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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 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.

On 30 October 2017, Compugates Holdings Berhad ("CHB") Private Placement is completed following the listing of the Placement Shares on the Main Market of Bursa Malaysia Securities Berhad with a total 213,428,900 number of shares.

8. Dividends Paid

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

9. Segmental Information (Analysis by business nature of the Group Results)

	Current Year Quarter Ended 30 Sep 2017 RM'000	Corresponding Quarter Ended 30 Sep 2016 RM'000	Current Year To Date 30 Sep 2017 RM'000	Corresponding Period Ended 30 Sep 2016 RM'000
SEGMENT REVENUE				
Trading & Service	4,290	12,422	25,472	62,586
Agriculture & Energy	5	15	10	49
Property	-	-	-	-
	4,295	12,437	25,482	62,635
Inter-segment sales	-	-	-	-
TOTAL	4,295	12,437	25,482	62,635

	Current Year Quarter Ended 30 Sep 2017 RM'000	Corresponding Quarter Ended 30 Sep 2016 RM'000	Current Year To Date 30 Sep 2017 RM'000	Corresponding Period Ended 30 Sep 2016 RM'000
SEGMENT RESULTS				
Trading & Service	(2,563)	(1,420)	(4,150)	(3,140)
Agriculture & Energy	(443)	(599)	(2,062)	(1,291)
Property				
	(3,006)	(2,019)	(6,212)	(4,431)

The Group registered revenue of approximately RM4.3 million for the quarter ended 30 Sep 2017, which was approximately RM8.1 million lower as compared to the preceding year corresponding quarter ended 30 Sep 2016 of approximately RM12.4 million. The lower revenue was mainly due to the decrease in revenue contribution by trading and services segment.

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 Sep 2017 RM'000	Corresponding Quarter Ended 30 Sep 2016 RM'000	Current Year To Date 30 Sep 2017 RM'000	Corresponding Period Ended 30 Sep 2016 RM'000
Integra Corp Sdn Bhd	Project Management fee	-	-	-	-

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 19 October 2017, on behalf of the Board of Directors of CHB, M&A Securities Sdn Bhd announced that the Company had fixed the issue price of the Placement Shares at RM0.023 per Placement Share to be issued pursuant to the Private Placement. The aforementioned issue price of RM0.023 per Placement Share represents a discount of approximately RM0.0025 or 9.80% from the 5-day weighted average market price of CHB from 11 October 2017 to 17 October 2017 of approximately RM0.0255 per share.

On 27 Oct 2017, M&A Securities on behalf of the Company announced that the Board of CHB had provided additional information in relation to the Proposed Private Placement announcement made on 19 Oct 2017 and the Notice of interest of Substantial Securities Holder.

On 30 Oct 2017, on behalf of the Board M&A Securities announced that the Private Placement has completed following the listing of the Placement Shares on the Main Market of Bursa Malaysia Securities Berhad. A total of 213,428,900 Placement Shares have been issued under this Private Placement exercise.

14. Capital Commitment

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

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

15. Detailed Performance Analysis

	Individual Period (3rd quarter)				Cumulative Period			
	Current Year Quarter	Preceding Year Correspond-ing Quarter	Changes		Current Year To Date	Preceding Year Correspond-ing Period	Changes	
	30 Sep 2017	30 Sep 2016	RM	%	30 Sep 2017	30 Sep 2016	RM	%
Revenue	4,295	12,437	(8,142)	*65.5*	25,482	62,635	(37,153)	59.3
Operating Losses	(2,957)	(2,344)	(613)	*26.2*	(6,217)	(4,272)	(1,945)	45.5
Loss Before Interest & Tax	(2,957)	(2,344)	(613)	*26.2*	(6,217)	(4,272)	(1,945)	45.5
Loss Before Tax	(3,053)	(2,262)	(790)	*34.9*	(6,347)	(4,567)	(1,780)	38.9
Loss After tax	(3,008)	(2,019)	(987)	*48.9*	(6,212)	(4,431)	(1,781)	40.2
Loss attributable to ordinary equity holder of the parent	(2,819)	(1,901)	(919)	*48.4*	(5,657)	(3,826)	(1,831)	47.9

