

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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.

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

**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:

		<b>Effective for financial periods beginning on or after</b>
<b><u>Amendments/Improvements to FRSs</u></b>		
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.

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

**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.

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

**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)**

	<b>Current Year Quarter Ended 31 Dec 2016 RM'000</b>	<b>Corresponding Quarter Ended 31 Dec 2015 RM'000</b>	<b>Current Year To Date 31 Dec 2016 RM'000</b>	<b>Corresponding Period Ended 31 Dec 2015 RM'000</b>
<b>SEGMENT REVENUE</b>				
Malaysia	16,473	21,733	79,108	103,668
Bangladesh*	-	593	-	3,671
The British Virgin Islands*	-	(76)	-	202
Cambodia*	-	16	-	3,411
Indonesia*	-	1,604	-	7,053
	16,473	23,870	79,108	118,005
Inter-segment sales	-	67	-	(211)
<b>TOTAL</b>	<b>16,473</b>	<b>23,937</b>	<b>79,108</b>	<b>117,794</b>
	<b>Current Year Quarter Ended 31 Dec 2016 RM'000</b>	<b>Corresponding Quarter Ended 31 Dec 2015 RM'000</b>	<b>Current Year To Date 31 Dec 2016 RM'000</b>	<b>Corresponding Period Ended 31 Dec 2015 RM'000</b>
<b>SEGMENT RESULTS</b>				
Malaysia	(2,755)	8,151	(7,186)	2,789
Bangladesh*	-	(97)	-	(1,521)
The British Virgin Islands*	-	(19)	-	(481)
Cambodia*	-	(104)	-	(527)
Indonesia*	-	38	-	185
	(2,755)	7,969	(7,186)	445

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

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

**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
		31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
		RM’000	RM’000	RM’000	RM’000
Integra Corp Sdn Bhd *	Project Management fee	-	61	-	262

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

**12. Effect of Changes in the Composition of the Group**

There were no changes in the composition of the Group during the current quarter.

On 29<sup>th</sup> 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**

A letter of demand dated 10<sup>th</sup> January 2017 was issued against Compugates Holdings Bhd claiming for interalia RM10 million or 113 titles of land belonging to Selama Muda Jaya Sdn Bhd and damages. Compugates Holdings Bhd has responded through their solicitors via letter dated 8<sup>th</sup> February 2017 refuting this claim and have reserved its right to sue for all losses and damages suffered.

**14. Capital Commitment**

The Group has no capital commitment as of 31 December 2016.

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

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

**15. Detailed Performance Analysis**

	Quarter Ended 31 Dec 2016 RM'000	Quarter Ended 31 Dec 2015 RM'000	To Date 31 Dec 2016 RM'000	To Date 31 Dec 2015 RM'000
<b>SEGMENT (LOSS) / PROFIT BEFORE TAXATION</b>				
Malaysia	(2,879)	2,801	(7,445)	(2,519)
Bangladesh*	-	(7)	-	(923)
The British Virgin Islands*	-	(19)	-	(481)
Cambodia*	-	(99)	-	(514)
Indonesia*	-	38	-	185
<b>TOTAL</b>	<b>(2,879)</b>	<b>2,714</b>	<b>(7,445)</b>	<b>(4,252)</b>

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

The Group registered revenue of approximately RM16.5 million for the quarter ended 31 December 2016, which was approximately RM7.4 million lower as compared to the preceding year corresponding quarter ended 31 December 2015 of approximately RM23.9 million. The lower revenue was mainly due to the decrease in revenue contribution by Malaysia subsidiaries and deconsolidation of international subsidiaries accounts from 1<sup>st</sup> January 2016.

The Malaysian subsidiaries recorded a loss before taxation (“LBT”) during the current quarter ended 31 December 2016 of approximately RM2.9 million as compared to the preceding year corresponding quarter ended 31 December 2015 profit before tax (“PBT”) of approximately RM2.8 million. The current year quarter recorded a LBT was mainly due to lower gross profit as a result of decline in revenue in conjunction with the absent of reversal of accrued staff cost, director fees and consultancy fees which amounting to approximately RM4.1 million during the preceding year corresponding quarter ended 31 December 2015.

