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

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

Standards issued but not yet effective (cont'd)

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

Amendments to MFRS 3	Business Combinations
Amendments to MFRS 101	Presentation of Financial Statements
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors

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 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/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.

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 no 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.

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

	Current Year Quarter Ended 30 Jun 2019 RM'000	Corresponding Quarter Ended 30 Jun 2018 RM'000	Current Year To Date 30 Jun 2019 RM'000	Corresponding Period Ended 30 Jun 2018 RM'000
SEGMENT REVENUE				
Trading & Service	504	5,068	3,866	9,713
Agriculture & Energy	6	3	6	4
Property	-	-	-	-
	509	5,071	3,873	9,717
Inter-segment sales	-	-	-	-
TOTAL	509	5,071	3,873	9,717

	Current Year Quarter Ended 30 Jun 2019 RM'000	Corresponding Quarter Ended 30 Jun 2018 RM'000	Current Year To Date 30 Jun 2019 RM'000	Corresponding Period Ended 30 Jun 2018 RM'000
SEGMENT RESULTS				
Trading & Service	(1,104)	(1,398)	(1,982)	(2,474)
Agriculture & Energy	(731)	(511)	(1,271)	(1,016)
Property	-	-	-	-
	(1,835)	(1,909)	(3,253)	(3,490)

The Group registered revenue of approximately RM0.5 million for the quarter ended 30 June 2019, which was approximately RM4.6 million lower as compared to the preceding year corresponding quarter ended 30 June 2018 of approximately RM5.1 million. The lower revenue was mainly decrease from 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 12 July 2019, the Board of Directors of Compugates announced that the Company has fixed the issue price of Tranche 2 of the Placement Shares at RM0.018 per Placement Share to be issued pursuant to the Private Placement.

The aforementioned issue price of RM0.018 per Placement Share represents a discount of approximately RM0.0017 or 8.63% from the 5-day weighted average market price of CHB from 5 July 2019 to 11 July 2019 of approximately RM0.0197 per share.

14. Capital Commitment

The Group has no capital commitment as of 30 June 2019.

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

15. Detailed Performance Analysis

	Individual Period (2nd quarter)				Cumulative Period			
	Current Year Quarter	Preceding Year Corresponding Quarter	Changes		Current Year To Date	Preceding Year Corresponding Period	Changes	
	30 June 2019	30 June 2018	RM	%	30 June 2019	30 June 2018	RM	%
Revenue	509	5,071	(4,562)	*89.9*	3,873	9,717	(5,844)	*60.1*
Operating Losses	(1,715)	(1,889)	174	*9.2*	(3,220)	(3,489)	269	*7.7*
Loss Before Interest & Tax	(1,715)	(1,889)	174	*9.2*	(3,220)	(3,489)	269	*7.7*
Loss Before Tax	(1,878)	(1,950)	72	*3.7*	(3,340)	(3,570)	230	*6.4*
Loss After tax	(1,835)	(1,909)	74	*3.9*	(3,253)	(3,490)	237	*6.8*
Loss attributable to ordinary equity holder of the parent	(1,746)	(1,718)	28	*1.6*	(3,129)	(3,107)	22	*0.7*

15. Detailed Performance Analysis (cont'd)

The Group registered revenue of approximately RM0.5 million for the current quarter ended 30 June 2019, which was approximately RM4.6 million lower as compared to the preceding year corresponding quarter ended 30 June 2018 of approximately RM5.1 million. This was mainly due to weak market sentiment and an engrossment of e-commerce which promote online purchases who tend to bypass intermediaries (namely distributors or retailer) for convenient and cost saving purposes.

The Group recorded a loss before taxation ("LBT") during the current quarter ended 30 June 2019 of approximately RM1.9 million which was approximately RM 0.1 million lower as compared to the preceding year corresponding quarter ended 30 June 2018 of approximately RM 2.0 million. The lower LBT was mainly due to the decrease in amortization expenses of approximately RM 0.1 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 ended 30 June 2019 of approximately RM 1.8 million which was approximately RM 0.1 million lower as compared to the preceding year corresponding quarter ended 30 June 2018 of approximately RM 1.9 million. The reason for the lower LAT for the current quarter is as per the explanation mentioned above for LBT.

The Group registered revenue of approximately RM3.9 million for the current year to date ended 30 June 2019, which was approximately RM5.8 million lower as compared to the preceding year to date ended 30 June 2018 of approximately RM 9.7 million. The reason for lower revenue is similar to the factors mentioned above.

