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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2017

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 2016. 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 2016.

2. Changes in Accounting Policies

At the beginning of the current financial year, the Group and the Company adopted FRSs and amendments to FRSs which are mandatory for the financial periods beginning on or after 1 January 2017.

Initial application of the standards and amendments to standards did not have any material impact to the financial statements.

Standards issued but not yet effective

The Group and the Company have not applied the following FRS and amendments to FRSs that have been issued by the Malaysian Accounting Standards Board (“MASB”) but are not yet effective for the Group and the Company:

FRSs, Amendments to FRSs and IC Interpretation effective on 1 January 2018:

FRS 9	Financial Instruments IFRS 9 issued by International Accounting Standards Board (“IASB”) in July 2014
Amendments to FRS 2*#	Share-based Payment: Classification and Measurement of Share-based Payment Transactions
Amendments to FRS 4*#	Insurance Contracts: Applying FRS 9 Financial Instruments with FRS 4 Insurance Contracts
Amendments to FRS 140*#	Investment Property: Transfers of Investment Property

Annual Improvements to FRS Standard 2014-2016 Cycle (except for Amendments to FRS 12 Disclosure of Interest in Other Entities)*

2. Changes in Accounting Policies (continued)

Amendments to FRSs (deferred effective date to be announced by the MASB):

FRS 10* and FRS 128*#	Consolidated Financial Statements and Investment in Associate and Joint Venture: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

* Not applicable to the Company's operation
\# Not applicable to the Group's operations

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 Financial Instruments

FRS 9 replaces FRS 139 Financial Instruments: Recognition and Measurement and all previous version of FRS 9. The new standard introduces extensive requirements and guidance for classification and measurement of financial assets and financial liabilities which fall under the scope of FRS 9, new "expected credit loss model" under the impairment of financial assets and greater flexibility has been allowed in hedge accounting transactions. Upon adoption of FRS 9, financial assets will be measured at either fair value or amortised cost.

The adoption of FRS 9 will result in a change in accounting policy. The Group and the Company are currently examining the financial impact of adopting FRS 9.

New MASB Approved Accounting Standards

To converge with International Financial Reporting Standards ("IFRSs") in 2012, the Malaysian Accounting Standards Board ("MASB") had on 19 November 2011, issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRSs"), which are mandatory for annual financial periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture and MFRS 15 Revenue from Contracts with Customers for Construction, including its parent, significant investor and venture ("Transitioning Entities").

Transitioning Entities will be allowed to defer adoption of the new MFRSs. Consequently, adoption of the MFRSs by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2018.

The Group falls within the scope of Transitioning Entities and has opted to defer adoption of MFRSs. Accordingly, the Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2018.

In presenting its first MFRS financial statements, the Group and the Company will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening accumulated losses.

2. Changes in Accounting Policies (continued)

The Group and the Company have not completed their quantification of the financial effects of the differences between Financial Reporting Standards ("FRS") and accounting standards under the MFRS Framework and are in the process of assessing the financial effects of the differences. Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the financial year ended 31 December 2016 could be different if prepared under the MFRS Framework.

The Group and the Company are expect 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 2016 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 debt and 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 31 Mar 2017 RM'000	Corresponding Quarter Ended 31 Mar 2016 RM'000	Current Year To Date 31 Mar 2017 RM'000	Corresponding Period Ended 31 Mar 2016 RM'000
SEGMENT REVENUE				
Malaysia	8,793	23,808	8,793	23,808
Bangladesh*	-	817	-	817
The British Virgin Islands*	-	74	-	74
Cambodia*	-	627	-	627
Indonesia*	-	1,098	-	1,098
	8,793	26,424	8,793	26,424
Inter-segment sales	-	(74)	-	(74)
TOTAL	8,793	26,350	8,793	26,350

	Current Year Quarter Ended 31 Mar 2017 RM'000	Corresponding Quarter Ended 31 Mar 2016 RM'000	Current Year To Date 31 Mar 2017 RM'000	Corresponding Period Ended 31 Mar 2016 RM'000
SEGMENT RESULTS				
Malaysia	(1,925)	(963)	(1,925)	(963)
Bangladesh*	-	10	-	10
The British Virgin Islands*	-	(72)	-	(72)
Cambodia*	-	(168)	-	(168)
Indonesia*	-	(183)	-	(183)
	(1,925)	(1,376)	(1,925)	(1,376)

* Disposal of subsidiaries on 29 July 2016 with the clause of assume assets / liabilities from 1st January 2016

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 31 Mar 2017 RM'000	Corresponding Quarter Ended 31 Mar 2016 RM'000	Current Year To Date 31 Mar 2017 RM'000	Corresponding Period Ended 31 Mar 2016 RM'000
Integra Corp Sdn Bhd *	Project Management fee	-	74	-	74

* 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

On 22 May 2017, the Company has served a notice to Westwood Marketing Sdn Bhd for the termination of exclusive right to purchase the standing Agarwood sales and cutting agreement dated 24 April 2015.

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.

14. Capital Commitment

The Group has no capital commitment as of 31 March 2017.

