

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011**

**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 2010. 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 2010.

**2. Changes in Accounting Policies**

The accounting policies and methods of computation adopted in this quarter 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 2010 except for the adoption of the following new and revised Financial Reporting Standards (“FRSs”), Amendments to FRSs and IC Interpretations and Technical Releases (“TR”):

FRS 1 First-time Adoption of Financial Reporting Standards  
FRS 3 Business Combinations (Revised)  
FRS 127 Consolidated and Separate Financial Statements (Revised)  
Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters (Amendment to FRS 1)  
Additional Exemptions for First-time Adopters (Amendments to FRS 1)  
Improving Disclosures about Financial Instruments (Amendments to FRS 7)  
Amendments to FRS 2 Share-based Payment  
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)  
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations  
Amendments to FRS 132 Financial Instruments: Presentation  
Amendments to FRS 138 Intangible Assets  
Amendments to FRSs contained in the document entitled “Improvements to FRSs (2010)”  
IC Interpretation 4: Determining whether an Arrangement contains a Lease  
IC Interpretation 12: Service Concession Arrangements  
IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation  
IC Interpretation 17: Distributions of Non-cash Assets to Owners  
IC Interpretation 18: Transfers of Assets from Customers  
Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives  
TR 1-4 Shariah Compliant Sale Contracts

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**2. Changes in Accounting Policies (cont'd)**

The adoption of the above FRSs, Amendments to FRSs, IC Interpretations and TR does not have any significant impact on the financial position and performance of the Group except for the revised FRS 3 and FRS 127 as described below.

**FRS 3, Business Combinations (Revised) and FRS 127, Consolidated and Separate Financial Statements (Revised)**

The revised FRS 3 introduces a number of significant changes to the accounting for business combinations with greater use of fair value. These changes include recognising all acquisition-related costs as expense, measuring any pre-existing interest at fair value and allowing measurement of non-controlling interest (previously known as minority interest) at either fair value or at its proportionate share of the acquiree's net identifiable assets. The revised FRS 127 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The revised standard also requires all losses attributable to the minority shareholders to be absorbed by minority shareholders instead of by the parent. The Group applied the changes of revised FRS 3 and FRS 127 prospectively and therefore there is no financial impact on the financial statements of the Group for the current financial year but impact the accounting for future transactions or arrangements with non-controlling interests.

The Group has not applied in advance the following new and revised FRSs, Amendments to FRSs and IC Interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the current financial year:

<b>FRSs/IC Interpretations</b>	<b>Effective date</b>
FRS 124 Related Party Disclosures (Revised)	1 January 2012
IC Interpretation 15: Arrangements for the Construction of Real Estate	1 January 2012
IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)	1 July 2011

The adoption of the above FRSs, Amendments to FRSs and IC Interpretations is not expected to have any significant impact on the financial position and performance of the Group.

**3. Status of Audit Qualifications**

The auditors' report on the financial statements for the financial year ended 31 December 2010 was not subject to any qualification.

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**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.

**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.

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

	<b>Current Year Quarter Ended 30 Jun 2011 RM'000</b>	<b>Corresponding Quarter Ended 30 Jun 2010 RM'000</b>	<b>Current Year To Date 30 Jun 2011 RM'000</b>	<b>Corresponding Period Ended 30 Jun 2010 RM'000</b>
<b>SEGMENT REVENUE</b>				
Malaysia	30,688	37,061	68,520	72,441
Bangladesh	118,500	125,041	227,801	249,044
The British Virgin Islands	116	615	191	1,144
Cambodia	4,181	2,135	6,258	5,358
Indonesia	2,094	1,715	3,617	3,627
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	155,579	166,567	306,387	331,614
Inter-segment sales	(124)	(184)	(204)	(7,283)
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<b>TOTAL</b>	<b>155,455</b>	<b>166,383</b>	<b>306,183</b>	<b>324,331</b>
<b>SEGMENT RESULTS</b>				
Malaysia	(1,407)	(589)	(1,334)	(4,819)
Bangladesh	388	99	736	283
The British Virgin Islands	(720)	(323)	(913)	(342)
Cambodia	67	(67)	117	(90)
Indonesia	60	77	85	123
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	(1,612)	(803)	(1,309)	(4,845)
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**10. Revaluation of Property and Equipment**

The valuations of property and equipment have been brought forward without amendment from the financial year ended 31 December 2010.

