

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2015

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 2014. 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 2014.

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 2014 except for the following:

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

Amendments/Improvements to FRS

FRS 1	First-time Adoption of Malaysian Financial Reporting Standards
FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 8	Operating Segments
FRS 13	Fair Value Measurement
FRS 116	Property, Plant and Equipment
FRS 119	Employee Benefits
FRS 124	Related Party Disclosures
FRS 138	Intangible Assets
FRS 140	Investment Property

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 Group has not adopted the following new FRS and amendments/improvements to FRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") as at the date of authorisation of these financial statements but are not yet effective for the Group:-

		Effective for financial periods beginning on or after
<u>New FRS</u>		
FRS 9	Financial Instruments	1 January 2018
<u>Amendments/Improvements to FRSs</u>		
FRS 5	Non-current Asset Held for Sale and Discontinued Operations	1 January 2016
FRS 7	Financial Instruments: Disclosures	1 January 2016
FRS 10	Consolidated Financial statements	To be determined by MASB
FRS 11	Joint Arrangements	1 January 2016
FRS 12	Disclosures of Interests in Other Entities	1 January 2016
FRS 101	Presentation of Financial Statements	1 January 2016
FRS 116	Property, plant and equipment	1 January 2016
FRS 119	Employee Benefits	1 January 2016
FRS 127	Separate financial statements	1 January 2016
FRS 128	Investments in Associates and Joint Ventures	To be determined by MASB
FRS 138	Intangible Assets	1 January 2016

The Group is in the process of assessing the impact which may arise from adoption of the above standard and amendments.

(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 is currently in the process of determining the financial impact arising from the adoption of the MFRS Framework.

3. Status of Audit Opinions

The auditors' report on the financial statements for the financial year ended 31 December 2014 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.

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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 geographical location of the Group Results)

	Current Year Quarter Ended 31 Dec 2015 RM'000	Corresponding Quarter Ended 31 Dec 2014 RM'000	Current Year To Date 31 Dec 2015 RM'000	Corresponding Period Ended 31 Dec 2014 RM'000
SEGMENT REVENUE				
Malaysia	21,733	30,683	103,668	118,150
Bangladesh	593	1,262	3,671	4,805
The British Virgin Islands	(76)	(8)	202	664
Cambodia	16	789	3,411	2,456
Indonesia	1,604	1,877	7,053	3,235
	<hr/> 23,870	<hr/> 34,603	<hr/> 118,005	<hr/> 129,310
Inter-segment sales	67	25	(211)	(165)
	<hr/> 23,937	<hr/> 34,628	<hr/> 117,794	<hr/> 129,145
TOTAL				
	<hr/> Current Year Quarter Ended 31 Dec 2015 RM'000	<hr/> Corresponding Quarter Ended 31 Dec 2014 RM'000	<hr/> Current Year To Date 31 Dec 2015 RM'000	<hr/> Corresponding Period Ended 31 Dec 2014 RM'000
SEGMENT RESULTS				
Malaysia	8,151	(23,275)	2,789	(30,603)
Bangladesh	(97)	(185)	(1,521)	(1,672)
The British Virgin Islands	(19)	(208)	(481)	(220)
Cambodia	(104)	(316)	(527)	(911)
Indonesia	38	(171)	185	(255)
	<hr/> 7,969	<hr/> (24,155)	<hr/> 445	<hr/> (33,661)

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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	31 Dec 2015 RM’000	31 Dec 2014 RM’000	31 Dec 2015 RM’000	31 Dec 2014 RM’000
Integra Corp Sdn Bhd *	Project Management fee	61	70	262	255
Zen International Limited	Interest expense	-	-	-	267

