

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

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 2015. 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 2015.

2. Changes in Accounting Policies

The accounting policies and methods of computation adopted in this period in these financial statements of the Group are consistent with those adopted for the annual financial statements of the Group for the financial year ended 31 December 2015 except for the following:

(i) Adoption of the following amendments/improvements to Financial Reporting Standards (“FRSs”):

Amendments/Improvements to FRS

FRS 10	Consolidated Financial statements
FRS 11	Joint Arrangements
FRS 12	Disclosures of Interests in Other Entities
FRS 14	Regulatory Deferral Accounts
FRS 101	Presentation of Financial Statements
FRS 116	Property, plant and equipment
FRS 127	Separate financial statements
FRS 128	Investments in Associates and Joint Ventures
FRS 138	Intangible Assets
FRS 141	Agriculture: Bearer Plants
Annual improvements to FRSs 2012-2014 Cycle	

The adoption of the above new amendments/improvements to FRSs did not have any significant impact on the financial results and position of the Group.

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2. Changes in Accounting Policies (cont'd)

(ii) New FRS, Amendments/Improvements to FRSs and New IC Int that are issued, but not yet effective and have not been early adopted

The followings are standards and amendments which are effective and have been adopted by the Group and the Company:

		Effective for financial periods beginning on or after
<u>Amendments/Improvements to FRSs</u>		
FRS 10	Consolidated Financial statements	1 January 2016
FRS 11	Joint Arrangements	1 January 2016
FRS 12	Disclosures of Interests in Other Entities	1 January 2016
FRS 14	Regulatory Deferral Accounts	1 January 2016
FRS 101	Presentation of Financial Statements	1 January 2016
FRS 116	Property, plant and equipment	1 January 2016
FRS 127	Separate financial statements	1 January 2016
FRS 128	Investments in Associates and Joint Ventures	1 January 2016
FRS 138	Intangible Assets	1 January 2016
FRS 141	Agriculture: Bearer Plants	1 January 2016

Annual improvements to FRSs 2012-2014 Cycle issued in November 2014

The initial application of the above standards, amendments and interpretation are not expected to have any significant financial impacts to the financial statements except for FRS 9.

(iii) MFRS Framework issued but not yet effective

In conjunction with the planned convergence of FRSs with International Financial Reporting Standards as issued by the International Accounting Standards Board on 1 January 2012, the MASB had on 19 November 2011 issued a new MASB approved accounting standards, MFRSs ("MFRSs Framework") for application in the annual periods beginning on or after 1 January 2012.

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2. Changes in Accounting Policies (cont'd)

(iii) MFRS Framework issued but not yet effective (cont'd)

The MFRSs Framework is mandatory for adoption by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 *Agriculture* and/or IC Int 15 *Agreements for the Construction of Real Estate* ("Transitioning Entities"). The Transitioning Entities are given an option to defer adoption of the MFRSs framework and shall apply the MFRSs framework for annual periods beginning on or after 1 January 2018. Transitioning Entities also include those entities that consolidate or equity account or proportionately consolidate another entity that has chosen to continue to apply the FRSS framework for annual periods beginning on or after 1 January 2012.

Accordingly, the Group which are Transitioning Entities have chosen to defer the adoption of the MFRSs framework. As such, the Group will prepare its first MFRSs financial statements using the MFRSs framework for financial year ending 31 December 2018.

The Group and the Company are expected to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2018.

3. Status of Audit Opinions

The auditors' report on the financial statements for the financial year ended 31 December 2015 was not subject to any qualification.

4. Items of Unusual Nature and Amount

During the quarterly ended 30 September 2016, Compugates International Sdn Bhd ("CISB") has recorded other income amounting to RM2.0 million in relation to the proceed of disposal from CIL ("Compugates International Limited").

Other than those stated in the notes, 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.

