont'd)

(iii) MFRS Framework issued but not yet effective (cont'd)

The MFRSs Framework is mandatory for adoption by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 *Agriculture* and/or IC Int 15 *Agreements for the Construction of Real Estate* ("Transitioning Entities"). The Transitioning Entities are given an option to defer adoption of the MFRSs framework and shall apply the MFRSs framework for annual periods beginning on or after 1 January 2018. Transitioning Entities also include those entities that consolidate or equity account or proportionately consolidate another entity that has chosen to continue to apply the FRSs framework for annual periods beginning on or after 1 January 2012.

Accordingly, the Group which are Transitioning Entities have chosen to defer the adoption of the MFRSs framework. As such, the Group will prepare its first MFRSs financial statements using the MFRSs framework for financial year ending 31 December 2018.

The Group and the Company are expected to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2018.

3. Status of Audit Opinions

The auditors' report on the financial statements for the financial year ended 31 December 2015 was not subject to any qualification.

4. Items of Unusual Nature and Amount

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the current quarter under review and financial year-to-date.

5. Seasonal or Cyclical Factors

The demand for certain imaging and information technology products are seasonal in nature and the sales of these products are usually higher towards the end of the financial year due to festive seasons.

6. Nature and Amount of Changes in Estimates

There were no changes in the estimates of amounts reported in the prior interim period of the current financial year or changes in the estimates of amounts reported in the prior financial years that have a material effect in current quarter under review and financial year-to-date.

7. Debt and Equity Securities

There were no issuances, repurchases or repayments of equity securities during the current quarter under review and financial year-to-date.

8. Dividends Paid

There were no dividends paid during the current quarter under review and financial year-to-date.

9. Segmental Information (Analysis by geographical location of the Group Results)

	Current Year Quarter Ended 30 Jun 2016 RM'000	Corresponding Quarter Ended 30 Jun 2015 RM'000	Current Year To Date 30 Jun 2016 RM'000	Corresponding Period Ended 30 Jun 2015 RM'000
SEGMENT REVENUE				
Malaysia	23,324	23,897	47,132	55,450
Bangladesh	881	1,138	1,698	2,132
The British Virgin Islands	73	89	147	177
Cambodia	(354)	1,309	273	2,093
Indonesia	(3)	1,953	1,096	4,104
	23,921	28,386	50,346	63,956
Inter-segment sales	(73)	(89)	(147)	(177)
TOTAL	23,848	28,297	50,198	63,779

	Current Year Quarter Ended 30 Jun 2016 RM'000	Corresponding Quarter Ended 30 Jun 2015 RM'000	Current Year To Date 30 Jun 2016 RM'000	Corresponding Period Ended 30 Jun 2015 RM'000
SEGMENT RESULTS				
Malaysia	(1,133)	(1,577)	(2,096)	(4,069)
Bangladesh	6	(470)	16	(928)
The British Virgin Islands	(72)	(169)	(144)	(257)
Cambodia	189	(107)	21	(259)
Indonesia	(26)	69	(209)	143
	(1,037)	(2,254)	(2,413)	(5,370)

10. Changes in Contingent Liabilities and Contingent Assets

There were no changes in the contingent liabilities and assets of the Group since the last audited date of the statement of financial position.

11. Significant Related Party Transactions

The recurrent related party transactions ("RRPT") had been entered into in the ordinary course of business and have been established under arm's length basis and normal commercial terms not to the detriment of the minority shareholders.

Transaction parties	Nature of transaction	Current Year Quarter Ended 30 Jun 2016 RM'000	Corresponding Quarter Ended 30 Jun 2015 RM'000	Current Year To Date 30 Jun 2016 RM'000	Corresponding Period Ended 30 Jun 2015 RM'000
Integra Corp Sdn Bhd *	Project Management fee	(74)	68	-	68

* A company in which a director of a subsidiary has interest.

12. Effect of Changes in the Composition of the Group

There were no changes in the composition of the Group during the current quarter under review.

13. Significant Subsequent Events

There were no significant events subsequent to the end of the current quarter up to the date of this report that have not been reflected in the financial statements for the current quarter under review and financial year-to-date.

On 11th July 2016 the Company had issued a circular to announce the followings: -

(a) Proposed Joint Venture between Compugates Development and Mining Sdn Bhd ("CDMSB") a 70% owned sub-subsidiary of the Company and Main Uptown Sdn Bhd ("MUSB") to jointly develop a parcel of leasehold land identified as H.S.(D) 13828, PT 26800, Mukim Dengkil, District Sepang, state of Selangor, measuring approximately 154,990 square metres into a mixed development;

(b) Proposed diversification of the business of the Company and its subsidiaries to include property investment holding;

(c) Proposed par value reduction of the existing issued and paid-up share capital of the Company from RM213,428,902.00 comprising 2,134,289,020 ordinary shares of RM0.10 each to RM42,685,780.40 comprising 2,134,289,020 ordinary shares of RM0.02 each via the cancellation of RM0.08 from the par value of each existing ordinary share of RM0.10 in the Company pursuant to Section 64 of the Companies Act, 1965; and

(d) Proposed amendments to the Memorandum and Articles of Association of the Company.