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

12. Effect of Changes in the Composition of the Group

- a) There were no changes in the composition of the group during the current quarter.
- b) On 6th July 2015, a subsidiary, Compugates Marketing Sdn. Bhd. (“CMSB”) acquired from Green Electric Sdn Bhd (“GESB”) the following:
 - i. The remaining 49% of the entire equity interest in Classic Distribution Sdn Bhd (Company No. 823080-X) (“CDSB”) comprising forty nine (49) ordinary shares of RM1.00 each for a total nominal cash consideration of RM49.00, resulting in CDSB becoming a wholly-owned subsidiary of CMSB.
 - ii. The remaining 49% of the entire equity interest in Compugates Perak Sdn Bhd (Company No. 874134-D) (“CPSB”) comprising forty nine (49) ordinary shares of RM1.00 each for a total nominal cash consideration of RM49.00, resulting in CPSB becoming a wholly-owned subsidiary of CMSB.

13. Significant Subsequent Events

There were no significant events subsequent to the end of the current quarter up to the date of this report that have not been reflected in the financial statements for the current quarter under review and financial year-to-date.

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14. Capital Commitment

The Group has no capital commitment as of 31 December 2015.

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

15. Detailed Performance Analysis

	Current Year Quarter Ended 31 Dec 2015 RM'000	Corresponding Quarter Ended 31 Dec 2014 RM'000	Current Year To Date 31 Dec 2015 RM'000	Corresponding Period Ended 31 Dec 2014 RM'000
SEGMENT (LOSS) / PROFIT BEFORE TAXATION				
Malaysia	2,801	(23,918)	(2,519)	(31,173)
Bangladesh	(7)	(7)	(923)	(1,274)
The British Virgin Islands	(19)	(208)	(481)	(220)
Cambodia	(99)	(301)	(514)	(896)
Indonesia	38	(244)	185	(328)
TOTAL	2,714	(24,678)	(4,252)	(33,891)

The Group registered revenue of approximately RM23.9 million for the quarter ended 31 December 2015, which was approximately RM10.7 million lower as compared to the preceding year corresponding quarter ended 31 December 2014 of approximately RM34.6 million. The lower revenue was mainly due to the decrease in revenue contribution by Malaysia, Bangladesh, Cambodia and Indonesia subsidiaries.

The Malaysian subsidiaries recorded a profit before taxation (“PBT”) during the current quarter ended 31 December 2015 of approximately RM2.8 million as compared to the preceding year corresponding quarter ended 31 December 2014 loss before taxation (“LBT”) of approximately RM23.9 million. The increase in profit for current year quarter was mainly due to lower administrative expenses as a result of reversal of accrued staff cost, director fees and consultancy fees in conjunction with the absent of impairment loss on goodwill amounted to RM23.9 million during the preceding year corresponding ended 31 December 2014.

The British Virgin Islands subsidiaries recorded a LBT during the current quarter ended 31 December 2015 of approximately RM0.019 million as compared to the preceding year corresponding quarter ended 31 December 2014 LBT of approximately RM0.21 million. The lower LBT for current year quarter was mainly due to decreased in staff cost.

The Cambodia subsidiary recorded a LBT during the current quarter ended 31 December 2015 of approximately RM0.099 million as compared to the preceding year corresponding quarter ended 31 December 2014 LBT of approximately RM0.3 million. The lower LBT for current year quarter was mainly due to decreased in staff cost during the quarter under review.

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15. Detailed Performance Analysis (cont'd)

The Indonesia subsidiary recorded a PBT during the current quarter ended 31 December 2015 of approximately RM0.038 million as compared to the preceding year corresponding quarter ended 31 December 2014 LBT of approximately RM0.2 million. The profit for current year quarter was mainly due to decreased in staff cost during the quarter under review.

During the current quarter ended 31 December 2015, the Group recorded a PBT of approximately RM2.7 million as compared to the preceding year corresponding period ended 31 December 2014 of approximately RM24.7 million LBT. The PBT for current period was mainly due to lower administrative expenses incurred by Malaysian segment as a result of reversal of accrued staff cost, director fees and consultancy fees amounted to approximately RM4.0 million in conjunction with the absent of impairment loss on goodwill amounted to RM23.9 million during the preceding year corresponding ended 31 December 2014.

