Compugates Holdings Berhad

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 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 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

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.

MFRS Framework issued but not yet effective
On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework") in conjunction with the MASB's plan to converge with International Financial Reporting Standards ("IFRS") in 2012. The MFRS Framework comprises Standards as issued by the International Accounting Standards Board ("IASB") that are effective on 1 January 2012 and new/revised Standards that will be effective after 1 January 2012.

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual financial periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture and IC Interpretation 15 Agreements for Construction of Real Estate, including its parent, significant investor and venturer (herein referred as "Transitioning Entities"). The adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual financial period beginning on or after 1 January 2013.

The Group, which is a transitioning entity, elected to continue preparing its financial statements in accordance with the FRS framework for annual financial periods before 1 January 2013. As such, the Group will present its first financial statements in accordance with the MFRS framework for the financial year beginning on 1 January 2013.

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

2. Changes in Accounting Policies (cont'd)

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 MASB but are not yet effective for the current financial year:

FRSs/IC Interpretations	Effective date
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
FRS 124 Related Party Disclosures (Revised)	1 January 2012
Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters (Amendments to FRS 1)	1 January 2012
Disclosures - Transfers of Financial Assets (Amendments to FRS 7)	1 January 2012
Deferred tax: Recovery of Underlying Assets (Amendments to FRS 112)	1 January 2012
Presentation of Items of Other Comprehensive Income (Amendments to FRS 101)	1 July 2012
FRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	1 January 2013
FRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	1 January 2013
FRS 10 Consolidated Financial Statements	1 January 2013
FRS 11 Joint Arrangements	1 January 2013
FRS 12 Disclosures of Interest in Other Entities	1 January 2013
FRS 13 Fair Value Measurement	1 January 2013
FRS 119 Employee Benefits (as amended in November 2011)	1 January 2013
FRS 127 Separate Financial Statement (as amended in November 2011)	1 January 2013
FRS 128 Investments in Associates and Joint Ventures (as amended in November 2011)	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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

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.

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.

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

	Current Year Quarter Ended 31 Dec 2011 RM'000	Corresponding Quarter Ended 31 Dec 2010 RM'000	Current Year To Date 31 Dec 2011 RM'000	Corresponding Period Ended 31 Dec 2010 RM'000
SEGMENT REVENUE				
Malaysia	33,411	32,355	141,207	141,272
Bangladesh	109,685	125,358	456,224	488,098
The British Virgin Islands	302	101	754	2,079
Cambodia	3,213	2,453	13,823	9,473
Indonesia	1,581	1,680	7,540	6,982
	148,192	161,947	619,548	647,904
Inter-segment sales	(1,434)	(1,454)	(1,774)	(10,044)
TOTAL	146,758	160,493	617,774	637,860
SEGMENT RESULTS				
Malaysia	(20,104)	(6,457)	(22,198)	(10,548)
Singapore	-	2	-	(1)
Bangladesh	(1,858)	(538)	(1,054)	(892)
The British Virgin Islands	(242)	(451)	(1,524)	(1,524)
Cambodia	(12)	23	135	(52)
Indonesia	65	45	236	169
	(22,151)	(7,376)	(24,405)	(12,848)

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.

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 31 Dec 2011 RM'000	Corresponding Quarter Ended 31 Dec 2010 RM'000	Current Year To Date 31 Dec 2011 RM'000	Corresponding Period Ended 31 Dec 2010 RM'000
1	Southall Sdn Bhd	Sales/(sales return) of IT products & accessories	-	(28)	2	237
2	Southall Sdn Bhd	Purchases of IT products	1	5	10	8
3	Integra Communication Ltd	Commission paid	691	422	964	1,731
4	Deens Telecom Ltd	Commission paid	-	352	-	1,444

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%. CMSB had on 4 August 2011 acquired another five (5) ordinary shares of RM1.00 each, representing 5% of the total issued and paid up share capital of CDMSB for a total consideration of RM1,600,000. Consequently, CMSB's shareholding in CDMSB was increased from 65% to 70%.

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 and financial year-to-date.

