Compugates Holdings Berhad
Company No. 200401030779 (669287 - H)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 31 Dec 2019 RM'000	Corresponding Quarter Ended 31 Dec 2018 RM'000	Current Year To Date 31 Dec 2019 RM'000	Corresponding Period Ended 31 Dec 2018 RM'000
SEGMENT REVENUE				
Trading & Service	449	4,524	4,583	19,252
Agriculture & Energy	1	-	7	10
Property	-	-	-	-
	450	4,524	4,590	19,262
Inter-segment sales	-	-	-	-
TOTAL	450	4,524	4,590	19,262

	Current Year Quarter Ended 31 Dec 2019 RM'000	Corresponding Quarter Ended 31 Dec 2018 RM'000	Current Year To Date 31 Dec 2019 RM'000	Corresponding Period Ended 31 Dec 2018 RM'000
SEGMENT RESULTS				
Trading & Service	(2,493)	403	(5,231)	(5,119)
Agriculture & Energy	(1,279)	(980)	(3,053)	(517)
Property	-	-	-	-
	(3,772)	(577)	(8,284)	(5,636)

The Group registered revenue of approximately RM0.5 million for the quarter ended 31 December 2019, which was approximately RM4.0 million lower as compared to the preceding year corresponding quarter ended 31 December 2018 of approximately RM4.5 million. The lower revenue was mainly due to the 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

There were no significant subsequent events taken place for the Group.

14. Capital Commitment

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

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 2019	**31 Dec 2018**	**RM**	**%**	**31 Dec 2019**	**31 Dec 2018**	**RM**	**%**
Revenue	450	4,524	(4,074)	*90*	4,590	19,262	(14,672)	*76*
Operating Losses	(4,140)	(141)	(3,999)	*2836*	(8,616)	(5,174)	(3,442)	*67*
Loss Before Interest & Tax	(4,140)	(141)	(3,999)	*2836*	(8,616)	(5,174)	(3,442)	*67*
Loss Before Tax	(4,254)	(54)	(4,200)	*7778*	(8,898)	(5,234)	(3,664)	*70*
Loss After tax	(3,772)	(577)	(3,195)	*554*	(8,284)	(5,636)	(2,648)	*47*
Loss attributable to ordinary equity holder of the parent	(3,864)	(1,495)	(2,369)	*158*	(8,221)	(5,992)	(2,229)	*37*

15. Detailed Performance Analysis (cont'd)

The Group registered revenue of approximately RM0.5 million for the current quarter ended 31 December 2019, which was approximately RM4.0 million lower as compared to the preceding year corresponding quarter ended 31 December 2018 of approximately RM4.5 million. This was mainly due to the booming of Malaysia's e-commerce industry in conjunction with higher handphone penetration rate, which entails consumer to transacted through online retailers as compared to traditional retailers.

The Group recorded a loss before taxation ("LBT") during the current quarter ended 31 December 2019 of approximately RM4.3 million which was approximately RM4.2 million higher as compared to the preceding year corresponding quarter ended 31 December 2018 of approximately RM0.1 million. The higher LBT was mainly due to an absence of gain on disposal of investment property, compulsory land acquisition compensation and reversal of keyman's insurance with a total of approximately RM4.1 million.

The Group recorded a loss after taxation ("LAT") during the current quarter ended 31 December 2019 of approximately RM3.8 million which was approximately RM3.2 million higher as compared to the preceding year corresponding quarter ended 31 December 2018 of approximately RM0.6 million. The reason for the higher LAT for the current quarter is as per the explanation mentioned above for LBT and is slightly offset by the overprovision of company tax of approximately RM 0.6 million.

The Group registered revenue of approximately RM4.6 million for the current year to date ended 31 December 2019, which was approximately RM14.7 million lower as compared to the preceding year to date ended 31 December 2018 of approximately RM19.3 million. The factors which lead to lower revenue are identical to the factors mentioned above.

The Group recorded a loss before taxation ("LBT") during the current year to date ended 31 December 2019 of approximately RM8.9 million which was approximately RM3.7 million higher as compared to the preceding year to date ended 31 December 2018 LBT of approximately RM5.2 million. The reason for the higher LBT for the current year to date is as per the explanation mentioned above for current quarter LBT. However, it was off-set by decrease in amortization expenses of approximately RM 0.5 million.

The Group recorded a loss after taxation ("LAT") during the current year to date ended 31 December 2019 of approximately RM8.3 million which was approximately RM2.6 million higher as compared to the preceding year to date ended 31 December 2018 LAT of approximately RM5.6 million. The reason for higher LAT and operating losses for current year to date is as per the explanation mentioned above for LBT year to date and reversal of provision of company tax of approximately RM 0.6 million..

15. Detailed Performance Analysis (cont'd)

	Current Quarter	Immediate Preceding Quarter	Changes	
	31 Dec 2019	**30 Sep 2019**	**RM**	**%**
Revenue	450	268	182	68
Operating Losses	(4,140)	(1,254)	(2,886)	230
Loss Before Interest & Tax	(4,140)	(1,254)	(2,886)	230
Loss Before Tax	(4,254)	(1,303)	(2,951)	226
Loss After tax	(3,772)	(1,259)	(2,513)	200
Loss attributable to ordinary equity holder of the parent	(3,864)	(1,228)	(2,636)	215

The Group registered revenue of approximately RM0.5 million for the quarter ended 31 December 2019, which was approximately RM0.2 million higher as compared to immediate preceding quarter ended 30 September 2019 of approximately RM 0.3 million. The higher revenue was mainly contributed by retailing of imaging products.