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

The Group recorded a PBT of approximately RM2.7 million for the current quarter ended 31 December 2015 as compared to the immediate preceding quarter of approximately RM2.0 million LBT. The PBT for the current quarter was mainly due to lower administrative expenses as a result of reversal of accrued staff cost, director fees and consultancy fees amounted to approximately RM4.0 million.

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, solar projects and logging business.

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.

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19. Tax Expense

	Current Year Quarter Ended 31 Dec 2015 RM'000	Corresponding Quarter Ended 31 Dec 2014 RM'000	Current Year To Date 31 Dec 2015 RM'000	Corresponding Period Ended 31 Dec 2014 RM'000
Current tax expense:				
- for the quarter	(492)	(125)	201	308
Deferred taxation				
- Origination and reversal of temporary differences	(4,763) *	(398)	(4,898)	(538)
	<u>(5,255)</u>	<u>(523)</u>	<u>(4,697)</u>	<u>(230)</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.

* Reversal of Real Property Gain Tax ("RPGT") of RM 4.7 million accrued in year 2013.

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 18th March 2015, the Company had announced the followings:-

- (a) Proposed renounceable rights issue of up to 304,898,431 Redeemable Preference Shares ("RPS") together with up to 304,898,431 free detachable warrants ("Warrants") on the basis of one (1) RPS together with one (1) warrant for every seven (7) ordinary shares of RM0.10 each subscribed in Compugates Holdings Berhad ("CHB");
- (b) Proposed increase in the authorised share capital of CHB; and
- (c) Proposed amendments to the Memorandum and Articles of Association of CHB.

The above mentioned proposals are subject to approvals from Bursa Securities, Bank Negara Malaysia, shareholders and other relevant authorities' approvals.

On 14th May 2015, the Company had announced that Bank Negara Malaysia ("BNM") had vide its letter dated 8 May 2015 (received on 14 May 2015) approved the issuance of up to 137,400,000 RPS amounting up to RM13.74 million to non-resident shareholders of Compugates Holdings Berhad.

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20. Status of Corporate Proposals (cont'd)

On 18th May 2015, the Company had submitted an application to Bursa Malaysia Securities Berhad for an extension of time up to 18 July 2015 for the submission of the listing application in relation to the Proposed Rights Issue with Warrants.

On 29th May 2015, the Company had received from Bursa Malaysia Securities Berhad a letter dated 28th May 2015, approved the Company's application for an extension of time up to 18th July 2015 to submit its draft circular pursuant to the Proposed Right Issue with Warrants.

On 16th July 2015, the Company had announced that it was reviewing the Proposals in light of potential new business opportunities and has decided for the time-being, to defer the Proposals.

On 12th August 2015, the Company had announced that its sub-subsidiary, Compugates International Limited (Cambodia) ("CILC") had entered into a Joint Venture Agreement ("JV Agreement") with Hydra & Thermal Pte. Ltd. and Tan Teck Kee for the purposes of incorporating a company in Cambodia to be known as Serial Netcom Co. Ltd for distribution and trading businesses of SIM cards and top-up cards in Cambodia for Smart Axiata Co., Ltd and other telecommunications operators upon other terms and conditions as may be agreed in the said JV Agreement.

On 19th August 2015, the Company had announced that its 70% owned sub-subsidiary, Compugates Development And Mining Sdn Bhd ("CDMSB"), had on 18 August 2015 entered into a JV Agreement with Main Uptown Sdn. Bhd. ("MUSB"), as the Developer, for the proposed joint development the parcel of leasehold land identified as H.S.(D) 13828, PT 26800, Mukim of Dengkil, District of Sepang, Selangor Darul Ehsan, measuring approximately 154,990 square metres into a mixed development ("Proposed Joint Venture"), comprising service apartment or small office/home office/virtual office/flexible office, or other accommodations of the same nature or characteristic.