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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 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 geographical location of the Group Results)

	Current Year Quarter Ended 30 Sep 2016 RM'000	Corresponding Quarter Ended 30 Sep 2015 RM'000	Current Year To Date 30 Sep 2016 RM'000	Corresponding Period Ended 30 Sep 2015 RM'000
SEGMENT REVENUE				
Malaysia	15,503	26,485	62,635	81,935
Bangladesh*	(1,698)	946	-	3,078
The British Virgin Islands*	(147)	101	-	278
Cambodia*	(274)	1,302	-	3,395
Indonesia*	(1,096)	1,345	-	5,449
	12,289	30,179	62,635	94,135
Inter-segment sales	148	(101)	-	(278)
TOTAL	12,437	30,078	62,635	93,857
	Current Year Quarter Ended 30 Sep 2016 RM'000	Corresponding Quarter Ended 30 Sep 2015 RM'000	Current Year To Date 30 Sep 2016 RM'000	Corresponding Period Ended 30 Sep 2015 RM'000
SEGMENT RESULTS				
Malaysia	(2,335)	(1,293)	(4,431)	(5,362)
Bangladesh*	(16)	(496)	-	(1,424)
The British Virgin Islands*	144	(205)	-	(462)
Cambodia*	(21)	(164)	-	(423)
Indonesia*	209	4	-	147
	(2,019)	(2,154)	(4,431)	(7,524)

* Deconsolidation adjustment with the clause of assume assets / liabilities from 1st January 2016

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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

The recurrent related party transactions (“RRPT”) had been entered into in the ordinary course of business and have been established under arm’s length basis and normal commercial terms not to the detriment of the minority shareholders.

Transaction parties	Nature of transaction	Current Year	Corresponding	Current Year	Corresponding
		Quarter Ended	Quarter Ended	To Date	Period Ended
		30 Sep 2016	30 Sep 2015	30 Sep 2016	30 Sep 2015
		RM’000	RM’000	RM’000	RM’000
Integra Corp Sdn Bhd *	Project Management fee	-	65	-	201

* A company in which a director of a subsidiary has interest.

12. Effect of Changes in the Composition of the Group

On 29th July 2016, a wholly owned subsidiary CISB has entered into a Share Sales Agreement to dispose 15,300 Ordinary Shares of USD1.00 each in CIL, a private company incorporated in British Virgin Islands under the Business Companies Act, 2004, representing 51% of the entire issued and paid-up share capital of the Company, to Gan Yok Leng for a total cash consideration of RM2 million.

13. Significant Subsequent Events

On 11th October 2016, the Company has announced that that an official copy of the sealed order of the High Court of Malaya confirming the par value reduction has been lodged with the Companies Commission of Malaysia on 11 October 2016, upon which the Par Value Reduction shall take effect. Hence, the Par Value Reduction is deemed completed.

14. Capital Commitment

The Group has no capital commitment as of 30 September 2016.

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

15. Detailed Performance Analysis

	Quarter Ended 30 Sep 2016 RM'000	Quarter Ended 30 Sep 2015 RM'000	To Date 30 Sep 2016 RM'000	To Date 30 Sep 2015 RM'000
SEGMENT (LOSS) / PROFIT BEFORE TAXATION				
Malaysia	(2,382)	(1,283)	(4,566)	(5,320)
Bangladesh*	(215)	(339)	-	(916)
The British Virgin Islands*	143	(205)	-	(462)
Cambodia*	(20)	(156)	-	(415)
Indonesia*	211	3	-	147
TOTAL	(2,261)	(1,979)	(4,566)	(6,966)

* Deconsolidation adjustment with the clause of assume assets / liabilities from 1st January

The Group registered revenue of approximately RM12.4 million for the quarter ended 30 September 2016, which was approximately RM17.6 million lower as compared to the preceding year corresponding quarter ended 30 September 2015 of approximately RM30.0 million. The lower revenue was mainly due to the decrease in revenue contribution by Malaysia subsidiaries and deconsolidation of international subsidiaries accounts from 1st January 2016.

The Malaysian subsidiaries recorded a loss before taxation (“LBT”) during the current quarter ended 30 September 2016 of approximately RM2.4 million as compared to the preceding year corresponding quarter ended 30 September 2015 LBT of approximately RM1.3 million. The higher LBT for current year quarter was mainly due to lower gross profit as a result of decline in revenue due to challenging market environment, which also results a lower purchases.

Malaysian subsidiaries LBT for the current year quarter is higher compared to the preceding year corresponding quarter is also contributed from the decline in purchase which lead to a lower other income as a result of reduction in back end incentive. Additionally increased in administrative expenses such as legal and professional fees due to more frequent corporate exercise also give rise to higher LBT for the current year quarter.

