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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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:

<u>FRSs, Amendments to FRSs and IC Interpretation effective on 1 January 2018:</u>

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

On 22 December 2017, M&A Securities Sdn Bhd on behalf of the Board of Directors of CHB announced that the Company intends to undertake a proposed private placement of up to 586,929,400 new ordinary shares in CHB representing up to 25% of the issued shares in Compugates Holdings Berhad ("CHB")

On 26 January 2018, reference is made to the announcements dated 22 December 2017 and 15 January 2018 in relation to the Proposed Private Placement. On behalf of the Board of Directors of the Company, M&A Securities Sdn Bhd announced that the listing application for the Proposed Private Placement has been submitted to Bursa Malaysia Securities Berhad.

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 31 Dec 2017 RM'000	Corresponding Quarter Ended 31 Dec 2016 RM'000	Current Year To Date 31 Dec 2017 RM'000	Corresponding Period Ended 31 Dec 2016 RM'000
SEGMENT REVENUE				
Trading & Service	2,589	16,472	28,061	79,059
Agriculture & Energy	6	1	16	49
Property	-	-	-	-
	2,595	16,473	28,077	79,108
Inter-segment sales	-	-	-	-
TOTAL	2,595	16,473	28,077	79,108

	Current Year Quarter Ended 31 Dec 2017 RM'000	Corresponding Quarter Ended 31 Dec 2016 RM'000	Current Year To Date 31 Dec 2017 RM'000	Corresponding Period Ended 31 Dec 2016 RM'000
SEGMENT RESULTS				
Trading & Service	245	(1,146)	(3,807)	(4,817)
Agriculture & Energy	(1,450)	(1,609)	(3,609)	(2,368)
Property				
	(1,205)	(2,755)	(7,416)	(7,186)

The Group registered revenue of approximately RM2.6 million for the quarter ended 31 Dec 2017, which was approximately RM13.9 million lower as compared to the preceding year corresponding quarter ended 31 Dec 2017 of approximately RM16.5 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.

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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.

		Current Year		Corresponding		Current Year		Corresponding
		Quarter Ended		Quarter Ended		To Date		Period Ended
Transaction parties	Nature of transaction	31 Dec 2017 RM'000		31 Dec 2016 RM'000		31 Dec 2017 RM'000		31 Dec 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 14 February 2018, the Board of Directors of Compugates announced that its sub-subisidary, Compugates Development And Mining Sdn Bhd ("CDMSB") has on 14 February 2018 received an undertaking letter from Jade Classic Sdn Bhd to accept and undertake the Land on an "as is where is basis and with vacant possession". The Developer has inspected and examined the said Land and shall now contribute and undertake the development as per the terms and conditions of the Joint Venture Agreement dated 28 November 2017 between CDMSB and Jade Classic Sdn Bhd and bear the entire cost and expense including to get the Land to be filled and ready for development on the said Land in accordance with the relevant approvals and the layout and building plans to be approved and applying and obtaining the relevant approvals and licenses from the relevant authorities in connection with the said Land into a commercial or residential or mixed commercial and residential estate on the said Land ("Development").

With the above, the Developer shall be able to guarantee that the Gross Development Value of the said Development shall not be less than Ringgit Malaysia Five Hundred and Fifty Million (RM550,000,000.00) only excluding the development of "Rumah Selangorku".

14. Capital Commitment

The Group has no capital commitment as of 31 Dec 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 (4th quarter)				Cumulative Period			
	Current Year Quarter	Preceding Year Correspond-ing Quarter	Changes		Current Year To Date	Preceding Year Correspond-ing Period	Changes	
	31 Dec 2017	31 Dec 2016	RM	%	31 Dec 2017	31 Dec 2016	RM	%
Revenue	2,595	16,473	(13,878)	*84.2*	28,077	79,108	(51,031)	64.5
Operating Losses	(1,341)	(2,819)	1,478	*52.4*	(7,559)	(7,090)	(469)	6.6
Loss Before Interest & Tax	(1,341)	(2,819)	1,478	*52.4*	(7,559)	(7,090)	(469)	6.6
Loss Before Tax	(1,267)	(2,879)	1,612	*56.0*	(7,614)	(7,445)	(169)	2.3
Loss After tax	(1,204)	(2,755)	1,551	*56.3*	(7,416)	(7,186)	(230)	3.2
Loss attributable to ordinary equity holder of the parent	(978)	(2,396)	1,418	*59.2*	(6,635)	(6,222)	(413)	6.6