The Group registered revenue of approximately RM4.3 million for the quarter ended 30 Sep 2017, which was approximately RM8.1 million lower as compared to the preceding year corresponding quarter ended 30 Sep 2016 of approximately RM12.4 million. The lower revenue was mainly due to management's focus on selling higher margins products such as printers, scanners and cameras to good pay master dealers. As such, sales contribution from consumables (e.g. printer ink cartridges, toners and drums) was lower. Lower revenue contribution from the agriculture segment also marginally contributed to the lower revenue.

The Group recorded a loss before taxation ("LBT") during the current quarter ended 30 Sep 2017 of approximately RM3.1 million which was approximately RM 0.8 million higher as compared to the preceding year corresponding quarter ended 30 Sep 2016 LBT of approximately RM 2.3 million. The current year quarter recorded a higher LBT contributed from lower other income of approximately RM 0.8 million from RM 2.3 million to RM 1.5 million. It was mainly due to absent of disposal gain from disposal of CIL with RM 2mil on Sept-16.

The Group recorded a loss after taxation ("LAT") during the current quarter ended 30 Sep 2017 of approximately RM 3.0 million which was approximately RM 1.0 million higher as compared to the preceding year corresponding quarter ended 30 Sep 2016 LAT of approximately RM 2.0 million. The higher LAT was mainly due to decreased in other income of RM 0.8 million due to reduction in purchase incentive and deconsolidation of

15. Detailed Performance Analysis (cont'd)

the international subsidiaries which was contributed PAT approximately RM 0.3 million in preceding year corresponding quarter.

The Group registered revenue of approximately RM25.5 million for the current year to date ended 30 Sep 2017, which was approximately RM37.2 million lower as compared to the preceding year to date ended 30 Sep 2016 of approximately RM 62.6 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 stiff competition from online purchases by consumers who tend to bypass intermediaries (namely distributors or middlemen) to make their purchases online at cheaper costs.

The Group recorded a loss before taxation ("LBT") during the current year to date ended 30 Sep 2017 of approximately RM6.3 million as compared to the preceding year to date ended 30 Sep 2016 LBT of approximately RM 4.6 million. The current year to date recorded a higher LBT and higher operating losses are mainly contributed by the Voluntary Separation Scheme ("VSS") for cost saving purposes in the long run. The provision of VSS to eligible staff is approximately of RM 1 million. Additionally, the group has made a provision of stock obsolescence amounted to approximately RM0.4 million in current year to date ended 30 Sep 2017, of which none was provided for the preceding year to date ended 30 Sep 2016.

The Group recorded a LAT during the current year to date ended 30 Sep 2017 of approximately RM6.2 million as compared to the preceding year to date ended 30 Sep 2016 LAT of approximately RM 4.4 million. The current year to date recorded a higher LAT and higher operating losses are mainly due to the cost incurred for VSS and provision of obsolesces stocks which amounted to approximately RM1.0 million and RM0.4 million respectively.

	Current Quarter	**Immediate Preceding Quarter**	**Changes**	
	30 Sep 2017	**30 June 2017**	**RM**	**%**
Revenue	4,295	12,394	8,099	41.0
Operating Losses	(2,957)	(1,335)	(1,622)	121.5
Loss Before Interest & Tax	(2,957)	(1,335)	(1,622)	121.5
Loss Before Tax	(3,053)	(1,324)	(1,727)	130.3
Loss After tax	(3,008)	(1,279)	(1,726)	134.8
Loss attributable to ordinary equity holder of the parent	(2,819)	(1,095)	(1,724)	157.4

15. Detailed Performance Analysis (cont'd)

The Group registered revenue of approximately RM 4.3 million for the quarter ended 30 Sep 2017, which was approximately RM 8.1 million lower as compared to immediate preceding quarter ended 30 June 2017 of approximately RM 12.4 million. The lower revenue is mainly due to challenging market environment and management's focus on selling higher margins products instead of high volume with low margin in the immediate preceding quarter ended 30 Sep 2017.

