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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

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 2017. 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 2017.

2. Changes in Accounting Policies

At the beginning of the current financial year, the Group and the Company adopted FRS and amendments to FRSs which are mandatory for the financial periods beginning on or after 1 January 2018.

Initial application of the amendments/improvements to standards did not have material impact to the financial statements.

Standards issued but not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the Malaysian Accounting Standards Board (“MASB”) but are not yet effective, and have not been early adopted by the Group and the Company.

Management anticipates that all relevant pronouncements will be adopted in the Group’s and in the Company’s accounting policies for the first period beginning after the effective date of pronouncement. Information on new standards, amendments and interpretations that are expected to have impact on the Group’s and the Company’s financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group’s and Company’s financial statements.

Malaysian Financial Reporting Standards ("MFRSs")

To converge with International Financial Reporting Standards ("IFRSs") in 2012, the 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 exceptions of entities that are within the scope of MFRS 141 Agriculture and MFRS 15 Revenue from Contracts with Customers for Construction, including its parents, significant investor and venture ("Transitioning Entities").

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

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

In presenting its first MFRS financial statements, the Group and the Company will be required to restate their 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 retained earnings/(accumulated losses).

The Group and the Company expect to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2018. The initial application of the MFRS Framework is not expected to have any financial impact to the financial statements.

The Group and the Company have not applied the following MFRS that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group and the Company:

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

MFRS 9	Financial Instruments IFRS 9 issued by International Accounting Standards Board ("IASB") in July 2014
MFRS 15*	Revenue from Contracts with Customers
MFRS 15*	Classification to MFRS 15
Amendments to MFRS 2*#	Share-based Payment: Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4*#	Insurance Contracts: Applying MFRS 9 Financial Instruments with FRS 4 Insurance Contracts
Amendments to MFRS 7	Financial Instruments – Disclosure: Mandatory effective date of MFRS 9 and transitional disclosures
Amendments to MFRS 140*#	Investment Property: Transfers of Investment Property
Annual Improvements to FRS Standard 2014-2016 Cycle (except for Amendments to MFRS 12 Disclosure of Interest in Other Entities)*	
IC Interpretation 22*	Foreign Currency Transaction and Advance Consideration

Malaysian Financial Reporting Standards ("MFRSs")(cont'd)

MFRS, Amendments to MFRSs and IC Interpretation effective 1 January 2019:

MFRS 16*	Leases
IC Interpretation 23*	Uncertainty Over Income Tax Treatments
Amendments to MFRS 9*#	Prepayment Features with Negative Compensation
Amendments to MFRS 119*#	Employee Benefits
Amendments to MFRS 128*#	Long-term Interests in Associates and Joint Ventures
Annual Improvements to MFRS standards 2015-2017 Cycle*	

MFRS effective 1 January 2021:

MFRS 17*#	Insurance Contracts

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

MFRS 10* and MFRS 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:

MFRS 9 Financial Instruments

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. MFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group and the Company plan to adopt the new standard on the required effective date and will not restate comparative information. During 2017, The Group and the Company have performed a high-level impact assessment of all three aspects of MFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group and the Company in 2018 when the Group and the Company will adopt MFRS 9. Overall, the Group and the Company expect no significant impact on its statements of financial position and equity.

Malaysian Financial Reporting Standards (“MFRSs”)(cont’d)

MFRS 9 Financial Instruments (cont’d)

(i) Impairment of financial assets

MFRS 9 requires the Group and the Company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Group and the Company will apply the simplified approach and record lifetime expected losses on the trade receivables. The Group and the Company have determined that the loss allowance adjustment is insignificant to the financial statements.

In summary, the Group and the Company expect no significant impact in MFRS 9 adoption.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under MFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

(i) Sale of goods

For contracts with customers in which the sale of equipment is generally expected to be the only performance obligation, adoption of MFRS 15 is not expected to have any impact on the Group’s revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In preparing to adopt MFRS 15, the Group considers the following:

Variable consideration

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under MFRS 15 and will be required to be estimated at contract inception and update thereafter.