The Group registered revenue of approximately RM2.6 million for the quarter ended 31 Dec 2017, which was approximately RM13.9 million lower as compared to the preceding year corresponding quarter ended 31 Dec 2016 of approximately RM16.5 million. The lower revenue was mainly due to management's focus on good pay master customers to mitigate credit risk. 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 31 Dec 2017 of approximately RM1.3 million which was approximately RM 1.6 million lower as compared to the preceding year corresponding quarter ended 31 Dec 2016 LBT of approximately RM 2.9 million. The current year quarter recorded a lower LBT mainly contributed from gain on disposal of fixed asset of approximately RM 0.3 million and decreased of staff cost of approximately RM 0.9 million from RM 2.0 million to RM 1.1 million. The decreased in LBT also due to reduction of provision of doubtful debt as a result of more effective credit control process which amounting to approximately RM0.4 million.

The Group recorded a loss after taxation ("LAT") during the current quarter ended 31 Dec 2017 of approximately RM 1.2 million which was approximately RM 1.6 million lower as compared to the preceding year corresponding quarter ended 31 Dec 2016 LAT of approximately RM 2.8 million. The lower LAT was mainly due to decrease in staff cost of RM 0.9 million and gain on disposal of fixed asset of approximately RM 0.3 million. The decreased in LBT also due to reduction of provision of doubtful debt as a result of more effective credit control process which amounting to approximately RM0.4 million.

15. Detailed Performance Analysis (cont'd)

The Group registered revenue of approximately RM28.1 million for the current year to date ended 31 Dec 2017, which was approximately RM51.0 million lower as compared to the preceding year to date ended 31 Dec 2016 of approximately RM 79.1 million. The decrease in the Group's revenue was due to management focusing in good pay master customers to mitigate credit risk and challenging market environment that lead to lower consumer spending and entails decrease in sales. The decrease in revenue was 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 31 Dec 2017 of approximately RM7.6 million as compared to the preceding year to date ended 31 Dec 2016 LBT of approximately RM 7.4 million. The current year to date recorded a higher LBT and higher operating losses as a result of higher expenses incurred for Voluntary Separation Scheme ("VSS") of RM 0.9 million which derived in a cost saving over the long run, in conjunction with an absent of reversal of accrued of consultancy fees, staff amenities and staff training amounting to approximately RM 0.7 million.

The Group recorded a LAT during the current year to date ended 31 Dec 2017 of approximately RM7.4 million as compared to the preceding year to date ended 31 Dec 2016 LAT of approximately RM 7.2 million. The current year to date recorded a higher LAT and higher operating losses are mainly due to the cost incurred for VSS and absent of reversal of accrued of consultancy fees, staff amenities and staff training which amounted to approximately RM0.9 million and RM0.7 million respectively.

	Current Quarter	Immediate Preceding Quarter	Changes	
	31 Dec 2017	30 Sep 2017	RM	%
Revenue	2,595	4,295	(1,700)	39.6
Operating Losses	(1,341)	(2,957)	1,616	54.6
Loss Before Interest & Tax	(1,341)	(2,957)	1,616	54.6
Loss Before Tax	(1,267)	(3,053)	1,786	58.5
Loss After tax	(1,204)	(3,008)	1,804	60.0
Loss attributable to ordinary equity holder of the parent	(978)	(2,819)	1,841	65.3

15. Detailed Performance Analysis (cont'd)

The Group registered revenue of approximately RM 2.6 million for the quarter ended 31 Dec 2017, which was approximately RM 1.7 million lower as compared to immediate preceding quarter ended 30 Sep 2017 of approximately RM 4.3 million. The lower revenue is mainly due to management's focus on good pay master customers to mitigate credit risk.

The Group recorded an operating Losses and Loss before interest & tax of approximately RM 1.3 million for the quarter ended 31 Dec 2017, which was approximately RM 1.6 million lower as compared to immediate preceding quarter ended 30 Sep 2017. The lower loss due to implementation of VSS in Quarter 3 FY2017 of RM 0.9 million which resulted in an immediate cost saving of RM0.6 million in Quarter 4 of FY2017, additionally the Group recorded a lower operating Losses and Loss before interest & tax due to an absence of provision of stock obsolescence by RM 0.4 million in current quarter ended 31 Dec 2017 and RM0.3 million of gain of disposal of fixed asset also contributed to the lower operating losses for the quarter.

The Group recorded LAT of approximately RM 1.2 million for the quarter ended 31 Dec 2017, which was approximately lower by RM 1.8 million as compared to immediate preceding quarter ended 30 Sep 2017. The reason of lower LAT for the current quarter is similar to the aforementioned explanation.

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.

