Compugates Holdings Berhad

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 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 30 Jun 2017 RM'000	Corresponding Quarter Ended 30 Jun 2016 RM'000	Current Year To Date 30 Jun 2017 RM'000	Corresponding Period Ended 30 Jun 2016 RM'000
SEGMENT REVENUE				
Malaysia	12,394	23,324	21,187	47,132
Bangladesh*	-	881	-	1,698
The British Virgin Islands*	-	73	-	147
Cambodia*	-	(354)	-	273
Indonesia*	-	(3)	-	1,096
	12,394	23,921	21,187	50,346
Inter-segment sales	-	(73)	-	(147)
TOTAL	12,394	23,848	21,187	50,198

	Current Year Quarter Ended 30 Jun 2017 RM'000	Corresponding Quarter Ended 30 Jun 2016 RM'000	Current Year To Date 30 Jun 2017 RM'000	Corresponding Period Ended 30 Jun 2016 RM'000
SEGMENT RESULTS				
Malaysia	(1,279)	(1,133)	(3,204)	(2,096)
Bangladesh*	-	6	-	16
The British Virgin Islands*	-	(72)	-	(144)
Cambodia*	-	189	-	21
Indonesia*	-	(26)	-	(209)
	(1,279)	(1,037)	(3,204)	(2,413)

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

The Group registered revenue of approximately RM12.4 million for the quarter ended 30 June 2017, which was approximately RM11.4 million lower as compared to the preceding year corresponding quarter ended 30 June 2016 of approximately RM23.8 million. The lower revenue was mainly due to the decrease in revenue contribution by Malaysia subsidiaries and deconsolidation of the international subsidiaries.

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 2017 RM'000	Corresponding Quarter Ended 30 Jun 2016 RM'000	Current Year To Date 30 Jun 2017 RM'000	Corresponding Period Ended 30 Jun 2016 RM'000
Integra Corp Sdn Bhd *	Project Management fee	-	(74)	-	-

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

13. 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.

14. Significant Subsequent Events

On 27 July 2017, on behalf of the Board M&A Securities is pleased to announce that Bursa Securities had, vide its letter dated 27 July 2017, approved the listing of and quotation for up to 213,428,900 new ordinary shares in CHB to be issued pursuant to the Proposed Private Placement on the Main Market of Bursa Securities subject to the following conditions:

a) CHB and M&A Securities must fully comply with the relevant provisions under the Main Market Listing Requirements of Bursa Securities ("Listing Requirements") pertaining to the implementation of the Proposed Private Placement;

b) CHB and M&A Securities to inform Bursa Securities upon the completion of the Proposed Private Placement;

c) CHB to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Private Placement is completed;

d) M&A Securities must submit to Bursa Securities, the placee(s)' details in accordance with Paragraph 6.15 of the Listing Requirements as soon as practicable before the listing of the Placement Shares; and

e) Payment of the additional listing fee for the new shares based on the final issue price, if applicable. In this respect, CHB is required to furnish Bursa Securities a cheque drawn to the order of Bursa Malaysia Securities Berhad for the additional listing fee together with a copy of the details of the computation of the amount of fees payable.

CHB is also required to ensure full compliance of all the requirements as provided under the Listing Requirements.

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 24 July 2017, M&A Securities Sdn Bhd on behalf of the Company wishes to announce that the Board of CHB has provide additional information in relation to the Proposed Private Placement announcement made on 6 July 2017.

On 6 July 2017, M&A Securities Sdn Bhd on behalf of the Company wishes to announce that the listing application in relation to the Proposed Private Placement up to 10% of the issued shares in CHB (Compugates Holdings Berhad) has been submitted to Bursa Malaysia Securities Berhad further to the announcement dated 23 May 2017 and 22 June 2017.

15. Capital Commitment

The Group has no capital commitment as of 30 June 2017.