Malaysian Financial Reporting Standards ("MFRSs")(cont'd)

MFRS 15 Revenue from Contracts with Customers (cont'd)

Variable consideration (cond't)

MFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group expects that application of the constraint will result in more revenue being deferred than under current MFRS.

Rights of return

When a contract with a customer provides a right to return the goods within the specified period, the Group currently accounts for the right of return using the probability-weighted average amount of return approach similar to the expected value method under MFRS 15. Under the current accounting policy, the amounts of revenue related to the expected returns is deferred and recognised in the statements of financial position within trade and other payables. A corresponding adjustment is made to the cost of sales. The initial carrying amount of goods expected to be returned is included within inventories.

Under MFRS 15, because the contract allows the customer to return the products, the consideration received from the customer is variable. The Group has decided to use the expected value method to estimate the goods that will be returned because this method better predicts the amount of variable consideration to which the Group will be entitled. The Group will apply the requirements in MFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. Under MFRS 15, the Group presents a refund liability and an asset for the right to recover products from a customer separately in the statements of financial position.

Volume rebates

The Group provides retrospective volume rebates to its customers on all products purchased by the customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Under its existing accounting policy, the Group estimates the expected volume rebates using the probability-weighted average amount of rebates approach. These amounts may subsequently be repaid in cash to the customers or are offset against amounts payable by customers.

Under MFRS 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group considered that the most likely amount method better predicts the amount of variable consideration for contracts with only a single volume threshold while for contracts with more than one volume threshold it would apply either the expected value method or the most likely amount method, depending on which of them better predicts the amount of variable consideration for the particular type of contract.

Malaysian Financial Reporting Standards ("MFRSs")(cont'd)

MFRS 15 Revenue from Contracts with Customers (cont'd)

(ii) Presentation and disclosure requirements

The presentation and disclosure requirements in MFRS 15 are more detailed than under current MFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in MFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant.

(iii) Other adjustments

The recognition and measurement requirements in MFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property, plant and equipment), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group

MFRS 16 Leases

MFRS 16 replaces MFRS 117 Leases. MFRS 16 eliminates the distinction between finance and operating leases for lessees. As off-balance sheet will no longer be allowed except for some limited practical exemptions, all leases will be brought onto the statement of financial position by recognising a "right-of-use" asset and a lease liability. In other words, for a lessee that has material operating leases, the assets and liabilities reported on its statement of financial position are expected to increase substantially.

MFRS 16 also:

- changes the definition of a lease,
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods,
- changes the accounting for sale and leaseback arrangements,
- largely retains MFRS 117's approach to lessor accounting, and
- introduces new disclosure requirements.

The adoption of MFRS 16 will result in a change in accounting policy. The Group is currently assessing the financial impact of adopting MFRS 16.

3. Status of Audit Opinions

The auditors' report on the financial statements for the financial year ended 31 December 2017 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.

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

	Current Year Quarter Ended 31 Mar 2018 RM'000	Corresponding Quarter Ended 31 Mar 2017 RM'000	Current Year To Date 31 Mar 2018 RM'000	Corresponding Period Ended 31 Mar 2017 RM'000
SEGMENT REVENUE				
Trading & Service	4,645	8,791	4,645	8,791
Agriculture & Energy	1	2	1	2
Property	-	-	-	-
	4,646	8,793	4,646	8,793
Inter-segment sales	-	-	-	-
TOTAL	4,646	8,793	4,646	8,793

	Current Year Quarter Ended 31 Mar 2018 RM'000	Corresponding Quarter Ended 31 Mar 2017 RM'000	Current Year To Date 31 Mar 2018 RM'000	Corresponding Period Ended 31 Mar 2017 RM'000
SEGMENT RESULTS				
Trading & Service	(1,076)	(695)	(1,076)	(695)
Agriculture & Energy	(505)	(1,230)	(505)	(1,230)
Property				
	(1,581)	(1,925)	(1,581)	(1,925)

The Group registered revenue of approximately RM4.6 million for the quarter ended 31 Mar 2018, which was approximately RM4.1 million lower as compared to the preceding year corresponding quarter ended 31 Mar 2017 of approximately RM8.8 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

There were no recurrent related party transactions ("RRPT") enter during the current quarter under review and financial year-to-date.