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18. Tax Expense

	Current Year Quarter Ended 31 Dec 2017 RM'000	Corresponding Quarter Ended 31 Dec 2016 RM'000	Current Year To Date 31 Dec 2017 RM'000	Corresponding Period Ended 31 Dec 2016 RM'000
Current tax expense:				
- for the quarter	-	(71)	-	(78)
Deferred taxation				
- Origination and reversal of temporary differences	(63)	(55)	(198)	(180)
	(63)	(126)	(198)	(258)

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

On 22 December 2017, M&A Securities Sdn Bhd on behalf of the Board of Directors of CHB announced that the Company intends to undertake a proposed private placement of up to 586,929,400 new ordinary shares in CHB representing up to 25% of the issued shares in CHB.

On 26 January 2018, on behalf of the Board of Directors of the Company, M&A Securities Sdn Bhd announced that the listing application for the Proposed Private Placement has been submitted to Bursa Malaysia Securities Berhad.

20. Utilisation of proceed

On 30 October 2017, 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.

The actual utilisation of proceed of Private Placement taken place on 30 October 2017 as follows:

		Announcement @ 23.05.17 @ RM 7,470,000.00		Received @ 30.10.17 @ RM 4,908,864.70		Actual Utilisation Utilisation of Proceeds	
No	Items	RM	%	RM	%	RM	%
1	Repayment to Trade Creditors	2,235,000.00	0.30	1,468,716.55	0.30	1,231,598.23	0.25
2	Repayment of borrowings	5,000,000.00	0.67	3,285,719.34	0.67	3,590,000.00	0.73
3	Estimate expenses for PP	235,000.00	0.03	154,428.81	0.03	87,266.47	0.02
		7,470,000.00	**1.00**	**4,908,864.70**	**1.00**	**4,908,864.70**	**1.00**

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21. Borrowings and Debt Securities

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

	As at 31 Dec 2017 RM'000		As at 31 Dec 2016 RM'000
Short term borrowings – secured			
- banker's acceptance & bank overdraft	1,874		-

22. Realised and Unrealised (Losses)/Profit Disclosure

	31 Dec 2017 RM'000	31 Dec 2016 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(48,497)	(19,969)
Unrealised	94,349	94,686
	45,852	74,717
Less: Consolidation adjustments	(9,936)	(32,832)
Total retained earnings	35,916	41,885

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 Dec 2017.

25. Material events during the quarter

On 28 November 2017, M&A Securities Sdn Bhd, on behalf of the Board of Directors of CHB announced that CHB through its wholly-owned subsidiary, Compugates Development and Mining Sdn Bhd has entered into a conditional joint venture agreement with Jade Classic Sdn Bhd, to jointly develop a parcel of agriculture land measuring 25.09 hectares identified as Lot No. 47954, Title No. PN 98100, Mukim of Dengkil, District of Sepang ("Proposed Development").

On 13 December 2017, the Board of Directors of CHB announced that its sub-subisidary, CDMSB has on 13 December 2017 received a letter from Lembaga Lebuhraya Malaysia dated 12 December 2017, informing that based on the land acquisition plan received from MEX II Sdn Bhd, CDMSB's Land is affected by the construction of Lebuhraya MEX2. However, the details and related plans would only be given to CDMSB after the Land Acquisition Plan has been published in the Gazette under Section 8, Land Acquisition Act 1960.

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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 Dec 2017	Corresponding Quarter Ended 31 Dec 2016	Current Year To Date 31 Dec 2017	Corresponding Period Ended 31 Dec 2016
Profit / (loss) attributable to equity holders of parent (RM'000)	(978)	(2,396)	(6,635)	(6,222)
Number of ordinary shares in issue ('000) - RM0.02 (FY2016:RM0.10) each	2,347,718	2,134,289	2,347,718	2,134,289
Basic profit / (loss) per share (sen)	(0.04)	(0.11)	(0.28)	(0.29)

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.

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27. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 31 Dec 2017 RM'000	Corresponding Quarter Ended 31 Dec 2016 RM'000	Current Year To Date 31 Dec 2017 RM'000	Corresponding Period Ended 31 Dec 2016 RM'000
Bad debts written off	-	491	-	491
Depreciation of property and equipment	223	239	925	956
(Gain)/Loss Disposal Equipment	-	-	-	-
Inventories written off	-	*	-	*
Impairment loss on:				
- trade receivables	6	(419)	131	91
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	-
Unrealised gain on foreign exchange	*	(54)	*	5
Realised gain on foreign exchange	-	-	-	-
Write-back of impairment loss on trade receivables	(4)	(49)	(169)	(801)
Interest expense	2	16	19	392
Interest income	(14)	(12)	(25)	(185)

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 Dec 2017 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 26 February 2018 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date : 26 February 2018