The Group recorded a loss before taxation ("LBT") during the current year to date ended 30 June 2019 of approximately RM3.3 million which was approximately RM 0.3 million lower as compared to the preceding year to date ended 30 June 2018 LBT of approximately RM 3.6 million. The current year to date lower LBT and operating losses are mainly due to the decrease in amortization expenses of approximately RM 0.3 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 year to date ended 30 June 2019 of approximately RM3.3 million as compared to the preceding year to date ended 30 June 2018 LAT of approximately RM 3.5 million. The reason for lower LAT and operating losses for current year to date is same as the explanation mentioned above for LBT year to date.

15. Detailed Performance Analysis (cont'd)

	Current Quarter	Immediate Preceding Quarter	Changes	
	30 June 2019	**31 Mar 2019**	**RM**	**%**
Revenue	509	3,363	(2,854)	84.9
Operating Losses	(1,715)	(1,505)	(210)	14.0
Loss Before Interest & Tax	(1,715)	(1,505)	(210)	14.0
Loss Before Tax	(1,878)	(1,462)	(416)	28.5
Loss After tax	(1,835)	(1,418)	(417)	29.4
Loss attributable to ordinary equity holder of the parent	(1,746)	(1,383)	(363)	26.2

The Group registered revenue of approximately RM 0.5 million for the quarter ended 30 June 2019, which was approximately RM 2.9 million lower as compared to immediate preceding quarter ended 31 Mar 2019 of approximately RM 3.4 million. The lower revenue was mainly due to lower sales contribution from consumables (e.g. printer ink cartridges, toners and drums), hardware products (e.g. printers and scanners) as well as imaging products (e.g. camera and accessories).

The Group recorded an operating losses or loss before interest & tax of approximately RM 1.7 million for the quarter ended 30 June 2019, which was approximately RM 0.2 million higher as compared to the immediate preceding quarter ended 31 Mar 2019. The higher loss was mainly due to paid out of director fees for a subsidiary of approximately RM 0.2 million.

The Group recorded LAT of approximately RM 1.8 million for the quarter ended 30 June 2019, which was approximately higher by RM 0.4 million as compared to the immediate preceding quarter ended 31 Mar 2019 of approximately RM 1.4 million. The higher LAT for the current quarter was mainly due to increased in administrative expenses of approximately RM 0.3 million and others operation expenses of approximately RM 0.1 million.

16. Current Year Prospect

The Board is of the view that, barring any unforeseen circumstances, the trading and distribution business is expected to remain very challenging given the competitive market. 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 Jun 2019 RM'000	Corresponding Quarter Ended 30 Jun 2018 RM'000	Current Year To Date 30 Jun 2019 RM'000	Corresponding Period Ended 30 Jun 2018 RM'000
Current tax expense:				
- for the quarter	-	-	-	-
Deferred taxation				
- Origination and reversal of temporary differences	(44)	(41)	(87)	(80)
	(44)	(41)	(87)	(80)

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

On 10 May 2019, The Board of Directors of Compugates provided the following additional information in respect of the termination of the Joint Venture Agreement ("JVA") dated 18 August 2015 between Compugates Development & Mining Sdn Bhd ("CDMSB") and Main Uptown Sdn Bhd ("MUSB"):-

1. That 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;

19. Status of Corporate Proposals (Cont'd)

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.

On 17 May 2019, the Board of Directors of Compugates announced that the Company has submitted the planning permission (Development Order) to Jabatan Perancang Bandar, Masjlid Perbandaran Sepang in relation to the joint development with Jade Classic Sdn Bhd on an agriculture land, measuring 25.09 hectares identified as Lot No. 47954, Title No. PN 98100, Mukim of Dengkil, District of Sepang, Selangor.

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 10.00% from the 5-day weighted average market price of CHB from 14 May 2019 to 21 May 2019 of approximately RM0.025 per share.

On 28 May 2019, the Board of Directors of Compugates announced that an application for extension of time of six (6) months up to 11 December 2019 to complete the Private Placement has been submitted to Bursa Malaysia Securities Berhad on 28 May 2019.

Bursa Securities had vide its letter dated 21 June 2019 resolved to grant the Company an extension of time up to 11 December 2019 to complete the implementation of the Private Placement.

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20. Utilisation of proceed

References is made to the utilisation of proceeds raised from the proposed Private Placement of up to 25% of the issued shares in Compugates Holdings Berhad ('CHB SHARES'), involving up to 586,929,400 new CHB shares.

