

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2019

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 MFRSs – Malaysian Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018. 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 2018.

2. Changes in Accounting Policies

The accounting policies adopted in these interim financial report are consistent with the audited consolidated financial statements for the financial year ended 31 December 2018, except for the adoption of the following MFRSs and Amendments to MFRSs, if applicable during the current financial year:

Effective for annual periods beginning on or after 1 January 2019.

- MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)
- MFRS 16 Leases
- MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)
- Annual Improvements to MFRS Standards 2015 – 2017 Cycle
- IC Interpretation 23 Uncertainty over Income Tax Treatments
- MFRS 119 Plan Amendment, Curtailment or settlement (Amendments to MFRS 119)

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.

Compugates Holdings Berhad

(Company No. 669287 - H)

(Incorporated in Malaysia)

Standards issued but not yet effective (cont'd)

Amendments to MFRSs and Amendments to References to the Conceptual Framework on MFRS Standards effective 1 January 2020:-

Amendments to MFRS Business Combinations

3

Amendments to MFRS Presentation of Financial Statements

101

Amendments to MFRS Accounting Policies, Changes in Accounting Estimates and Errors

108

Amendments to References to the Conceptual Framework on MFRS Standards (MFRS 2*#, 3, 6*#, 14*#, 101, 108, 134*#, 137, 138*# and IC Interpretation 12*#, 19*#, 20*, 22*#, 132*#)

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 Consolidated Financial Statements and Investment in Associate and Joint Venture: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

128*#

* Not applicable to the Company's operation

Not applicable to the Group's operations

The initial application of the above standards, amendments/improvement to standards are not expected to have any significant financial impacts to the financial statements, except for:

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 statements of financial position by recognising a "right-of-use" asset and a lease liability. In other words, for a lessee that material operating leases, the assets and the liabilities reported on the statements of financial position are expected to increase substantially.

The initial application of the above standards, amendments/improvement to standards are not expected to have any significant financial impacts to the financial statements, except for (cont'd):-

MFRS 16 Leases

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 account for sale and leaseback arrangements;
- Largely retains MFRS 117's approach to lessor accounting; and
- Introduces new disclosure requirements.

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

Standards issued but not yet effective (cont'd)

The Group plans to adopt the new standard on the required effective date. The initial application of the above standard is not expected to have any material financial impact to the financial statements.

3. Status of Audit Opinions

The auditors' report on the financial statements for the financial year ended 31 December 2018 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.

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

	Current Year Quarter Ended 31 Mar 2019 RM'000	Corresponding Quarter Ended 31 Mar 2018 RM'000	Current Year To Date 31 Mar 2019 RM'000	Corresponding Period Ended 31 Mar 2018 RM'000
SEGMENT REVENUE				
Trading & Service	3,362	4,645	3,362	4,645
Agriculture & Energy	1	1	1	1
Property	-	-	-	-
	3,363	4,646	3,363	4,646
Inter-segment sales	-	-	-	-
TOTAL	3,363	4,646	3,363	4,646
	Current Year Quarter Ended 31 Mar 2019 RM'000	Corresponding Quarter Ended 31 Mar 2018 RM'000	Current Year To Date 31 Mar 2019 RM'000	Corresponding Period Ended 31 Mar 2018 RM'000
SEGMENT RESULTS				
Trading & Service	(878)	(1,076)	(878)	(1,076)
Agriculture & Energy	(540)	(505)	(540)	(505)
Property	-	-	-	-
	(1,418)	(1,581)	(1,418)	(1,581)

The Group registered revenue of approximately RM3.4 million for the quarter ended 31 Mar 2019, which was approximately RM1.3 million lower as compared to the preceding year corresponding quarter ended 31 Mar 2018 of approximately RM4.6 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.

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

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 08 May 2019, the Board of Directors of Compugates announced that Compugates Development & Mining Sdn Bhd (“CDMSB”) has on 8 May 2019 served a letter to formally terminate the Joint Venture Agreement (“JVA”) dated 18 August 2015 entered into with Main Uptown Sdn Bhd (“MUSB”).

On 10 May 2019, the Board of Directors of Compugates provided the following additional information in respect of the termination of the JVA dated 18 August 2015 between CDMSB and MUSB:

1. The Condition Precedents in the JVA that caused the termination are as follows:-

- a) Failure to file the necessary application to obtain the development order within six (6) months from the date of the JVA; and
- b) To obtain the development order within two (2) years from the date of MUSB’s submission in (a) above which includes the following expressly stated in the JVA:
 - i) Subdivision approval for the subdivision of the Land;
 - ii) Layout plan approval for the layout plan for the purposes of the Project;
 - iii) Building plan approval or first building plan approval where the Project is developed in phases;
 - iv) Development Order for the Project; and
 - v) Consent in writing from relevant authorities for road access.

2. The clauses in the JVA that gave the right to CDMSB to terminate the JVA are Clause 4.04 of the JVA and Clause 1.3 of the Second Schedule of the JVA.