The Bangladesh subsidiary, British Virgin Islands subsidiaries, Cambodia subsidiary and Indonesia Subsidiaries has been deconsolidate during quarterly ended 30 September 2016 entails by the disposal of CIL in August 2016, with the clause whereby purchaser agrees to assume all the assets and liabilities as well as any embellishment in CIL that may or had been caused from 1st January 2016.

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16. Comment on Material Changes in the Results for the Quarter Reported on as Compared with the Immediate Preceding Quarter

The Group recorded a LBT of approximately RM2.30 million for the current quarter ended 30 September 2016 as compared to the immediate preceding quarter ended 30 June 2016 of approximately RM1.0 million LBT. The LBT for current period is higher mainly due to reduction in gross profit, other income and deconsolidation adjustment

17. 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.

18. 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.

19. Tax Expense

	Quarter Ended 30 Sep 2016 RM'000	Quarter Ended 30 Sep 2015 RM'000	To Date 30 Sep 2016 RM'000	Period Ended 30 Sep 2015 RM'000
Current tax expense:				
- for the quarter	(209)	220	(9)	693
Deferred taxation				
- Origination and reversal of temporary differences	(33)	(45)	(125)	(135)
	<u>(243)</u>	<u>175</u>	<u>(135)</u>	<u>558</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.

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20. Status of Corporate Proposals

Save as disclosed below, there were no corporate proposals announced but not completed as at the date of this announcement:-

On 23rd September 2016 regarding to the report on Compugates Holdings Berhad (“CHB”) has obtained Bursa’s approval on Gaharu Planation Investment Scheme, the Company clarify that currently they are exploring the possibility of an investment scheme and is in the midst of gathering information. However, to date no conclusion has been made by the management of the Company and as part of Company’s corporate disclosure policy, the Company will make the necessary disclosures to Bursa Malaysia as and when there are material developments on this matter in accordance with the Main Market Listing Requirements.

On 11th October 2016, the Company has announced that that an official copy of the sealed order of the High Court of Malaya confirming the par value reduction has been lodged with the Companies Commission of Malaysia on 11 October 2016, upon which the Par Value Reduction shall take effect. Hence, the Par Value Reduction is deemed completed.

21. Borrowings and Debt Securities

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

	As at 30 Sep 2016 RM’000	As at 31 Dec 2015 RM’000
Short term borrowings – secured - banker's acceptance	-	13,199

22. Realised and Unrealised (Losses)/Profit Disclosure

	As at 30 Sep 2016 RM’000	As at 31 Dec 2015 RM’000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(177,833)	(185,231)
Unrealised	94,405	94,686
	(83,428)	(90,545)
Less: Consolidation adjustments	(43,177)	(32,662)
Total accumulated losses	(126,605)	(123,207)

23. Material Litigation

The Group is not engaged in any material litigation either as plaintiff or defendant and the directors do not have any knowledge of any proceedings pending which might materially and adversely affect the financial position or business of the Group.

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24. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 30 September 2016.

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 30 Sep 2016	Corresponding Quarter Ended 30 Sep 2015	Current Year To Date 30 Sep 2016	Corresponding Period Ended 30 Sep 2015
Profit / (loss) attributable to equity holders of parent (RM'000)	(1,901)	(1,456)	(3,826)	(5,603)
Number of ordinary shares in issue ('000) - RM0.10 each	2,134,289	2,134,289	2,134,289	2,134,289
Basic profit / (loss) per share (sen)	(0.09)	(0.07)	(0.18)	(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.

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26. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 30 Sep 2016 RM'000	Corresponding Quarter Ended 30 Sep 2015 RM'000	Current Year To Date 30 Sep 2016 RM'000	Corresponding Period Ended 30 Sep 2015 RM'000
Bad debts written off	-	95		95
Depreciation of property and equipment	164	315	717	963
(Gain)/Loss Disposal Equipment	-	79	-	42
Inventories written off	*	*	*	*
Impairment loss on:				
- trade receivables	(66)	268	510	1025
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	(105)
Unrealised gain on foreign exchange	-	(4)	59	(6)
Realised gain on foreign exchange	-	(11)	-	(130)
Write-back of impairment loss on trade receivables	(102)	(217)	(752)	(811)
Interest expense	(699)	207	376	650
Interest income	21	(99)	(173)	(347)

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*

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27. Authorisation

This interim financial report for the financial period ended 30 September 2016 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 18 November 2016 for release to the Bursa Securities.

By order of the Board
Rebecca Lee
Company Secretary

Date : 18 November 2016