15. Capital Commitment

The Group has no capital commitment as of 31 December 2011.

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

16. Review of Performance

	Current Year Quarter Ended 31 Dec 2011 RM'000	Corresponding Quarter Ended 31 Dec 2010 RM'000	Current Year To Date 31 Dec 2011 RM'000	Corresponding Period Ended 31 Dec 2010 RM'000
SEGMENT PROFIT/(LOSS) BEFORE TAXATION				
Malaysia	(20,441)	(7,363)	(21,739)	(10,915)
Singapore	-	(18)	-	(18)
Bangladesh	(1,957)	344	(550)	(181)
The British Virgin Islands	(243)	(451)	(1,525)	(1,182)
Cambodia	(12)	24	135	(52)
Indonesia	66	47	237	209
TOTAL	(22,587)	(7,417)	(23,442)	(12,139)

The Group registered a revenue of approximately RM146.8 million for the quarter ended 31 December 2011, which was approximately RM13.7 million lower as compared to the preceding year corresponding quarter ended 31 December 2010 of approximately RM160.5 million. The lower revenue was mainly due to lower revenue contribution from Bangladesh and Indonesian subsidiaries. For the twelve months ended 31 December 2011, the Group recorded a revenue of approximately RM617.8 million, which was approximately RM20 million lower as compared to the preceding year corresponding period ended 31 December 2010 of approximately RM637.8 million. The lower revenue was mainly due to dropped in revenue contributed by Bangladesh and The British Virgin Islands subsidiaries.

The Malaysian subsidiaries recorded a loss before taxation ("LBT") during the current quarter and financial year-to-date ended 31 December 2011 of approximately RM20.4 million and RM21.7 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2010 of approximately RM7.4 million and RM10.9 million respectively. The higher LBT for current year quarter and current year-to-date were mainly due to impairment loss of goodwill on consolidation and impairment loss on available-for-sales investments amounting to RM12.0 million and RM2.6 million respectively.

The Bangladesh subsidiary recorded a LBT during the current quarter and financial year-to-date ended 31 December 2011 of approximately RM2.0 million and RM0.5 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2010 PBT of approximately RM0.3 million and LBT of approximately RM0.2 million respectively. The higher LBT for current quarter were mainly due to higher cost of sales in the quarter ended 31 December 2011.

16. Review of Performance (cont'd)

The British Virgin Islands subsidiaries recorded a LBT during the current quarter and financial year-to-date ended 31 December 2011 of approximately RM0.2 million and RM1.5 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2010 of approximately RM0.5 million and RM1.2 million respectively. The lower LBT for current quarter compared to corresponding quarter were mainly due to lower revenue contribution in the current quarter amounting to RM0.2 million.

The Cambodian subsidiary recorded a LBT during the current quarter and a profit before taxation ("PBT") during the financial year-to-date ended 31 December 2011 of approximately RM0.01 million and RM0.14 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2010 PBT of approximately RM0.02 million and LBT of approximately RM0.05 million respectively. The higher PBT for current year-to-date were mainly due to higher profit margin during the year ended 31 December 2011.

The Indonesian subsidiary recorded a PBT during the current quarter and financial year-to-date ended 31 December 2011 of approximately RM0.07 million and RM0.2 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2010 of approximately RM0.05 million and RM0.2 million respectively. The marginally higher PBT for current quarter were mainly due to higher revenue contribution in the quarter ended 31 December 2011.

During the current quarter and financial year-to-date ended 31 December 2011, the Group recorded a LBT of approximately RM22.6 million and RM23.4 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2010 of approximately RM7.4 million and RM12.1 million respectively. The higher LBT for current quarter and current year-to-date were mainly due to impairment loss of goodwill on consolidation and impairment loss on available-for-sales investments amounting to RM12.0 million and RM2.6 million respectively recognised during the current period.

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 RM146.8 million for the quarter ended 31 December 2011, which was approximately RM18 million lower than the preceding quarter ended 30 September 2011 of approximately RM164.8 million. The lower revenue was mainly due to lower revenue contribution from Malaysian, Bangladesh, Cambodia and Indonesian subsidiaries.