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 3 May 2018, the Board of Directors of Compugates announced that its sub-subsidiary, Compugates Development and Mining Sdn Bhd (CDMSB) had on 2 May 2018 received an email from Lembaga Lebuhraya Malaysia informing that the land affected by the construction of Lebuhraya MEX 2 has been gazetted under Section 8 of the Land Acquisition Act 1960, on 12 April 2018. The Department of Director General of Lands and Mines had subsequently issued an E Form notice to CDMSB which was received by the Company on 23 May 2018 for a hearing on 12 June 2018.

14. Capital Commitment

The Group has no capital commitment as of 31 Mar 2018.

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 Mar 2018	31 Mar 2017	RM	%	31 Mar 2018	31 Mar 2017	RM	%
Revenue	4,646	8,793	(4,147)	*47.2*	4,646	8,793	(4,147)	*47.2*
Operating Losses	(1,601)	(1,925)	324	*16.8*	(1,601)	(1,925)	324	*16.8*
Loss Before Interest & Tax	(1,601)	(1,925)	324	*16.8*	(1,601)	(1,925)	324	*16.8*
Loss Before Tax	(1,621)	(1,970)	349	*17.7*	(1,621)	(1,970)	349	*17.7*
Loss After tax	(1,581)	(1,925)	344	*17.9*	(1,581)	(1,925)	344	*17.9*
Loss attributable to ordinary equity holder of the parent	(1,390)	(1,742)	352	*20.2*	(1,390)	(1,742)	352	*20.2*

The Group registered revenue of approximately RM4.6 million for the current quarter and current year to date ended 31 Mar 2018, which was approximately RM4.1 million lower as compared to the preceding year corresponding quarter and year to date ended 31 Mar

15. Detailed Performance Analysis (cont'd)

2017 of approximately RM8.8 million. This was mainly attributed to the weak market sentiment and management's focus on good pay master customers to mitigate credit risk.

The Group recorded a loss before taxation ("LBT") during the current quarter and current year to date ended 31 Mar 2018 of approximately RM1.6 million which was approximately RM 0.3 million lower as compared to the preceding year corresponding quarter and year to date ended 31 Mar 2017 of approximately RM 2.0 million. Administrative expense especially staff cost decreased enormous of approximately RM 0.4M due to implementation of VSS in Quarter 3 of FYE 2017.

The Group recorded a loss after taxation ("LAT") during the current quarter and year to date ended 31 Mar 2018 of approximately RM 1.6 million which was approximately RM 0.3 million lower as compared to the preceding year corresponding quarter and year to date ended 31 Mar 2017 of approximately RM 1.9 million. The lower LAT was mainly due to decreased in staff cost of approximately RM 0.4 million as a result of implementation of VSS.

	Current Quarter	Immediate Preceding Quarter	Changes	
	31 Mar 2018	31 Dec 2017	RM	%
Revenue	4,646	2,595	2,051	79.0
Operating Losses	(1,601)	(1,341)	(260)	19.4
Loss Before Interest & Tax	(1,601)	(1,341)	(260)	19.4
Loss Before Tax	(1,621)	(1,267)	(354)	27.9
Loss After tax	(1,581)	(1,204)	(377)	31.3
Loss attributable to ordinary equity holder of the parent	(1,390)	(978)	(412)	42.1

The Group registered revenue of approximately RM 4.6 million for the quarter ended 31 Mar 2018, which was approximately RM 2.1 million higher as compared to immediate preceding quarter ended 31 Dec 2017 of approximately RM 2.6 million. The higher revenue is mainly attributable to various aggressive promotional activities carried out during the current quarter.

The Group recorded an operating Losses and Loss before interest & tax of approximately RM 1.6 million for the quarter ended 31 Mar 2018, which was approximately RM 0.3 million higher as compared to the immediate preceding quarter ended 31 Dec 2017. The higher loss was due to an absence of approximately RM0.3 million of gain on disposal of fixed asset.