**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.

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**12. Significant Related Party Transactions**

The recurrent related party transactions (“RRPT”) involved the sales of IT product & accessories, purchases of IT products and commission 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 Quarter Ended 30 June 2011 RM’000	Corresponding Quarter Ended 30 June 2010 RM’000	Current Year To Date 30 June 2011 RM’000	Corresponding Period Ended 30 June 2010 RM’000
1 Southall Sdn Bhd	Sales of IT products & accessories	-	166	1	168
2 Southall Sdn Bhd	Purchases of IT products	1	2	5	3
3 Integra Communication Ltd	Commission paid	-	305	-	662
4 Deens Telecom Ltd	Commission paid	-	267	-	579

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

Save as disclosed below, there were no material changes in the composition of the Group during the current quarter under review and financial year-to-date:-

Compugates Marketing Sdn. Bhd. (“CMSB”) a subsidiary of Compugates Holdings Berhad (“CHB”) had on 23 May 2011 acquired five (5) ordinary shares of RM1.00 each, representing 5% of the total issued and paid up share capital of Compugates Development and Mining Sdn. Bhd. (“CDMSB”) for a total consideration of RM500,000. With the aforesaid acquisition, CMSB’s shareholding in CDMSB was increased from 60% to 65%.

**14. Significant Subsequent Events**

Save as disclosed below, 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:-

- 1) Compugates Marketing Sdn. Bhd. (“CMSB”) a subsidiary of Compugates Holdings Berhad (“CHB”) had on 6 July 2011 entered into an agreement with Mutiara Pertini Sdn. Bhd. to purchase a timber concession for all timber fell, extracted and removed from the forest compartment at Tanah Kerajaan Mukim Gerik, Daerah Hutan Hulu Perak, Perak for a consideration of RM400,000.

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**14. Significant Subsequent Events (cont'd)**

- 2) Compugates Marketing Sdn. Bhd. ("CMSB") a subsidiary of Compugates Holdings Berhad ("CHB") had on 4 August 2011 acquired five (5) ordinary shares of RM1.00 each, representing 5% of the total issued and paid up share capital of Compugates Development and Mining Sdn. Bhd. ("CDMSB") for a total consideration of RM1,600,000. With the aforesaid acquisition, CMSB's shareholding in CDMSB was increased from 65% to 70%.

**15. Capital Commitment**

The Group has no capital commitment as of 30 June 2011.

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

**16. Review of Performance**

The Group registered a revenue of approximately RM155.5 million for the quarter ended 30 June 2011, which was approximately RM10.9 million lower as compared to the preceding year corresponding quarter ended 30 June 2010 of approximately RM166.4 million. The lower revenue was mainly due to lower revenue contribution from Malaysian and Bangladesh subsidiaries. For the six month ended 30 June 2011, the Group recorded a revenue of approximately RM306.2 million, which was approximately RM18.1 million lower as compared to the preceding year corresponding period ended 30 June 2010 of approximately RM324.3 million. The lower revenue was due to the reason as mentioned above.

During the current quarter and financial year-to-date ended 30 June 2011, the Group recorded a loss before taxation (“LBT”) of approximately RM1.0 million and RM0.1 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 30 June 2010 LBT of approximately RM0.5 million and RM4.2 million respectively. The LBT for current quarter was mainly due to loss on disposal of quoted securities and higher advertisement and promotion expenses during the current quarter and LBT for year-to-date was mainly due to higher administrative expenses provided by the Malaysian subsidiaries in the preceding year corresponding period ended 30 June 2010.

**17. Comment on Material Changes in the Results for the Quarter Reported on as Compared With The Immediate Preceding Quarter**

The Group registered revenue of approximately RM155.5 million for the quarter ended 30 June 2011, which was approximately RM4.8 million higher than the previous quarter ended 31 March 2011 of approximately RM150.7 million. The higher revenue was mainly due to higher revenue contribution from Bangladesh subsidiary.

The Group recorded a LBT of approximately RM1.0 million for the quarter ended 30 June 2011 compared to the preceding quarter profit before tax (“PBT”) of approximately RM0.9 million. This was mainly due to loss on disposal of quoted securities, higher advertisement and promotion expenses and administrative expenses during the current quarter.

**18. Current Year Prospect**

The Board is of the view that, barring any unforeseen circumstances, the Group’s business prospects will remain challenging given the competitive market. At the same time, the Board will continuously explore other business activities that will add value to the Group.