The Group recorded a LBT of approximately RM22.6 million for the quarter ended 31 December 2011 compared to the immediate preceding quarter of approximately RM0.7 million. This was mainly due to lower profit margin, impairment loss of goodwill on consolidation, impairment loss on available-for-sale investment and higher administrative expenses provided during the quarter ended 31 December 2011.

18. Current Year Prospect

It is expected that for the current financial year, the results of the Group will continue to be satisfactory although possibly lower than the financial year just ended. The Board is of the view that, barring any unforeseen circumstances, the trading and distribution business is expected to be remain challenging given the competitive market. Nevertheless the Company has confidence that we will be able to realize our objective to maintain our position as of the major distributors of information technology and imaging products in the country. At the same time, the Board will continuously explore other business activities that will add value to the Group.

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

	Current Year Quarter Ended 31 Dec 2011 RM'000	Corresponding Quarter Ended 31 Dec 2010 RM'000	Current Year To Date 31 Dec 2011 RM'000	Corresponding Period Ended 31 Dec 2010 RM'000
Current tax expense:				
- for the quarter/ period	(423)	1,134	1,137	2,883
- over provision in the previous financial year	-	(1,172)	(161)	(2,131)
	(423)	(38)	976	752
Deferred taxation				
- Origination and reversal of temporary differences	(13)	(3)	(13)	(43)
	(436)	(41)	963	709

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. 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. On 1 November 2011, the Company announced that Bursa Malaysia Securities Berhad had via its letter dated 1 November 2011 resolved to reject the Company's application in relation to the Proposed Bonus Issue of Warrants.

22. Borrowings and Debt Securities

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

	As at 31 Dec 2011 RM'000	**As at 31 Dec 2010 RM'000**
Short term borrowings – secured		
- banker's acceptance	5,359	6,348

23. Realised and Unrealised Profits/(Losses) Disclosure

	As at 31 Dec 2011 RM'000	**As at 31 Dec 2010 RM'000**
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(156,831)	(142,864)
Unrealised	101	89
	(156,730)	(142,775)
Less: Consolidation adjustments	12,418	20,486
Total accumulated losses	(144,312)	(122,289)

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

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 December 2011.

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 Dec 2011	Corresponding Quarter Ended 31 Dec 2010	Current Year To Date 31 Dec 2011	Corresponding Period Ended 31 Dec 2010
Loss attributable to equity holders of parent (RM'000)	(20,645)	(6,154)	(21,949)	(11,911)
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)	(0.97)	(0.29)	(1.03)	(0.56)

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.

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

27. Loss before taxation

Loss before tax includes the following items.

	Current Year Quarter Ended 31 Dec 2011 RM'000	Corresponding Quarter Ended 31 Dec 2010 RM'000	Current Year To Date 31 Dec 2011 RM'000	Corresponding Period Ended 31 Dec 2010 RM'000
Allowance for inventory obsolescence	44	100	44	100
Bad debts written off	1	-	2	6
Depreciation of property and equipment	194	223	825	833
Depreciation of investment property	16	16	63	62
Equipment written off	1	2	7	38
Inventories written off	-	-	-	4
Gain on disposal of equipment	-	(161)	(4)	(138)
Impairment loss on available-for-sale investments	2,574	2,115	2,574	2,115
Impairment loss of goodwill on consolidation	12,000	-	12,000	-
Impairment loss on:				
- trade receivables	214	39	679	476
- other receivables	-	2,000	-	2,000
(Gain)/Loss on disposal of available-for-sale investments	(7)	-	230	(21)
Unrealised loss on foreign exchange	-	-	-	2
Write-back of impairment loss on receivables	(86)	(89)	(742)	(459)
Write-back of allowance for inventory obsolescence	-	-	(383)	-
Interest expense	104	45	396	83
Interest income	5	(98)	(359)	(386)

28. Authorisation

This interim financial report for the financial year ended 31 December 2011 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 20 February 2012 for release to the Bursa Securities.

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

Dated : 20 February 2012