

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

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 2013. 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 2013.

2. Changes in Accounting Policies

The accounting policies and methods of computation adopted in this period in this 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 2013 except for the:

(i) adoption of the following amendments/improvements to Financial Reporting Standards (“FRSs”) and new IC Interpretation (“IC Int”):

Amendments/Improvements to MFRSs

FRS 10	Consolidated Financial Statements
FRS 12	Disclosure of Interests in Other Entities
FRS 127	Separate Financial Statements
FRS 132	Financial Instruments: Presentation
FRS 136	Impairment of Assets
FRS 139	Financial Instruments: Recognition and Measurement

New IC Int

IC Int 21	Levies
-----------	--------

The adoption of the above new amendments/improvements to FRSs and new IC Int does not have any significant impact on the financial statements 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 Group have 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:-

<u>New MFRS</u>		Effective for financial periods beginning on or after
FRS 9	Financial Instruments	To be announced by MASB
<u>Amendments/Improvements to MFRSs</u>		
FRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 July 2014
FRS 2	Share-based Payment	1 July 2014
FRS 3	Business Combinations	1 July 2014
FRS 7	Financial Instruments: Disclosures	Applies when MFRS 9 is applied
FRS 8	Operating Segments	1 July 2014
FRS 9	Financial Instruments	To be announced by the MASB
<u>Amendments/Improvements to MFRSs</u>		
FRS 13	Fair Value Measurement	1 July 2014
FRS 116	Property, Plant and Equipment	1 July 2014
FRS 119	Employee Benefits	1 July 2014
FRS 124	Related Party Disclosures	1 July 2014
FRS 138	Intangible Assets	1 July 2014
FRS 139	Financial Instruments: Recognition and Measurement	Applies when MFRS 9 is applied
FRS 140	Investment Property	1 July 2014

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

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

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.

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 continue to adopt the existing FRSs framework until the MFRSs framework is mandated by the MASB. Transitioning Entities also includes 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. The Group will prepare their first MFRSs financial statements using the MFRSs framework when the MFRSs framework is mandated by the MASB.

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

3. Status of Audit Qualifications

The auditors' report on the Financial Statements of the Company for the financial year ended 31 December 2013 was qualified in the following manner:

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion paragraph, the Financial Statements give a true and fair view of the financial positions of the Group and of the Company as at 31st December 2013 and of their financial performance and cash flows for the financial year then ended in accordance with the Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis of Qualified Opinion

We refer to Note 28(b) to the Financial Statements which disclose that included in professional fee is an amount of RM3,000,000/- for advisory support services. We were unable to obtain sufficient appropriate audit evidence pertaining to the aforesaid expenses.

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

3. Status of Audit Qualifications (cont'd)

Current status

The Group will in future, put in place further documentations to strengthen the current limitation in the documentation and justification in supporting the payment of the advisory support services.

As a proactive measure, the Board has appointed special auditors, Messrs Crowe Horwath to conduct an additional review to give comfort to the shareholders pertaining to the transaction.

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.

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

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

	Current Year Quarter Ended 31 Mar 2014 RM'000	Corresponding Quarter Ended 31 Mar 2013 RM'000	Current Year To Date 31 Mar 2014 RM'000	Corresponding Period Ended 31 Mar 2013 RM'000
SEGMENT REVENUE				
Malaysia	31,706	35,022	31,706	35,022
Bangladesh	1,336	699	1,336	699
The British Virgin Islands	265	251	265	251
Cambodia	624 *	2,030 #	624 *	2,030 #
Indonesia	301	1,045	301	1,045
	34,232	39,047	34,232	39,047
Inter-segment sales	(25)	(83)	(25)	(83)
TOTAL	34,207	38,964	34,207	38,964
	Current Year Quarter Ended 31 Mar 2014 RM'000	Corresponding Quarter Ended 31 Mar 2013 RM'000	Current Year To Date 31 Mar 2014 RM'000	Corresponding Period Ended 31 Mar 2013 RM'000
SEGMENT RESULTS				
Malaysia	(2,974)	(2,018)	(2,974)	(2,018)
Bangladesh	(815)	(272)	(815)	(272)
The British Virgin Islands	33	387	33	387
Cambodia	(128)	(89)	(128)	(89)
Indonesia	(23)	(4)	(23)	(4)
	(3,907)	(1,996)	(3,907)	(1,996)

* Effective from 1 March 2013, revenue is recognised on net commission basis following new sales and services agreement entered into by the subsidiary. If the revenue was to be recognised on gross basis for quarter ended 31 March 2014, the revenue would have been RM9,459,000.

Effective from 1 March 2013, revenue is recognised on net commission basis following new sales and services agreement entered into by the subsidiary. Thus, the revenue for the quarter ended 31 March 2013 has been restated accordingly. If the revenue was to be recognised on gross basis for entire quarter ended 31 March 2013, the revenue would have been RM3,516,000.

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

10. Revaluation of Property and Equipment

During the preceding year corresponding 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.

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”) consist of project management fee paid. 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 2014	31 Mar 2013	31 Mar 2014	31 Mar 2013
		RM’000	RM’000	RM’000	RM’000
1 Integra Corp Sdn Bhd	Project Management fee	61	-	61	-

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 2014.