Malaysian subsidiaries recorded an LBT of RM2.9 million for the current year quarter as compared to the RM2.8 PBT for preceding year corresponding quarter also marginally contributed by the contraction performance of plantation division.

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 1<sup>st</sup> January 2016.

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

**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 RM2.9 million for the current quarter ended 31 December 2016 as compared to the immediate preceding quarter ended 30 September 2016 of approximately RM2.4 million LBT. The LBT for current period is higher mainly due provision of obsolete stock amounted to approximately RM0.5 million as well as higher professional fees incurred for the current quarter.

**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 31 Dec 2016 RM'000	Quarter Ended 31 Dec 2015 RM'000	To Date 31 Dec 2016 RM'000	Period Ended 31 Dec 2015 RM'000
Current tax expense:				
- for the quarter	(71)	(492)	(78)	201
Deferred taxation				
- Origination and reversal of temporary differences	(55) *	(4,763)	(180) *	(4,898)
	<u>(126)</u>	<u>(5,255)</u>	<u>(258)</u>	<u>(4,697)</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 approximately RM4.7 million accrued in year 2013.

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

**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 23<sup>rd</sup> 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 11<sup>th</sup> 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:

	<b>As at 31 Dec 2016 RM’000</b>	<b>As at 31 Dec 2015 RM’000</b>
Short term borrowings – secured - banker's acceptance	-	13,199

**22. Realised and Unrealised (Losses)/Profit Disclosure**

	<b>As at 31 Dec 2016 RM’000</b>	<b>As at 31 Dec 2015 RM’000</b>
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(19,634)	(185,231)
Unrealised	94,351	94,686
	<u>74,717</u>	<u>(90,545)</u>
Less: Consolidation adjustments	(32,832)	(32,662)
Total retained earnings / (accumulated losses)	<u>41,885</u>	<u>(123,207)</u>



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**(Company No. 669287 - H)**  
**(Incorporated in Malaysia)**

**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 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:-

	<b>Current Year Quarter Ended 31 Dec 2016</b>	<b>Corresponding Quarter Ended 31 Dec 2015</b>	<b>Current Year To Date 31 Dec 2016</b>	<b>Corresponding Period Ended 31 Dec 2015</b>
Profit / (loss) attributable to equity holders of parent (RM'000)	(2,396)	7,042	(6,222)	1,439
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)	(0.11)	0.33	(0.29)	0.07

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:-

	<b>Current Year Quarter Ended 31 Dec 2016 RM'000</b>	<b>Corresponding Quarter Ended 31 Dec 2015 RM'000</b>	<b>Current Year To Date 31 Dec 2016 RM'000</b>	<b>Corresponding Year Ended 31 Dec 2015 RM'000</b>
Bad debts written off	491	44	491	139
Depreciation of property and equipment	239	280	956	1,243
(Gain)/Loss Disposal Equipment	-	(7)	-	(49)
Inventories written off	*	58	*	58
Impairment loss on:				
- trade receivables	(419)	(38)	91	987
- other receivables	-	-	-	-
Gain on disposal of available-for-sale investments	-	-	-	(105)
Unrealised gain on foreign exchange	(54)	1	5	(5)
Realised gain on foreign exchange	-	4	-	(126)
Write-back of impairment loss on trade receivables	(49)	116	(801)	(695)
Interest expense	16	160	392	810
Interest income	(12)	(105)	(185)	(452)
Write-back of inventories to net realisable value	-	-	-	445

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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**(Company No. 669287 - H)**  
**(Incorporated in Malaysia)**

**27. Authorisation**

This interim financial report for the financial period ended 31 December 2016 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 27 February 2017 for release to the Bursa Securities.

By order of the Board  
Rebecca Lee  
Company Secretary

Date : 27 February 2017