On 22nd January 2016, the Company had announced to proposed par value reduction of the Company's existing issued and paid-up share capital from RM213,428,902.00 comprising 2,134,289,020 ordinary shares of RM0.10 each to RM42,685,780.40 comprising 2,134,289,020 ordinary shares of RM0.20 each via the cancellation of RM0.08 from the par value of each existing ordinary share of RM0.10 in the Company pursuant to section 64 of the companies act, 1965.

On 26th January 2016, the Company had announced that Compugates Perak Sdn Bhd ("CPSB"), the wholly-owned subsidiary of CHB, had on 25 January 2016, entered into a Memorandum of Understanding ("MOU") with Marrienberg Hills Resources Development Limited ("MHRD") to engage CPSB as a logger over the whole land described as Portion 146C, Milinch Marrienberg, Fourmil Angoram, East Sepik Province, Papua New Guinea ("the said land"). The entire Portion 146C covers 26,000 hectares (approximately 64,247 acres).

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20. Status of Corporate Proposals (cont'd)

On 5th February 2016, the Company had announced that in addition to the award of Logging offer announced on 29 January 2016, CPSB the wholly-owned subsidiary of CHB, had on 5 February 2016, entered into a MOU with another landowner namely Lower Sepik Holdings Limited (“LSHL”) to engage CPSB as a logger over the whole land described as Lower Sepik Forest Area within the Angoram District, East Sepik Province, Papua New Guinea (“the said land”) comprises of about 70,000 hectares (approximately 172,973 acres) of forested land.

21. Borrowings and Debt Securities

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

	As at 31 Dec 2015 RM'000	As at 31 Dec 2014 RM'000
Short term borrowings – secured - banker's acceptance	13,199	14,360

22. Realised and Unrealised (Losses)/Profit Disclosure

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(179,561)	(177,396)
Unrealised	95,345	90,447
	(84,216)	(86,949)
Less: Consolidation adjustments	(38,407)	(36,884)
Total accumulated losses	(122,623)	(123,833)

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.

24. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 31 December 2015.

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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 Dec 2015	Corresponding Quarter Ended 31 Dec 2014	Current Year To Date 31 Dec 2015	Corresponding Period Ended 31 Dec 2014
Profit / (loss) attributable to equity holders of parent (RM'000)	7,042	(23,450)	1,439	(30,756)
Number of ordinary shares in issue - RM0.10 each	2,134,289	2,134,289	2,134,289	2,134,289
Basic profit / (loss) per share (sen)	0.33	(1.10)	0.07	(1.44)

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 31 Dec 2015 RM'000	Corresponding Quarter Ended 31 Dec 2014 RM'000	Current Year To Date 31 Dec 2015 RM'000	Corresponding Period Ended 31 Dec 2014 RM'000
Bad debts written off	44	71	139	95
Depreciation of property and equipment	280	354	1,243	1397
(Gain)/Loss Disposal Equipment	(7)	(12)	(49)	(40)
Inventories written off	58	70	58	70
Impairment loss on:				
- trade receivables	(38)	265	987	754
- other receivables	-	(5)	-	2
Impairment loss of consolidation	-	23,991	-	23,991
Gain on disposal of available-for-sale investments	-	-	(105)	-
Gain on disposal of non-current assets held for sale	-	-	-	(1,604)
Unrealised gain on foreign exchange	1	2	(5)	-
Realised gain on foreign exchange	4	47	(126)	(53)
Write-back of impairment loss on trade receivables	116	(128)	(695)	(428)
Interest expense	160	291	810	979
Interest income	(105)	(268)	(452)	(633)
Rental income	-	-	-	(58)
Write down of inventories to net realisable value	-	-	445	7

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 31 December 2015 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 22 February 2016 for release to the Bursa Securities.

By order of the Board
Wong Keo Rou
Jenny Wong Chew Boey
Company Secretaries

Date : 22 February 2016