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

16. Detailed Performance Analysis

	Current Year Quarter Ended 31 Mar 2014 RM'000	Corresponding Quarter Ended 31 Mar 2013 RM'000	Current Year To Date 31 Mar 2014 RM'000	Corresponding Period Ended 31 Mar 2013 RM'000
SEGMENT LOSS BEFORE TAXATION				
Malaysia	(2,946)	(1,779)	(2,946)	(1,779)
Bangladesh	(605)	(168)	(605)	(168)
The British Virgin Islands	33	387	33	387
Cambodia	(128)	(88)	(128)	(88)
Indonesia	(23)	(4)	(23)	(4)
TOTAL	(3,669)	(1,652)	(3,669)	(1,652)

The Group registered revenue of approximately RM34.2 million for the quarter ended 31 March 2014, which was approximately RM4.8 million lower as compared to the preceding year corresponding quarter ended 31 March 2013 of approximately RM39.0 million. The lower revenue was mainly due to the decrease in revenue contribution from Malaysia subsidiaries and the revenue recognised on net commission basis by Cambodia 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 2014 of approximately RM2.9 million as compared to the preceding year corresponding quarter ended 31 March 2013 LBT of approximately RM1.8 million. The higher LBT for current year quarter was mainly due to lower trade incentives received during the quarter under review.

The Bangladesh subsidiary recorded a LBT during the current quarter ended 31 March 2014 of approximately RM0.6 million as compared to the preceding year corresponding quarter ended 31 March 2013 of LBT approximately RM0.2 million. The LBT for current quarter was mainly due to increase in staff costs.

The British Virgin Islands subsidiaries recorded a profit before taxation (“PBT”) during the current quarter ended 31 March 2014 of approximately RM0.03 million as compared to the preceding year corresponding quarter ended 31 March 2013 PBT of approximately RM0.4 million. The PBT for preceding year corresponding ended 31 March 2013 was mainly due to reversal of previous years’ project management and consultancy service fees over-provided.

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

16. Detailed Performance Analysis (cont'd)

During the current year-to-date ended 31 March 2014, the Group recorded a LBT of approximately RM3.7 million as compared to the preceding year corresponding period ended 31 March 2013 of approximately RM1.7 million. The higher LBT for current period was mainly due to lower trade incentive.

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 RM3.7 million for the current quarter ended 31 March 2014 as compared to the immediate preceding quarter of approximately RM6.3 million was mainly due to higher administrative expenses in the immediate preceding quarter.

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.

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

20. Income Tax Expense

	Current Year Quarter Ended 31 Mar 2014 RM'000	Corresponding Quarter Ended 31 Mar 2013 RM'000	Current Year To Date 31 Mar 2014 RM'000	Corresponding Period Ended 31 Mar 2013 RM'000
Current tax expense:				
- for the quarter	238	342	285	342
- under provision in the previous financial year	-	2	-	2
	<u>238</u>	<u>344</u>	<u>285</u>	<u>344</u>
Deferred taxation				
- Origination and reversal of temporary differences	-	-	(47)	-
	<u>238</u>	<u>344</u>	<u>238</u>	<u>344</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 2014 RM'000	As at 31 Dec 2013 RM'000
Short term borrowings – secured		
- banker's acceptance	13,774	12,626
	<u>13,774</u>	<u>12,626</u>

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

23. Realised and Unrealised (Losses)/Profit Disclosure

	As at 31 Mar 2014 RM'000	As at 31 Dec 2013 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(167,610)	(164,451)
Unrealised	89,934	89,887
	<u>(77,676)</u>	<u>(74,564)</u>
Less: Consolidation adjustments	(20,184)	(20,250)
Total accumulated losses	<u>(97,860)</u>	<u>(94,814)</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 2014.

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 2014	Corresponding Quarter Ended 31 Mar 2013	Current Year To Date 31 Mar 2014	Corresponding Period Ended 31 Mar 2013
Loss attributable to equity holders of parent (RM'000)	(3,046)	(1,748)	(3,046)	(1,748)
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>(0.14)</u>	<u>(0.08)</u>	<u>(0.14)</u>	<u>(0.08)</u>

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

26. Loss per Share (cont'd)

The diluted loss per share is equivalent to basic 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 Mar 2014 RM'000	Corresponding Quarter Ended 31 Mar 2013 RM'000	Current Year To Date 31 Mar 2014 RM'000	Corresponding Period Ended 31 Mar 2013 RM'000
Depreciation of property and equipment	418	181	418	181
Equipment written off	-	45	-	45
Impairment loss on				
- trade receivables	56	473	56	473
- other receivables	7	-	7	-
Realised (gain)/ loss on foreign exchange	(3)	6	(3)	6
Write-back of impairment loss on trade receivables	(77)	(73)	(77)	(73)
Interest expense	139	87	139	87
Interest income	(104)	(84)	(104)	(84)
Rental income	(35)	(92)	(35)	(92)

28. Authorisation

This interim financial report for the financial period ended 31 March 2014 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 26 May 2014 for release to the Bursa Securities.

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

Date : 26 May 2014