3. Pursuant to the JVA, CDMSB as land owner is not expected to incur or commit any expenses/liabilities in relation to the project development. As such, as at to date, there is minimal financial impact to the Group operationally.

On 23 May 2019, the Board of Directors of Compugates announced that the Company has fixed the issue price of Tranche 1 of the Placement Shares at RM0.0225 per Placement Share to be issued pursuant to the Private Placement.

The aforementioned issue price of RM0.0225 per Placement Share represents a discount of approximately RM0.0025 or 10% from the 5-day weighted average market price of CHB from 14 May 2019 to 21 May 2019 of approximately RM0.025 per share.

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

14. Capital Commitment

The Group has no capital commitment as of 31 Mar 2019.

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

15. Detailed Performance Analysis

	Individual Period (4 th quarter)				Cumulative Period			
	Current Year Quarter	Preceding Year Correspond- ing Quarter	Changes		Current Year To Date	Preceding Year Correspond- ing Period	Changes	
	31 Mar 2019	31 Mar 2018	RM	%	31 Mar 2019	31 Mar 2018	RM	%
Revenue	3,363	4,646	(1,283)	27.6	3,363	4,646	(1,283)	27.6
Operating Losses	(1,505)	(1,601)	96	6.0	(1,505)	(1,601)	96	6.0
Loss Before Interest & Tax	(1,505)	(1,601)	96	6.0	(1,505)	(1,601)	96	6.0
Loss Before Tax	(1,462)	(1,621)	159	9.8	(1,462)	(1,621)	159	9.8
Loss After tax	(1,418)	(1,581)	163	10.3	(1,418)	(1,581)	163	10.3
Loss attributable to ordinary equity holder of the parent	(1,383)	(1,390)	7	0.5	(1,383)	(1,390)	7	0.5

The Group registered revenue of approximately RM3.4 million for the current quarter and current year to date ended 31 Mar 2019, which was approximately RM1.3 million lower as compared to the preceding year corresponding quarter and year to date ended 31 Mar 2018 of approximately RM4.6 million. This was mainly attributed to the weak market sentiment.

The Group recorded a loss before taxation (“LBT”) during the current quarter and current year to date ended 31 Mar 2019 of approximately RM1.5 million which was approximately RM 0.1 million lower as compared to the preceding year corresponding quarter and year to date ended 31 Mar 2018 of approximately RM 1.6 million. The lower LBT was mainly due to the decrease in amortization expenses of approximately RM 0.2 million as a result from reclassification of property, plant and equipment to land held for property development in Quarter4 for Financial Year Ended (“FYE”) 2018.

The Group recorded a loss after taxation (“LAT”) during the current quarter and year to date ended 31 Mar 2019 of approximately RM 1.4 million which was approximately RM 0.2 million lower as compared to the preceding year corresponding quarter and year to

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

15. Detailed Performance Analysis (cont'd)

date ended 31 Mar 2018 of approximately RM 1.6 million. The reason for the lower LAT for the current quarter is as per the explanation mentioned above for LBT.

	Current Quarter	Immediate Preceding Quarter	Changes	
	31 Mar 2019	31 Dec 2018	RM	%
Revenue	3,363	4,524	1,161	25.7
Operating Losses	(1,505)	(141)	(1,364)	967.4
Loss Before Interest & Tax	(1,505)	(141)	(1,364)	967.4
Loss Before Tax	(1,462)	(54)	(1,408)	2607.4
Loss After tax	(1,418)	(577)	(841)	145.8
Loss attributable to ordinary equity holder of the parent	(1,383)	(1,495)	(112)	7.5

The Group registered revenue of approximately RM 3.4 million for the quarter ended 31 Mar 2019, which was approximately RM 1.2 million lower as compared to immediate preceding quarter ended 31 Dec 2018 of approximately RM 4.5 million. The lower revenue is mainly due to weak market sentiment and stiff competition from online purchases by consumers who tend to bypass intermediaries (namely distributors or middleman) to make their purchases online at the cheapest costs.

The Group recorded an operating losses or loss before interest & tax of approximately RM 1.5 million for the quarter ended 31 Mar 2019, which was approximately RM 1.4 million higher as compared to the immediate preceding quarter ended 31 Dec 2018. The higher loss was mainly attributed by absence of other income which amounted to approximately RM 3.7 million derived from gain on partial disposal of the land held for property development purposes via compulsory land acquisition.

However, this is mitigated by the decrease in staff cost of approximately of RM 2.6 million, a lower reversal of the provision of doubtful debt by approximately RM 0.1 million due to more effective credit control and a reversal of unwinding interest of approximately RM 0.1 million.

The Group recorded LAT of approximately RM 1.4 million for the quarter ended 31 Mar 2019, which was approximately higher by RM 0.8 million as compared to the immediate preceding quarter ended 31 Dec 2018. The reason for the higher LAT for the current quarter is as mentioned above and absence of provision of tax approximately RM 0.6 million.

