

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2013

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 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 2012. 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 2012.

2. Changes in Accounting Policies

The accounting policies and methods of computation adopted in this period 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 2012 except for the:

- (i) adoption of the following new and revised Financial Reporting Standard (“FRSs”), amendments/improvements to FRSS, new IC Interpretation (“IC Int”) and amendments to IC Int:**

New MFRSs

FRS 10	Consolidated Financial Statements
FRS 11	Joint Arrangements
FRS 12	Disclosure of Interests in Other Entities
FRS 13	Fair Value Measurement

Revised MFRSs

FRS 119	Employee Benefits
FRS 127	Separate Financial Statements
FRS 128	Investments in Associates and Joint Ventures

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2. Changes in Accounting Policies (cont'd)

The accounting policies and methods of computation adopted in this period 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 2012 except for the (cont'd):

(i) adoption of the following new and revised Financial Reporting Standard (“FRSs”), amendments/improvements to FRSs, new IC Interpretation (“IC Int”) and amendments to IC Int (cont'd):

Amendments/Improvements to MFRSs

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 7	Financial Instruments: Disclosures
FRS 10	Consolidated Financial Statements
FRS 11	Joint Arrangements
FRS 12	Disclosure of Interests in Other Entities
FRS 101	Presentation of Financial Statements
FRS 116	Property, Plant and Equipment
FRS 132	Financial Instruments: Presentation
FRS 134	Interim Financial Reporting

New IC Int

IC Int 20	Stripping Costs in the Production Phase of a Surface Mine
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Amendments to IC Int

IC Int 2	Members' Shares in Co-operative Entities & Similar Instruments
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The adoption of the above new and revised FRSs, amendments/improvements to FRSs, new IC Int and amendments to IC Int does not have any significant impact on the financial statements of the Group.

(ii) Change of accounting policy for investment property

As at beginning of the current quarter/financial year, the Group changed its accounting policy on the measurement of its investment property from cost model to fair value model. The Group believed that the change provides more relevant information about the financial position of the Group. Pursuant to FRS 140: Investment Property, the change in accounting policy has been dealt with in accordance with FRS 108: Accounting Policies, Change in Accounting Estimates and Errors.

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2. Changes in Accounting Policies (cont'd)

(ii) Change of accounting policy for investment property (cont'd)

The effects on the comparative figures arising from the above change on accounting policy are as follows:

	As previously reported RM'000	Effect of change on accounting policy RM'000	As restated RM'000
Condensed Consolidated Statement of Financial Position			
As at 1 January 2011			
Investment property	5,718	94,282	100,000
Deferred tax liabilities	(596)	(9,435)	(10,031)
Accumulated losses	(144,344)	59,394	(84,950)
Non-controlling interests	(1,108)	25,454	24,346
As at 31 December 2012			
Investment property	5,654	94,346	100,000
Deferred tax liabilities	(583)	(9,435)	(10,018)
Accumulated losses	(152,078)	59,438	(92,640)
Non-controlling interests	(2,583)	25,473	22,890
Condensed Consolidated Statement of Comprehensive Income			
Individual period / Cumulative period corresponding quarter / period ended 31 March 2012			
Other expenses	387	(16)	371
Loss before taxation	875	(16)	859
Loss after taxation	1,283	(16)	1,267
Total comprehensive loss	600	(16)	584
Loss attributable to:			
- Owners of the Parent	742	(11)	731
- Non-controlling interests	541	(5)	536
Total comprehensive loss attributable to:			
- Owners of the Parent	77	(11)	66
- Non-controlling interests	523	(5)	518

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2. Changes in Accounting Policies (cont'd)

New, revised, amendments/improvement to accounting standards and IC Int that are issued, but not yet effective and have not been early adopted

	Effective for financial periods beginning on or after
<u>New MFRSs</u>	
MFRS 9 Financial Instruments	1 January 2015
<u>Amendments/Improvements to MFRSs</u>	
MFRS 10 Consolidated Financial Statements	1 January 2014
MFRS 12 Disclosure of Interests in Other Entities	1 January 2014
MFRS 127 Separate Financial Statements	1 January 2014
MFRS 132 Financial Instruments: Presentation	1 January 2014

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

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 Malaysian Accounting Standards Board ("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.

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 to financial periods beginning on or after 1 January 2014. 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 is Transitioning Entity has chosen to defer the adoption of the MFRSs Framework to financial year beginning 1 January 2014. The Group will prepare its first MFRSs financial statements using the MFRSs Framework for the financial year ending 31 December 2014.