13. Significant Subsequent Events (Cont'd)

On 22nd July 2016 the Company had announced that the Company at this juncture will not pursue further with both logging projects in Papua New Guinea in view of the current challenging market environment, pursuant to the Memorandum of Understanding ("MOU") dated 25th January 2016 and 5th February 2016 for the logging and marketing contract between Marrienberg Hills Resources Development Limited and Compugates Perak Sdn Bhd ('CPSB") and logging and marketing contract between Lower Sepik Holdings Limited and CPSB.

On 2nd August 2016 the Company had announced Compugates International Sdn Bhd ("CISB"), a wholly owned subsidiary had on 29 July 2016 entered into a Share Sale Agreement to dispose 15,300 Ordinary Shares of USD1.00 each in Compugates International Limited ("CIL"), a private company incorporated in the British Virgin Islands under the Business Companies Act, 2004, representing 51% of the entire issued and paid-up share capital of CIL to Gan Yok Leng ("the Purchaser") for a total cash consideration of RM2 million.

14. Capital Commitment

The Group has no capital commitment as of 30 June 2016.

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

15. Detailed Performance Analysis

	Current Year Quarter Ended 30 Jun 2016 RM'000	Corresponding Quarter Ended 30 Jun 2015 RM'000	Current Year To Date 30 Jun 2016 RM'000	Corresponding Period Ended 30 Jun 2015 RM'000
SEGMENT (LOSS) / PROFIT BEFORE TAXATION				
Malaysia	(1,177)	(1,564)	(2,184)	(4,037)
Bangladesh	109	(284)	215	(578)
The British Virgin Islands	(71)	(169)	(143)	(257)
Cambodia	181	(107)	20	(259)
Indonesia	(26)	70	(211)	144
TOTAL	(986)	(2,054)	(2,305)	(4,987)

The Group registered revenue of approximately RM23.8 million for the quarter ended 30 June 2016, which was approximately RM4.5 million lower as compared to the preceding year corresponding quarter ended 30 June 2015 of approximately RM28.3 million. The lower revenue was mainly due to the decrease in revenue contribution by Cambodia and Indonesia subsidiaries.

The Malaysian subsidiaries recorded a loss before taxation ("LBT") during the current quarter ended 30 June 2016 of approximately RM1.2 million as compared to the preceding year corresponding quarter ended 30 June 2015 LBT of approximately RM1.6 million. The lower LBT for current year quarter was mainly due to higher gross profit as a result of switch in purchase composition and lower administrative expenses such as director remuneration and staff cost.

The Bangladesh subsidiary recorded a profit before tax ("PBT") during the current quarter ended 30 June 2016 of approximately RM0.10 million as compared to the preceding year corresponding quarter ended 30 June 2015 of LBT approximately RM0.28 million.
The higher PBT for current year quarter was mainly due to lower administrative expenses such as establishment cost, staff cost and director fees.

The British Virgin Islands subsidiaries recorded a LBT during the current quarter ended 30 June 2016 of approximately RM0.07 million as compared to the preceding year corresponding quarter ended 30 June 2015 LBT of approximately RM0.17 million. The lower LBT for current year quarter was mainly due to lower staff cost.

The Cambodia subsidiary recorded a PBT during the current quarter ended 30 June 2016 of approximately RM0.18 million as compared to the preceding year corresponding quarter ended 30 June 2015 LBT of approximately RM0.11 million. The PBT for current year quarter was mainly due to lower administrative expenses such as director fees, staff cost and travelling expenses.

15. Detailed Performance Analysis (cont'd)

The Indonesia subsidiary recorded a LBT during the current quarter ended 30 June 2016 of approximately RM0.03 million as compared to the preceding year corresponding quarter ended 30 June 2015 PBT of approximately RM0.07 million. The higher LBT for current year quarter was mainly due to decreased in sales for Dompet Pulsa and increased in administrative expenses such as staff cost during the quarter under review.

During the current quarter ended 30 June 2016, the Group recorded a LBT of approximately RM0.99 million as compared to the preceding year corresponding period ended 30 June 2015 of approximately RM2.1 million LBT. The LBT for current period is lower mainly due to lower administrative expenses incurred by Malaysian, Bangladesh and Cambodia segments.

16. Comment on Material Changes in the Results for the Quarter Reported on as Compared with the Immediate Preceding Quarter

The Group recorded a LBT of approximately RM0.99 million for the current quarter ended 30 June 2016 as compared to the immediate preceding quarter ended 31 March 2016 of approximately RM1.3 million LBT. The LBT for current period is lower mainly due to lower of other operating expenses such as provision of doubtful debt as a result of faster collection from Malaysia segment.

17. Current Year Prospect

The Board is of the view that, barring any unforeseen circumstances, the trading and distribution business is expected to remain challenging given the competitive market. Nevertheless the Company has confidence that we will be able to realise our objective to maintain our position as one of the major distributors of information technology and imaging products in the country. At the same time, the Company will continuously develop the market for the other business activities that have been identified namely the Gaharu, joint development of land and solar projects.