The Group recorded LAT of approximately RM 1.6 million for the quarter ended 31 Mar 2018, which was approximately higher by RM 0.4 million as compared to the immediate

15. Detailed Performance Analysis (cont'd)

preceding quarter ended 31 Dec 2017. The reason for the higher LAT for the current quarter is as mentioned 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 31 Mar 2018 RM'000	Corresponding Quarter Ended 31 Mar 2017 RM'000	Current Year To Date 31 Mar 2018 RM'000	Corresponding Period Ended 31 Mar 2017 RM'000
Current tax expense:				
- for the quarter	-	-	-	-
Deferred taxation				
- Origination and reversal of temporary differences	(39)	(45)	(39)	(45)
	(39)	(45)	(39)	(45)

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

The Proposed Joint Development with Jade Classic Sdn Bhd to jointly develop a parcel of vacant agriculture land identified as Lot No 47954, Title No. PN98100, Mukim of Dengkil, District of Sepang, Selangor as announced on 28 November 2017 and, the Proposed Private Placement of up to 25% of the issued capital of CHB as announced on 22 December 2017 are on-going and is pending approval from Bursa Securities.

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20. Borrowings and Debt Securities

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

	As at 31 Mar 2018 RM’000	As at 31 Dec 2017 RM’000
Short term borrowings – secured		
- banker's acceptance & bank overdraft	914	1,874

21. Realised and Unrealised (Losses)/Profit Disclosure

	As at 31 Mar 2018 RM'000	As at 31 Dec 2017 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(57,554)	(56,273)
Unrealised	94,373	94,349
	36,819	38,076
Less: Consolidation adjustments	(2,208)	(2,199)
Total retained earnings	34,611	35,877

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 31 Mar 2018.

24. Other matters

Pursuant to Paragraph 9.19(46) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of the Company made the following announcements:

On 15 Mar 2018, it was announced that the Company had undertaken a revaluation on the Land ("Revaluation") held by its wholly-owned subsidiary, Compugates Development and Mining Sdn Bhd on an "as is" basis. The Revaluation was carried out to reflect the fair value of the Land in the financial statements of the Group for the financial year ended

31 December 2017. The Revaluation is in compliance with Malaysian Financial Reporting Standard 116.

On 17 Apr 2018, it was announced that the Board had undertaken a revaluation of the Leasehold Land ("Revaluation") held by its wholly-owned subsidiary, Selama Muda Jaya Sdn Bhd pursuant to the accounting policy adopted. As a result, the Board of Compugates has approved the incorporation of a revaluation surplus (net of deferred tax) of RM0.74 million into the financial statements of Compugates for the financial year ended 31 December 2017.

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 31 Mar 2018	Corresponding Quarter Ended 31 Mar 2017	Current Year To Date 31 Mar 2018	Corresponding Period Ended 31 Mar 2017
Profit / (loss) attributable to equity holders of parent (RM'000)	(1,390)	(1,742)	(1,390)	(1,742)
Number of ordinary shares in issue ('000) (FY2016:RM0.10) each	2,347,718	2,134,289	2,347,718	2,134,289
Basic profit / (loss) per share (sen)	(0.06)	(0.08)	(0.06)	(0.08)

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 31 Mar 2018 RM'000	Corresponding Quarter Ended 31 Mar 2017 RM'000	Current Year To Date 31 Mar 2018 RM'000	Corresponding Period Ended 31 Mar 2017 RM'000
Bad debts written off	-	-	-	-
Depreciation of property and equipment	220	238	220	238
(Gain)/Loss Disposal Equipment	-	-	-	-
Inventories written off	-	*	-	*
Impairment loss on:				
- trade receivables	1	96	1	96
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	-
Unrealised gain on foreign exchange	27	*	27	*
Realised gain on foreign exchange	-	-	-	-
Write-back of impairment loss on trade receivables	(4)	(38)	(4)	(38)
Interest expense	19	46	19	46
Interest income	(1)	(13)	(1)	(13)

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 31 Mar 2018 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 24 May 2018 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date: 24 May 2018