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

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 2019 RM'000	Corresponding Quarter Ended 31 Mar 2018 RM'000	Current Year To Date 31 Mar 2019 RM'000	Corresponding Period Ended 31 Mar 2018 RM'000
Current tax expense:				
- for the quarter	-	-	-	-
Deferred taxation				
- Origination and reversal of temporary differences	(44)	(39)	(44)	(39)
	<u>(44)</u>	<u>(39)</u>	<u>(44)</u>	<u>(39)</u>

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 17 May 2019, the Board of Directors of Compugates announced that the application for planning permission (Development Order) for the joint development of a parcel of agriculture land measuring 25.09 hectares identified as Lot No. 47954, Title No. PN 98100, Mukim of Dengkil, District of Sepang, Selangor has been submitted on that day to Jabatan Perancang Bandar, Majlis Perbandaran Sepang by Jade Classic Sdn Bhd.

The proposed ratification of the utilisation of proceeds pursuant to the Joint Development with Jade Classic Sdn Bhd and the proposed variation to the utilisation of proceeds to be raised from the Private Placement has been approved during the EGM ("Extraordinary General Meeting") on 28 May 2019.

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

20. Borrowings and Debt Securities

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

	As at 31 Mar 2019 RM'000	As at 31 Dec 2018 RM'000
Short term borrowings – secured - Loans from director and CEO / bank	2,034	2,227

21. Realised and Unrealised (Losses)/Profit Disclosure

	As at 31 Mar 2019 RM'000	As at 31 Dec 2018 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(68,746)	(67,488)
Unrealised	94,346	94,364
	25,600	26,876
Less: Consolidation adjustments	3,552	3,517
Total retained earnings	29,152	30,393

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 2019.

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

24. Other Matters

On 26 March 2019, the Board of Directors of Compugates announced that Compugates Development & Mining Sdn Bhd (“CDMSB”) has filed an originating summons against Main Uptown Sdn Bhd (“MUSB”) in Shah Alam High Court for a declaration that CDMSB is entitled to the full compensation amounting to RM9,397,400 awarded as a result of the compulsory acquisition of 0.9892 hectares of the land held under H.S (D) 13828, PT 26800 (Lot 30729), Mukim Dengkil, Daerah Sepang and for the entire compensation to be released to CDMSB.

On 27 March 2019, the Board of Directors of Compugates provided the additional information in respect of the originating summons filed against MUSB in Shah Alam High Court (“Court”).

The land administrator had ordered the compensation sum of RM9,397,400 to be deposited into the Court because there is a caveat on the Land by MUSB as seen in Borang H. The caveat was entered by reason of the Joint Venture Agreement (“JVA”). As such, CDMSB has to file this claim to the Court to obtain an order that the compensation paid to the Court rightfully belongs to CDMSB as the Land Owner, and MUSB has no right to the compensation sum paid by reasons of the terms of the JVA.

On 18 Apr 2019, the Board of Directors of Compugates Holdings Berhad (“Compugates” or “the Company”) announced that the Company intends to seek its shareholders' approval for the proposed adoption of the new Constitution of the Company at the forthcoming Fourteenth Annual General Meeting of the Company to be convened.

The proposed adoption of a new Constitution in place of its existing Memorandum and Articles of Association of the Company in its entirety is to be in line with the new Companies Act 2016 which came into force on 31 January 2017 and relevant amendments to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The proposed new Constitution was despatched in due course to the shareholders of the Company together with the Annual Report of the Company for the financial year ended 31 December 2018.

The proposed new constitution has been approved during the AGM (“Annual General Meeting”) on 28 May 2019.

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

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 2019	Corresponding Quarter Ended 31 Mar 2018	Current Year To Date 31 Mar 2019	Corresponding Period Ended 31 Mar 2018
Profit / (loss) attributable to equity holders of parent (RM'000)	(1,383)	(1,390)	(1,383)	(1,390)
Number of ordinary shares in issue ('000) (FY2016:RM0.10) each	2,347,718	2,347,718	2,347,718	2,347,718
Basic profit / (loss) per share (sen)	(0.06)	(0.06)	(0.06)	(0.06)

The diluted profit / (loss) per share is equivalent to basic profit / (loss) per share as there were no potential ordinary shares outstanding which are dilutive in nature at the end of reporting period.

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

26. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 31 Mar 2019 RM'000	Corresponding Quarter Ended 31 Mar 2018 RM'000	Current Year To Date 31 Mar 2019 RM'000	Corresponding Period Ended 31 Mar 2018 RM'000
Bad debts written off	-	-	-	-
Depreciation of property and equipment	74	220	74	220
(Gain)/Loss Disposal Equipment	-	-	-	-
Inventories written off	-	-	-	-
Impairment loss on:				
- trade receivables	*	1	*	1
- 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	1	(4)	1	(4)
Interest expense	48	19	48	19
Interest income	-	(1)	-	(1)

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*

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

27. Authorisation

This interim financial report for the financial period ended 31 Mar 2019 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 28 May 2019 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date: 28 May 2019