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

16. Detailed Performance Analysis

	Individual Period (2nd quarter)				Cumulative Period			
	Current Year Quarter	Preceding Year Correspond-ing Quarter	Changes		Current Year To Date	Preceding Year Correspond-ing Period	Changes	
	30 June 2017	30 June 2016	RM	%	30 June 2017	30 June 2016	RM	%
Revenue	12,394	23,848	(11,454)	*48.0*	21,187	50,198	(29,011)	57.8
Operating Losses	(1,335)	(783)	(552)	*70.5*	(3,260)	(1,928)	(1,332)	69.1
Loss Before Interest & Tax	(1,335)	(783)	(552)	*70.5*	(3,260)	(1,928)	(1,332)	69.1
Loss Before Tax	(1,324)	(986)	(338)	*34.2*	(3,294)	(2,305)	(989)	42.9
Loss After tax	(1,279)	(1,037)	(242)	*23.3*	(3,204)	(2,413)	(791)	32.8
Loss attributable to ordinary equity holder of the parent	(1,095)	(866)	(229)	*26.4*	(2,837)	(1,866)	(971)	52.0

The Group registered revenue of approximately RM12.4 million for the quarter ended 30 June 2017, which was approximately RM11.5 million lower as compared to the preceding year corresponding quarter ended 30 June 2016 of approximately RM23.8 million. The lower revenue was mainly due to lower sales contribution from consumables (e.g. printer ink cartridges, toners and drums), hardware products (e.g. printers and scanners) and communication based products (e.g. reload cards and network routers). The decrease in revenue partly due to deconsolidation of the international subsidiaries.

The Group recorded a loss before taxation (“LBT”) during the current quarter ended 30 June 2017 of approximately RM1.3 million as compared to the preceding year corresponding quarter ended 30 June 2016 LBT of approximately RM 1.0 million. The current year quarter recorded a higher LBT contributed from lower other Income by approximately RM 0.4 million to RM 0.5 million as compared to RM 0.9 million of the preceding year corresponding quarter. Similarly due the lower other income, current quarter ended 30 June 2017 recorded an operating losses of RM1.3 million which is RM0.5 million as compared to the preceding year corresponding quarter ended 30 June 2016 of approximately RM0.8 million.

The Group recorded a loss after taxation (“LAT”) during the current quarter ended 30 June 2017 of approximately RM1.3 million which was approximately RM0.3 million higher as compared to the preceding year corresponding quarter ended 30 June 2016 LAT of approximately RM1.0 million. The higher LAT was mainly due to decreased in other income of RM0.5 million and deconsolidation of the international subsidiaries which was contributed PAT approximately RM 0.1 million in preceding year corresponding quarter.

16. Detailed Performance Analysis (cont'd)

The Group registered revenue of approximately RM21.2 million for the current year to date ended 30 June 2017, which was approximately RM29.0 million lower as compared to the preceding year to date ended 30 June 2016 of approximately RM 50.2 million. The decrease in the Group's revenue was due to challenging market environment that lead to lower consumer spending and entails decrease in sales. The decrease in revenue also due to deconsolidation of the international subsidiaries.

The Group recorded a loss before taxation ("LBT") during the current year to date ended 30 June 2017 of approximately RM3.3 million as compared to the preceding year to date ended 30 June 2016 LBT of approximately RM 2.3 million. The current year to date recorded a higher LBT and higher operating losses are mainly contributed from lower other income as a result of reduction in back end incentive due to lower purchases which amounting to approximately RM0.6 million and reduction of provision of doubtful debt no longer required as a result of more effective credit control process which amounting to approximately RM0.5 million.

The Group recorded a loss after taxation ("LAT") during the current year to date ended 30 June 2017 of approximately RM3.2 million as compared to the preceding year to date ended 30 June 2016 LAT of approximately RM 2.4 million. The current year to date recorded a higher LAT and higher operating losses are mainly due to decreased in other income of RM0.6 million and reduction of provision of doubtful debt no longer required of RM0.5 million. Tax expenses for current year to date is lower by approximately RM0.2 million as compared with preceding year to date is due to deconsolidation of the international subsidiaries.

	Current Quarter	**Immediate Preceding Quarter**	**Changes**	
	30 June 2017	**31 March 2017**	**RM**	**%**
Revenue	12,394	8,793	3,601	41.0
Operating Losses	(1,335)	(1,925)	590	30.6
Loss Before Interest & Tax	(1,335)	(1,925)	590	30.6
Loss Before Tax	(1,324)	(1,970)	646	32.8
Loss After tax	(1,279)	(1,925)	646	33.6
Loss attributable to ordinary equity holder of the parent	(1,095)	(1,742)	647	37.1

The Group registered revenue of approximately RM12.4 million for the quarter ended 30 June 2017, which was approximately RM3.6 million higher as compared to immediate preceding quarter ended 31 March 2017 of approximately RM8.8 million. The higher revenue is mainly due to increase in consumable and hardware products of RM2.6 mil and communication based products of RM1.0 mil.