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**19. Profit Forecast or Profit Guarantee**

The disclosure requirements for explanatory notes for the variance of actual profit and forecast profit and for the shortfall in profit guarantee are not applicable.

**20. Income Tax Expense**

	<b>Current Year Quarter Ended 30 Jun 2011 RM'000</b>	<b>Corresponding Quarter Ended 30 Jun 2010 RM'000</b>	<b>Current Year To Date 30 Jun 2011 RM'000</b>	<b>Corresponding Period Ended 30 Jun 2010 RM'000</b>
Current tax expense:				
- for the quarter/ period	583	436	1,166	721
- over provision in the previous financial year	-	(88)	-	(88)
	<u>583</u>	<u>348</u>	<u>1,166</u>	<u>633</u>
Deferred taxation				
- Origination and reversal of temporary differences	-	(3)	-	(34)
	<u>583</u>	<u>345</u>	<u>1,166</u>	<u>599</u>

The Group's 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. Profit from Sale of Unquoted Investments and/or Properties**

There were no disposals of unquoted investments and/or properties in the current quarter under review and financial year-to-date.



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**22. Quoted Securities**

Save as disclosed below, there were no purchases or disposals of quoted securities in the current quarter under review and financial year-to-date.

a) Total purchase and disposal of quoted securities by the Group were as follows:-

	<b>Current Year Quarter Ended 30 Jun 2011 RM'000</b>	<b>Corresponding Quarter Ended 30 Jun 2010 RM'000</b>	<b>Current Year To Date 30 Jun 2011 RM'000</b>	<b>Corresponding Period Ended 30 Jun 2010 RM'000</b>
Purchase of quoted securities	1,764	266	1,764	881
Proceeds from disposal of quoted securities	402	-	402	411
(Loss)/Gain on disposal of quoted securities	(237)	-	(237)	21

b) Quoted securities at end of the current quarter were as follows:-

	<b>As at 30 June 2011 RM'000</b>
At carrying amount	8,494
At market value	8,494

**23. Status of Corporate Proposals**

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

The Company had on 10 June 2011 proposed to undertake a bonus issue of 1,067,144,510 warrants (Warrants) in Compugates Holdings Berhad ("CHB") on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 each in CHB ("Proposed Bonus Issue of Warrants"). On 30 June 2011, Bank Negara Malaysia approved the issuance of the warrants to non-resident shareholders pursuant to the Proposed Bonus Issue of Warrants. On 19 July 2011, the Company further announced that the listing application in relation to the Proposed Bonus Issue of Warrants has been submitted to Bursa Malaysia Securities Berhad.

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**24. Borrowings and Debt Securities**

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

	<b>As at 30 Jun 2011 RM'000</b>	<b>As at 31 Dec 2010 RM'000</b>
Short term borrowings – secured - banker's acceptance	9,644	6,348

**25. Off Balance Sheet Financial Instruments**

There were no off balance sheet financial instruments entered into by the Group as at the date of this announcement.

**26. Realised and Unrealised Profits/(Losses) Disclosure**

	<b>As at 30 Jun 2011 RM'000</b>	<b>As at 31 Dec 2010 RM'000</b>	<b>As at 30 Jun 2010 RM'000</b>
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:			
Realised	(144,161)	(142,864)	Not applicable
Unrealised	95	89	
	<u>(144,066)</u>	<u>(142,775)</u>	
Less: Consolidation adjustments	20,487	20,486	
Total accumulated losses	<u>(123,579)</u>	<u>(122,289)</u>	

Comparative figures were not required in the first financial year of complying with the Realised and Unrealised Profits/(Losses) Disclosure.

**27. 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 or threatened against the Group which might materially and adversely affect the financial position or business of the Group.

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**28. Dividend**

The Board of Directors does not recommend any dividend for the quarter ended 30 June 2011.

**29. Earnings per Share**

The earnings per share is calculated by dividing the Group's profit 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 30 Jun 2011</b>	<b>Corresponding Quarter Ended 30 Jun 2010</b>	<b>Current Year To Date 30 Jun 2011</b>	<b>Corresponding Period Ended 30 Jun 2010</b>
Loss attributable to equity holders of parent (RM'000)	(1,195)	(714)	(762)	(4,866)
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)	(0.06)	(0.03)	(0.04)	(0.23)

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.

**30. Authorisation**

This interim financial report for the financial period ended 30 June 2011 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 26 August 2011 for release to the Bursa Securities.

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

Dated : 26 August 2011