The Group recorded a loss before taxation (LBT) of approximately RM 4.1 million for the quarter ended 31 December 2019, which was approximately RM 2.9 million higher as compared to the immediate preceding quarter ended 30 September 2019 of approximately RM1.3 million. The higher loss was mainly due to provision of director incentive and leave entitlement, in conjunction with the absence of a pay-out received from Insolvency Malaysia of approximately RM 0.2 million.

The Group recorded LAT of approximately RM 3.8 million for the quarter ended 30 December 2019, which was approximately higher by RM 2.5 million as compared to the immediate preceding quarter ended 30 September 2019 of approximately RM 1.3 million. The factors leading to lower LAT for the current quarter are identical to those factors mentioned above and reversal of overprovision of company tax of approximately RM 0.6 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 markets 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 Dec 2019 RM'000	Corresponding Quarter Ended 31 Dec 2018 RM'000	Current Year To Date 31 Dec 2019 RM'000	Corresponding Period Ended 31 Dec 2018 RM'000
Current tax expense:				
- for the quarter	(563)	563	(563)	563
Deferred taxation				
- Origination and reversal of temporary differences	81	(40)	(51)	(160)
	(482)	523	(614)	403

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 10 February 2020, the Board of Directors of Compugates announced that Jabatan Perancang Bandar, Majlis Perbandaran Sepang has vide its letter dated 6 February 2020 approved Phase 1 of Jade Classic Sdn. Bhd's 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 owned by Compugates Development and Mining Sdn Bhd ("CDMSB"), a 70% owned subsidiary of Compugates.

Phase 1 of the development plan submitted and approved comprises of 418 units of houses, 278 units of Rumah Selangorku (Type A, B, C and D) and the relevant infrastructures.The estimated Gross Development Value ("GDV") of Phase 1 is targeted to be RM230 million of which CDMSB will be entitled to 20% of the actual GDV (excluding Rumah Selangorku).

The total GDV to be generated from the project is estimated at RM900 million.

On 12 December 2019, the Board of Directors of Compugates announced that Bursa Securities had vide its letter dated 11 December 2019 resolved to grant the Company an extension of time up to 10 June 2020 to complete the implementation of the Private Placement.

Compugates Holdings Berhad
Company No. 200401030779 (669287 - H)
(Incorporated in Malaysia)

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 Proceeds 1st Tranche Received @ 10.06.2019 (RM 999,999.00)	2nd Tranche Received @ 19.07.2019 (RM 999,999.00)	3rd Tranche Received @ 27.09.2019 (RM 499,998.60)	Balance as at 31.12.2019
Repayment to Advances	2,199,000.00	(681,102.36)	(738,492.09)	(480,645.59)	298,759.96
Repayment to Creditors	2,528,000.00	(244,696.64)	(62,829.10)	(19,353.01)	2,201,121.25
Business working capital					
- Inoculation	920,000.00	-	-	-	920,000.00
- A&P	173,000.00	-	-	-	173,000.00
Operation Expenses					
- Staff Related expenses	1,625,000.00	-	(76,469.81)	-	1,548,530.19
- Sundry Expenses	553,000.00	-	(9,000.00)	-	544,000.00
Reserved Fund	5,081,000.00	-		-	5,081,000.00
M&A	420,000.00	(74,200.00)	(113,208.00)		232,592.00
	13,499,000.00	**(999,999.00)**	**(999,999.00)**	**(499,998.60)**	**10,999,003.40**

21. Borrowings and Debt Securities

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

	As at 31 Dec 2019 RM'000	As at 31 Dec 2018 RM'000
Short term borrowings – secured		
- Loans from director and CEO / bank	4,534	2,227

22. Realised and Unrealised (Losses)/Profit Disclosure

	As at 31 Dec 2019 RM'000	As at 31 Dec 2018 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(79,478)	(67,488)
Unrealised	94,346	94,364
	14,868	26,876
Less: Consolidation adjustments	7,481	3,517
Total retained earnings	22,349	30,393

23. Material Litigation

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. The case management for the objection is on 19 December 2019.

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 have 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 CDMSB's originating summons against Main Uptown Sdn Bhd in Shah Alam High Court has been converted to a writ by order of the court and a writ of claims has been filed on 31 October 2019.

The next case management has been fixed on 5 March 2020 and trial on 24, 25 and 26 August 2020.

23. Material Litigation (cont'd)

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 31 December 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 31 Dec 2019	**Corresponding Quarter Ended 31 Dec 2018**	**Current Year To Date 31 Dec 2019**	**Corresponding Period Ended 31 Dec 2018**
Profit / (loss) attributable to equity holders of parent (RM'000)	(3,864)	(1,495)	(8,221)	(5,992)
Number of ordinary shares in issue ('000) (FY2016:RM0.10) each	2,405,572	2,347,718	2,405,572	2,347,718
Basic profit / (loss) per share (sen)	(0.16)	(0.06)	(0.34)	(0.26)

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.

27. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 31 Dec 2019 RM'000	Corresponding Quarter Ended 31 Dec 2018 RM'000	Current Year To Date 31 Dec 2019 RM'000	Corresponding Period Ended 31 Dec 2018 RM'000
Bad debts written off	-	-	3	-
Depreciation of property and equipment	74	198	298	822
(Gain)/Loss Disposal Equipment	-	-	-	-
Inventories written off	-	-	-	-
Impairment loss on:				
- trade receivables	18	-	43	1
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	-
Unrealised gain on foreign exchange	*	(11)	1	18
Realised gain on foreign exchange	-	-	-	-
Write-back of impairment loss on trade receivables	(1)	(1)	(2)	(17)
Interest expense	113	53	195	165
Interest income	(3)	-	(3)	(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 31 December 2019 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 24 February 2020 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date: 24 February 2020