16. Detailed Performance Analysis (cont'd)

The Group recorded an operating Losses and Loss before interest & tax of approximately RM 1.3mil for the quarter ended 30 June 2017, which was approximately RM0.6mil lower as compared to immediate preceding quarter ended 31 March 2017. The lower loss incurred is mainly due to increase in other income by RM 0.3mil and cost saving in administrative expenses by RM0.1 mil as compared to immediate preceding quarter ended 31 March 2017.

Higher other income by RM0.3mil mainly contributed by quarterly incentive and early payment rebate that recognized in current quarter approximately by RM0.2 million and reduction of provision of doubtful debt no longer required as a result of more effective credit control process which amounting to approximately RM0.1 million.

Lower administrative expenses is resulted from the effective credit control, whereby debts are collected in a shorter period of time which result in a lower provision of debt amounting to RM0.1mil.

The Group recorded a loss after taxation ("LAT") of approximately RM1.3 million for the quarter ended 30 June 2017, which was approximately lower by RM0.6 million as compared to immediate preceding quarter ended 31 March 2017. The lower loss mainly due to the increase in other income and saving on administrative expenses. The company recorded similar amount of tax expense for both quarter. Other expenses such as finance cost and other operating expenses remain relatively consistent

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 project. The Company is also reviewing other measures to reduce cost in view of the drop in revenue due to the challenging market condition.

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 2017 RM'000	Quarter Ended 30 Mar 2016 RM'000	To Date 30 Jun 2017 RM'000	Period Ended 30 Mar 2016 RM'000
Current tax expense:				
- for the quarter	0	96	0	200
Deferred taxation				
- Origination and reversal of temporary differences	(45)	(45)	(90)	(92)
	(45)	51	(90)	108

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 30 Jun 2017 RM'000	As at 31 Dec 2016 RM'000
Short term borrowings – secured		
- banker's acceptance	-	-

22. Realised and Unrealised (Losses)/Profit Disclosure

	As at 30 Jun 2017 RM'000	As at 30 Jun 2016 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(22,249)	(187,338)
Unrealised	94,346	94,608
	72,097	(92,730)
Less: Consolidation adjustments	(32,765)	(32,118)
Total accumulated losses	39,332	(124,848)

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 2017.

25. Other matters

On 16 June 2017, the Company wishes to announce that Mr Goh Kheng Peow who resigned as Managing Director of the Company on 16 June 2017, has also ceased to be a member of the Remuneration Committee ("RC") from the same date. Further, Madam See Thoo Chan has been appointed as a member of the RC on the same date.

Consequent to Mr Goh's resignation and Madam See's appointment, the new composition of RC is as follows:-

Remuneration Committee

1. Tan Sri Datuk Asmat bin Kamaludin (Chairman, Independent Non-Executive Director)
2. Encik Mohamed Fauzi bin Omar (Member, Independent Non-Executive Director)
3. Madam See Thoo Chan (Member, Executive Director)

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 30 Jun 2017	Corresponding Quarter Ended 30 Jun 2016	Current Year To Date 30 Jun 2017	Corresponding Period Ended 30 Jun 2016
Profit / (loss) attributable to equity holders of parent (RM'000)	(1,095)	(886)	(2,837)	(1,925)
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)	(0.05)	(0.04)	(0.13)	(0.09)

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.

27. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 30 Jun 2017 RM'000	Corresponding Quarter Ended 30 Jun 2016 RM'000	Current Year To Date 30 Jun 2017 RM'000	Corresponding Period Ended 30 Jun 2016 RM'000
Bad debts written off	-	(12)	-	-
Depreciation of property and equipment	235	274	473	553
(Gain)/Loss Disposal Equipment	-	-	-	-
Inventories written off	-	*	-	*
Impairment loss on:				
- trade receivables	2	202	98	576
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	-
Unrealised gain on foreign exchange	*	(2)	*	59
Realised gain on foreign exchange	-	(21)	-	-
Write-back of impairment loss on trade receivables	(111)	(385)	(149)	(650)
Interest expense	-	217	46	1,075
Interest income	-	(124)	(13)	(194)

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 28 August 2017 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date : 28 August 2017