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

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3. Status of Audit Qualifications

The auditors' report on the financial statements for the financial year ended 31 December 2012 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.

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.

7. Debt and Equity Securities

There were no issuances, repurchases or repayments of debt and equity securities during the current quarter under review.

8. Dividends Paid

There were no dividends paid during the current quarter under review.

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9. Segmental Information (Analysis by geographical location of the Group Results)

	Current Year Quarter Ended	Corresponding Quarter Ended	Current Year To Date	Corresponding Period Ended
	31 Mar 2013 RM'000	31 Mar 2012 RM'000	31 Mar 2013 RM'000	31 Mar 2012 RM'000
SEGMENT REVENUE				
Malaysia	35,022	37,769	35,022	37,769
Bangladesh	699 *	134,830	699 *	134,830
The British Virgin Islands	251	181	251	181
Cambodia	3,516	3,152	3,516	3,152
Indonesia	1,045	1,904	1,045	1,904
	40,533	177,836	40,533	177,836
Inter-segment sales	(83)	(91)	(83)	(91)
TOTAL	40,450	177,745	40,450	177,745

	Current Year Quarter Ended	Corresponding Quarter Ended	Current Year To Date	Corresponding Period Ended
	31 Mar 2013 RM'000	31 Mar 2012 RM'000 Restated	31 Mar 2013 RM'000	31 Mar 2012 RM'000 Restated
SEGMENT RESULTS				
Malaysia	(2,018)	(1,000)	(2,018)	(1,000)
Bangladesh	(272)	(32)	(272)	(32)
The British Virgin Islands	387	(332)	387	(332)
Cambodia	(89)	45	(89)	45
Indonesia	(4)	52	(4)	52
	(1,996)	(1,267)	(1,996)	(1,267)

* The revenue was recognised on net commission basis following the new sales and services agreement entered into by the subsidiary. If the revenue were to be recognised on gross basis as in corresponding quarter ended 31 March 2012, the revenue would have been RM113,019,000.

10. Revaluation of Property and Equipment

During the current quarter, certain leasehold land, freehold land and buildings and investment property were revalued by an independent professional valuer. The valuations are based on the comparison method by reference to recent market transactions of similar properties. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the assets. Surplus arose from the revaluations is credited into revaluation reserve account.

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11. 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.

12. Significant Related Party Transactions

The recurrent related party transactions (“RRPT”) involved the sales of IT product & accessories and purchases of IT products. The 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 Mar 2013	31 Mar 2012	31 Mar 2013	31 Mar 2012
		RM’000	RM’000	RM’000	RM’000
1 Southall Sdn Bhd	Sales of IT products & accessories	-	1	-	1
2 Southall Sdn Bhd	Purchases of IT products	-	2	-	2

13. 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.

14. 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.

15. Capital Commitment

The Group has no capital commitment as of 31 March 2013.

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

16. Detailed Performance Analysis

	Current Year Quarter Ended 31 Mar 2013 RM'000	Corresponding Quarter Ended 31 Mar 2012 RM'000 Restated	Current Year To Date 31 Mar 2013 RM'000	Corresponding Period Ended 31 Mar 2012 RM'000 Restated
SEGMENT LOSS BEFORE TAXATION				
Malaysia	(1,779)	(777)	(1,779)	(777)
Bangladesh	(168)	167	(168)	167
The British Virgin Islands	387	(336)	387	(336)
Cambodia	(88)	44	(88)	44
Indonesia	(4)	43	(4)	43
TOTAL	(1,652)	(859)	(1,652)	(859)

The Group registered revenue of approximately RM40.5 million for the quarter ended 31 March 2013, which was approximately RM137.2 million lower as compared to the preceding year corresponding quarter ended 31 March 2012 of approximately RM177.7 million. The lower revenue was mainly due to revenue recognised on net commission basis by Bangladesh subsidiary following the new sales and service agreement entered into by the subsidiary in the previous financial year.

The Malaysian subsidiaries recorded a loss before taxation (“LBT”) during the current quarter ended 31 March 2013 of approximately RM1.8 million as compared to the preceding year corresponding quarter ended 31 March 2012 LBT of approximately RM0.8 million. The higher LBT for current year quarter were mainly due to higher impairment loss on trade receivables and under-provision of staffs’ incentives for previous years.

The Bangladesh subsidiary recorded a LBT during the current quarter ended 31 March 2013 of approximately RM0.2 million as compared to the preceding year corresponding quarter ended 31 March 2012 of profit before taxation (“PBT”) approximately RM0.2 million. The LBT for current quarter was mainly due to decrease in revenue contribution.