A summary of the actual utilisation as follows:-

Detail of utilisation	Approved Limit during EGM @ 28.05.2019	Utilisation of 1st Tranche received on 10.06.2019 @ RM 999,999	Balance as at 30.06.2019
Repayment to Advances	2,199,000.00	(679,617.31)	1,519,398.98
Repayment to Creditors	2,528,000.00	(240,340.94)	2,287,677.79
Business working capital			
- Inoculation	920,000.00	-	920,006.82
- A&P	173,000.00	-	173,001.28
Operation Expenses			
- Staff Related expenses	1,625,000.00	-	1,625,012.04
- Sundry Expenses	553,000.00	-	553,004.10
Reserved Fund	5,081,000.00	-	5,081,037.64
Estimate expenses for PP	420,000.00	(74,200.00)	345,803.11
	13,499,000.00	**(994,158.25)**	**12,504,941.75**

21. Borrowings and Debt Securities

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

	As at 30 Jun 2019 RM'000	As at 31 Dec 2018 RM'000
Short term borrowings – secured		
- Loans from director and CEO / bank	2,220	2,227

22. Realised and Unrealised (Losses)/Profit Disclosure

	As at 30 Jun 2019 RM'000	As at 31 Dec 2018 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(70,436)	(67,488)
Unrealised	94,346	94,364
	23,910	26,876
Less: Consolidation adjustments	3,640	3,517
Total retained earnings	27,550	30,393

23. Material Litigation

Save as disclosed below, the Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Board is not aware and does not have any knowledge of any proceedings pending or threatened against the Group, or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of the Group.

CDMSB had on 18 August 2015 entered into a joint venture agreement ("MUSB JVA") with Main Uptown Sdn Bhd ("MUSB"), as the developer, for the joint development of a parcel of leasehold land owned by CDMSB identified as H.S. (D) 13828, PT 26800, Mukim of Dengkil, District of Sepang, Selangor Darul Ehsan, measuring approximately 154,990 square metres ("MUSB JV Land") into a mixed development. On 13 December 2017, CDMSB received a letter from Lembaga Lebuhraya Malaysia informing that based on the land acquisition plan received from MEX II Sdn Bhd, the MUSB JV Land is affected by the construction of Lebuhraya MEX2. Subsequently, on 15 October 2018, CDMSB received a compensation offer of RM9,397,400.00 ("Compensation Sum") for the compulsory acquisition of 0.9892 hectares of the land which was part of the MUSB JV Land and a further sum of RM750,014.25 for incidental costs payable to CDMSB, which CDMSB accepted with objection. The Compensation Sum was paid to the Shah Alam High Court by the land administrator as there is a caveat lodged on the MUSB JV Land by MUSB pursuant to the MUSB JVA.

23. Material Litigation (cont'd)

On 26 March 2019, CDMSB filed an originating summons against MUSB at the Shah Alam High Court for a declaration that CDMSB is entitled to the full Compensation Sum and for the entire Compensation Sum to be released to CDMSB. The matter has been fixed for case management on 16 May 2019. The Company's solicitors has opined that CDMSB has a good chance on its entitlement to the Compensation Sum. In the meantime, CDMSB has on 8 May 2019 served a notice on MUSB to formally terminate the MUSB JVA as MUSB has failed to comply with the terms of the MUSB JVA as MUSB is insisting that though it failed to comply with the conditions precedent, the MUSB JVA is still on-going.

The Court has fixed the matter for decision on 26 September 2019.

However, the forfeiture of the RM3.0 million deposits due to the non-compliance of the JVA is not reflected in the financial statements until the disposal of the case above.

24. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 30 June 2019.

25. Other Matters

There were no other matters entered during the current quarter under review and financial year-to-date.

26. Profit / (Loss) per Share

The profit / (loss) per share is calculated by dividing the Group's loss attributable to equity holders of the parent for the financial period over the number of ordinary shares in issue during the financial period as follows:-

	Current Year Quarter Ended 30 Jun 2019	Corresponding Quarter Ended 30 Jun 2018	Current Year To Date 30 Jun 2019	Corresponding Period Ended 30 Jun 2018
Profit / (loss) attributable to equity holders of parent (RM'000)	(1,746)	(1,718)	(3,129)	(3,107)
Number of ordinary shares in issue ('000) (FY2016:RM0.10) each	2,392,162	2,347,718	2,392,162	2,347,718
Basic profit / (loss) per share (sen)	(0.07)	(0.07)	(0.13)	(0.13)

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 30 Jun 2019 RM'000	Corresponding Quarter Ended 30 Jun 2018 RM'000	Current Year To Date 30 Jun 2019 RM'000	Corresponding Period Ended 30 Jun 2018 RM'000
Bad debts written off	3	-	3	-
Depreciation of property and equipment	74	204	148	424
(Gain)/Loss Disposal Equipment	-	-	-	-
Inventories written off	-	-	-	-
Impairment loss on:				
- trade receivables	68	*	68	1
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	-
Unrealised gain on foreign exchange	*	(3)	*	24
Realised gain on foreign exchange	-	-	-	-
Write-back of impairment loss on trade receivables	*	(2)	1	(5)
Interest expense	71	60	120	79
Interest income	*	(2)	*	(3)

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 30 June 2019 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 29 August 2019 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date: 29 August 2019