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 31 Mar 2017 RM'000	Corresponding Quarter Ended 31 Mar 2016 RM'000	Current Year To Date 31 Mar 2017 RM'000	Corresponding Period Ended 31 Mar 2016 RM'000
SEGMENT (LOSS) / PROFIT BEFORE TAXATION				
Malaysia	(1,970)	(1,007)	(1,970)	(1,007)
Bangladesh	-	106	-	106
The British Virgin Islands	-	(72)	-	(72)
Cambodia	-	(161)	-	(161)
Indonesia	-	(185)	-	(185)
TOTAL	(1,970)	(1,319)	(1,970)	(1,319)

The Group registered revenue of approximately RM8.8 million for the quarter ended 31 March 2017, which was approximately RM17.6 million lower as compared to the preceding year corresponding quarter ended 31 March 2016 of approximately RM26.4 million. The lower revenue was mainly due to the decrease in revenue contribution by Malaysia subsidiaries and deconsolidation of the international subsidiaries.

The Malaysian subsidiaries recorded a loss before taxation ("LBT") during the current quarter ended 31 March 2017 of approximately RM2.0 million as compared to the preceding year corresponding quarter ended 31 March 2016 LBT of approximately RM1.0 million. The current year quarter recorded a higher LBT is mainly due challenging market environment that lead to lower consumer spending and entails decrease in both sales and purchases during the current year quarter. With the challenging market during the current year quarter Malaysian subsidiaries total gross profit decrease by approximately RM0.6 million to RM0.2 million as compared to RM0.8 million of preceding year corresponding quarter.

Malaysia subsidiaries LBT for the current year quarter is higher compared to the preceding year corresponding quarter also contributed from lower other income as a result of reduction in back end incentive due to lower purchases which amounting to approximately RM0.3 million and reduction of provision of doubtful debt no longer required as a result of more effective credit control process which amounting to approximately RM0.4 million. With the cost cutting strategy implemented by the Malaysia subsidiaries, total expenses for the current year quarter is approximately RM0.4 million lower as compared to the preceding year corresponding quarter.

The Bangladesh subsidiaries, British Virgin Islands subsidiaries, Cambodia subsidiary and Indonesia Subsidiaries have been deconsolidate during quarterly ended 30 September 2016 entails by the disposal of CIL in August 2016, with the clause whereby purchases agreed to assume all the assets and liabilities as well as any embellishment in CIL that may or had been caused from 1st January 2016,

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 RM2.0 million for the current quarter ended 31 March 2017 as compared to the immediate preceding quarter of approximately RM2.9 million LBT. The LBT for the current quarter is lower mainly due to absent of provision of doubtful debt for Compugates International Limited (Cambodia) and PT Compugates International amounting to approximately RM0.9 million.

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 31 Mar 2017 RM'000	Quarter Ended 31 Mar 2016 RM'000	To Date 31 Mar 2017 RM'000	Period Ended 31 Mar 2016 RM'000
Current tax expense:				
- for the quarter	0	104	0	104
Deferred taxation				
- Origination and reversal of temporary differences	(45)	(47)	(45)	(47)
	(45)	57	(45)	57

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

There were no corporate proposals announced but not completed as at the date of this announcement.

21. Borrowings and Debt Securities

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

	As at 31 Mar 2017 RM'000	As at 31 Dec 2016 RM'000
Short term borrowings – secured		
- banker's acceptance	4,718	-

22. Realised and Unrealised (Losses)/Profit Disclosure

	As at 31 Mar 2017 RM'000	As at 31 Dec 2016 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(21,112)	(19,635)
Unrealised	94,346	94,351
	73,234	74,716
Less: Consolidation adjustments	(32,949)	(32,832)
Total accumulated losses	40,285	41,884

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 31 March 2017.

25. Other matters

On 10 January 2017, the Company received a letter of demand from a third party, claiming for interalia RM10 million or 113 titles of land belonging to a wholly-owned subsidiary, Selama Muda Jaya Sdn. Bhd. and other damages. The Company responded through their solicitors via letter dated 8 February 2017 refuting this claim and reserved its right to sue for all losses and damages suffered. No further action was taken by the third party as at the date of this report.

26. 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 31 Mar 2017	Corresponding Quarter Ended 31 Mar 2016	Current Year To Date 31 Mar 2017	Corresponding Period Ended 31 Mar 2016
Profit / (loss) attributable to equity holders of parent (RM'000)	(1,742)	(1,039)	(1,742)	(1,039)
Number of ordinary shares in issue ('000) - RM0.02 (FY2016:RM0.10) each	2,134,289	2,134,289	2,134,289	2,134,289
Basic profit / (loss) per share (sen)	(0.08)	(0.05)	(0.08)	(0.05)

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)

27. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 31 Mar 2017 RM'000	Corresponding Quarter Ended 31 Mar 2016 RM'000	Current Year To Date 31 Mar 2017 RM'000	Corresponding Period Ended 31 Mar 2016 RM'000
Bad debts written off	-	12	-	12
Depreciation of property and equipment	238	279	238	279
(Gain)/Loss Disposal Equipment		-		-
Inventories written off	-	*	-	*
Impairment loss on:				
- trade receivables	96	374	96	374
- other receivables		-		-
Gain on disposal of available-for-sale investments	-	-	-	-
Unrealised gain on foreign exchange	*	61	*	61
Realised gain on foreign exchange	-	-	-	-
Write-back of impairment loss on trade receivables	(38)	(442)	(38)	(442)
Interest expense	46	205	46	205
Interest income	(13)	(105)	(13)	(105)

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*

28. Authorisation

This interim financial report for the financial period ended 31 March 2017 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 22 May 2017 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date : 22 May 2017