The British Virgin Islands subsidiaries recorded a PBT during the current quarter ended 31 March 2013 of approximately RM0.4 million as compared to the preceding year corresponding quarter ended 31 March 2012 of approximately RM0.3 million LBT. The PBT for current quarter were mainly due to reversal of previous years’ project management and consultancy service fees over-provided.

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16. Detailed Performance Analysis (cont'd)

The Cambodia and Indonesia subsidiaries recorded a LBT during the current quarter ended 31 March 2013 as compared to the preceding year corresponding quarter ended 31 March 2012 recorded a PBT. The reasons were mainly due to lower profit margin during the current quarter.

During the current quarter/period ended 31 March 2013, the Group recorded a LBT of approximately RM1.7 million as compared to the preceding year corresponding quarter/period ended 31 March 2012 of approximately RM0.9 million. The higher LBT for current year corresponding quarter was mainly attributable from the higher LBT in the Malaysia segment.

17. 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 RM1.7 million for the quarter ended 31 March 2013 compared to the immediate preceding quarter of approximately RM5.9 million mainly due to impairment loss on available-for-sale investment and higher administrative expenses incurred during the immediate preceding quarter ended 31 December 2012.

18. 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 and solar projects.

19. 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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20. Income Tax Expense

	Current Year Quarter Ended 31 Mar 2013 RM'000	Corresponding Quarter Ended 31 Mar 2012 RM'000	Current Year To Date 31 Mar 2013 RM'000	Corresponding Period Ended 31 Mar 2012 RM'000
Current tax expense:				
- for the quarter	342	383	342	383
- under provision in the previous financial year	2	25	2	25
	<u>344</u>	<u>408</u>	<u>344</u>	<u>408</u>
Deferred taxation				
- Origination and reversal of temporary differences	-	-	-	-
	<u>344</u>	<u>408</u>	<u>344</u>	<u>408</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.

21. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

22. Borrowings and Debt Securities

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

	As at 31 Mar 2013 RM'000	As at 31 Dec 2012 RM'000
Short term borrowings – secured		
- banker's acceptance	8,500	14,400
	<u>8,500</u>	<u>14,400</u>

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23. Realised and Unrealised Losses/Profit Disclosure

	As at 31 Mar 2013 RM'000	As at 31 Dec 2012 RM'000 Restated
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(169,784)	(167,602)
Unrealised	85,022	84,838
	<u>(84,762)</u>	<u>(82,764)</u>
Less: Consolidation adjustments	(9,627)	(9,876)
Total accumulated losses	<u>(94,389)</u>	<u>(92,640)</u>

24. 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.

25. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 31 March 2013.

26. Loss per Share

The 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 Mar 2013	Corresponding Quarter Ended 31 Mar 2012 Restated	Current Year To Date 31 Mar 2013	Corresponding Period Ended 31 Mar 2012 Restated
Loss attributable to equity holders of parent (RM'000)	(1,748)	(731)	(1,748)	(731)
Number of ordinary shares in issue ('000) - RM0.10 each	2,134,289	2,134,289	2,134,289	2,134,289
Basic loss per share (sen)	<u>(0.08)</u>	<u>(0.03)</u>	<u>(0.08)</u>	<u>(0.03)</u>

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26. Loss per Share (cont'd)

The diluted earnings per share was not applicable 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 Mar 2013 RM'000	Corresponding Quarter Ended 31 Mar 2012 RM'000 Restated	Current Year To Date 31 Mar 2013 RM'000	Corresponding Period Ended 31 Mar 2012 RM'000 Restated
Depreciation of property and equipment	181	196	181	196
Equipment written off	45	-	45	-
Inventories written off	-	4	-	4
Gain on disposal of equipment	-	(2)	-	(2)
Impairment loss on trade receivables	473	172	473	172
Gain on disposal of available-for-sale investments	-	(26)	-	(26)
Unrealised loss on foreign exchange	-	1	-	1
Realised loss on foreign exchange	6	-	6	-
Write-back of impairment loss on trade receivables	(73)	(213)	(73)	(213)
Interest expense	87	76	87	76

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28. Authorisation

This interim financial report for the financial period ended 31 March 2013 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 27 May 2013 for release to the Bursa Securities.

By order of the Board
Mah Li Chen
Chew Mei Ling
Cynthia Gloria Louis
Company Secretaries

Date : 27 May 2013