The Group recorded an operating Losses and Loss before interest & tax of approximately RM 3.0 million for the quarter ended 30 Sep 2017, which was approximately RM 1.7 million higher as compared to immediate preceding quarter ended 30 June 2017. The higher loss incurred is mainly due to restructuring plan to reduce cost via VSS by provision of RM 1 million and provision of stock obsolescence by RM 0.4 million in current quarter ended 30 Sep 2017. Additionally, approximately RM0.1 million reductions in other income such as early payment discount also contributed to the higher operating losses for the quarter.

The Group recorded LAT of approximately RM 3.0 million for the quarter ended 30 Sep 2017, which was approximately lower by RM 1.7 million as compared to immediate preceding quarter ended 30 June 2017. The reason of higher LAT is same as higher LBT above.

16. 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.

17. 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.

18. Tax Expense

	Current Year Quarter Ended 30 Sep 2017 RM'000	Corresponding Quarter Ended 30 Sep 2016 RM'000	Current Year To Date 30 Sep 2017 RM'000	Corresponding Period Ended 30 Sep 2016 RM'000
Current tax expense:				
- for the quarter	-	(209)	-	(9)
Deferred taxation				
- Origination and reversal of temporary differences	(45)	(33)	(135)	(125)
	(45)	(242)	(135)	(134)

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.

19. Status of Corporate Proposals

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

20. Borrowings and Debt Securities

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

	As at 30 Sep 2017 RM'000	As at 31 Dec 2016 RM'000
Short term borrowings – secured		
- banker's acceptance	2,812	-

21. Realised and Unrealised (Losses)/Profit Disclosure

	As at 30 Sep 2017 RM'000	As at 30 Sep 2016 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(25,114)	(177,833)
Unrealised	94,348	94,405
	69,234	(83,428)
Less: Consolidation adjustments	(32,578)	(43,177)
Total retained earnings/(accumulated losses)	36,656	(126,605)

22. 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.

23. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 30 Sep 2017.

24. Other matters

On 5 Sep 2017, The Board of Directors of the Company announced that the Company has offered some eligible staff of the Company and its subsidiaries a VSS effective 1st September 2017 as part of its restructuring plan to reduce cost and workforce optimisation. The VSS was put in place after looking at current operating cost structures and the challenging economic situation. The Notice of change in the Principal Officer was announced on the same day.

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 Sep 2017	**Corresponding Quarter Ended 30 Sep 2016**	**Current Year To Date 30 Sep 2017**	**Corresponding Period Ended 30 Sep 2016**
Profit / (loss) attributable to equity holders of parent (RM'000)	(2,820)	(1,900)	(5,657)	(3,826)
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)	(0.13)	(0.09)	(0.27)	(0.18)

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.

26. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 30 Sep 2017 RM'000	Corresponding Quarter Ended 30 Sep 2016 RM'000	Current Year To Date 30 Sep 2017 RM'000	Corresponding Period Ended 30 Sep 2016 RM'000
Bad debts written off	-	-	-	-
Depreciation of property and equipment	229	164	702	717
(Gain)/Loss Disposal Equipment	-	-	-	-
Inventories written off	-	*	-	*
Impairment loss on:				
- trade receivables	29	(66)	125	510
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	-
Unrealised gain on foreign exchange	*	-	*	59
Realised gain on foreign exchange	-	-	-	-
Write-back of impairment loss on trade receivables	(128)	(102)	(165)	(752)
Interest expense	31	(699)	17	376
Interest income	2	21	(11)	(173)

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 2017 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 27 November 2017 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date : 27 November 2017