18. Profit Forecast or Profit Guarantee

The disclosure requirements for explanatory notes on the variance of actual profit and forecast profit and on shortfall in profit guarantee are not applicable.

19. Tax Expense

	Quarter Ended 30 Jun 2016 RM'000	Quarter Ended 30 Jun 2015 RM'000	To Date 30 Jun 2016 RM'000	Period Ended 30 Jun 2015 RM'000
Current tax expense:				
- for the quarter	96	245	200	473
Deferred taxation				
- Origination and reversal of temporary differences	(45)	(45)	(92)	(90)
	51	200	108	383

The Group's recognised tax expense despite loss before taxation mainly due to certain expenses being disallowed for taxation purposes, and losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries.

20. Status of Corporate Proposals

Save as disclosed below, there were no corporate proposals announced but not completed as at the date of this announcement:-

On 21st April 2016, the Company had announced that Bangsawan Bumimaju Sdn Bhd had accepted an offer from CDMSB a 70% owned sub-subsidiary of the Company on 20th April 2016 for the disposal of the leasehold land held under HSD 15896 (now held under PN 98100), Lot 47954, Mukim Dengkil, District Sepang, State of Selangor owned by CDMSB for a cash consideration of RM62,116,560.00 ("Proposed Disposal"). The offer is subject to the execution of a sales and purchase agreement containing detailed terms and conditions of the Proposed Disposal.

On 31st May 2016, the Company had announced the proposed acquisition of the remaining 30% equity interest in CDMSB by entering into a conditional share sale agreement ("SSA") with Datin Sabariah binti Hj Dahlan for a total cash consideration of RM22,000,000.00.

On 5th August 2016 the Company had announced that the resolutions in relation to the proposals set out in the Notice of Extraordinary General Meeting ("EGM") of the Company dated 11th July 2016 tabled at the EGM of the Company held at Greens III, Tropicana Golf & Country Resort, 47410 Petaling Jaya, Selangor Darul Ehsan were unanimously approved by the shareholders of the Company.

21. Borrowings and Debt Securities

The Group's borrowings denominated in RM are as follows:

	As at 30 Jun 2016 RM'000	As at 31 Dec 2015 RM'000
Short term borrowings – secured		
- banker's acceptance	13,484	13,199

22. Realised and Unrealised (Losses)/Profit Disclosure

	As at 30 Jun 2016 RM'000	As at 31 Dec 2015 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(187,338)	(185,231)
Unrealised	94,608	94,686
	(92,730)	(90,545)
Less: Consolidation adjustments	(32,118)	(32,662)
Total accumulated losses	(124,848)	(123,207)

23. Material Litigation

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 which might materially and adversely affect the financial position or business of the Group.

24. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 30 June 2016.

25. Profit / (Loss) per Share

The profit / (loss) per share is calculated by dividing the Group's loss attributable to equity holders of the parent for the financial period over the number of ordinary shares in issue during the financial period as follows:-

	Current Year Quarter Ended 30 Jun 2016	**Corresponding Quarter Ended 30 Jun 2015**	**Current Year To Date 30 Jun 2016**	**Corresponding Period Ended 30 Jun 2015**
Profit / (loss) attributable to equity holders of parent (RM'000)	(886)	(1,623)	(1,925)	(4,147)
Number of ordinary shares in issue ('000) - RM0.10 each	2,134,289	2,134,289	2,134,289	2,134,289
Basic profit / (loss) per share (sen)	(0.04)	(0.08)	(0.09)	(0.19)

The diluted profit / (loss) per share is equivalent to basic profit / (loss) per share as there were no potential ordinary shares outstanding which are dilutive in nature at the end of reporting period.

Compugates Holdings Berhad
(Company No. 669287 - H)
(Incorporated in Malaysia)

26. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 30 Jun 2016 RM'000	Corresponding Quarter Ended 30 Jun 2015 RM'000	Current Year To Date 30 Jun 2016 RM'000	Corresponding Period Ended 30 Jun 2015 RM'000
Bad debts written off	(12)	*		*
Depreciation of property and equipment	274	321	553	648
(Gain)/Loss Disposal Equipment	-	11	-	(37)
Inventories written off	*	*	*	*
Impairment loss on:				
- trade receivables	202	226	576	757
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	(105)
Unrealised gain on foreign exchange	(2)	(1)	59	(2)
Realised gain on foreign exchange	-	(21)	-	(119)
Write-back of impairment loss on trade receivables	(208)	(385)	(650)	(594)
Interest expense	507	217	1,075	443
Interest income	(89)	(124)	(194)	(248)

Save as disclosed above, the other items as required under Appendix 9B Part A (1B) of the Main Market Listing Requirements of Bursa Securities are not applicable.

Note:

* *Less than RM500*

27. Authorisation

This interim financial report for the financial period ended 30 June 2016 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 29 August 2016 for release to the Bursa Securities.

By order of the Board
Jenny Wong Chew Boey
Company Secretary

Date : 29 August 2016