

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2012

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 2011. 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 2011.

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 2011 except for the adoption of the following revised Financial Reporting Standard (“FRS”), Amendments to FRSs and IC Interpretation:

IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)
FRS 124 Related Party Disclosures (Revised)
Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters (Amendments to FRS 1)
Disclosures - Transfers of Financial Assets (Amendments to FRS 7)
Deferred tax: Recovery of Underlying Assets (Amendments to FRS 112)

The adoption of the above FRS, Amendments to FRSs, IC Interpretation does not have any significant impact on the financial position and performance of the Group.

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.

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2. Changes in Accounting Policies (cont'd)

MFRS Framework issued but not yet effective (cont'd)

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 2014.

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 2014. As such, the Group will present its first financial statements in accordance with the MFRS framework for the financial year beginning on 1 January 2014.

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

The Group has not applied in advance the following new and revised FRSs, Amendments to FRSs and IC Interpretation that have been issued by the MASB but are not yet effective for the current financial year:

FRSs/IC Interpretations	Effective date
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 2015
FRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	1 January 2015
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
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 7)	1 January 2013
Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)	1 January 2014
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Government Loans (Amendments to MFRS 1)	1 January 2013

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

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3. Status of Audit Qualifications

The auditors' report on the financial statements for the financial year ended 31 December 2011 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.

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

	Current Year Quarter Ended 31 Dec 2012 RM'000	Corresponding Quarter Ended 31 Dec 2011 RM'000	Current Year To Date 31 Dec 2012 RM'000	Corresponding Period Ended 31 Dec 2011 RM'000
SEGMENT REVENUE				
Malaysia	39,290	33,411	150,696	141,207
Bangladesh	701	109,685	352,877	456,224
The British Virgin Islands	359	302	1,276	754
Cambodia	2,544	3,213	12,128	13,823
Indonesia	2,533	1,580	9,365	7,539
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	45,427	148,191	526,342	619,547
Inter-segment sales	(1,285)	(1,434)	(1,573)	(1,774)
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TOTAL	44,142	146,757	524,769	617,773
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SEGMENT RESULTS				
Malaysia	(5,497)	(20,104)	(8,346)	(22,198)
Singapore	-	(6)	-	(6)
Bangladesh	(164)	(1,858)	(120)	(1,054)
The British Virgin Islands	(134)	(242)	(998)	(1,524)
Cambodia	(6)	(15)	85	132
Indonesia	150	1	368	172
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	(5,651)	(22,224)	(9,011)	(24,478)
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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 2011.

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	Corresponding	Current Year	Corresponding
		Quarter Ended 31 Dec 2012 RM’000	Quarter Ended 31 Dec 2011 RM’000	To Date 31 Dec 2012 RM’000	Period Ended 31 Dec 2011 RM’000
1 Southall Sdn Bhd	Sales of IT products & accessories	-	1	1	2
2 Southall Sdn Bhd	Purchases of IT products	2	4	5	9
3 Integra Communication Ltd	Commission paid	-	273	-	273
		-	273	-	273

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 and financial year-to-date.

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 2012.

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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 Dec 2012 RM'000	Corresponding Quarter Ended 31 Dec 2011 RM'000	Current Year To Date 31 Dec 2012 RM'000	Corresponding Period Ended 31 Dec 2011 RM'000
SEGMENT (LOSS)/PROFIT BEFORE TAXATION				
Malaysia	(5,920)	(20,441)	(8,043)	(21,739)
Singapore	-	(6)	-	(6)
Bangladesh	(18)	(1,957)	660	(550)
The British Virgin Islands	(134)	(242)	(998)	(1,524)
Cambodia	(7)	(15)	84	132
Indonesia	150	61	368	232
TOTAL	(5,929)	(22,600)	(7,929)	(23,455)

The Group registered a revenue of approximately RM44.1 million for the quarter ended 31 December 2012, which was approximately RM102.7 million lower as compared to the preceding year corresponding quarter ended 31 December 2011 of approximately RM146.8 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.

The Malaysian subsidiaries recorded a loss before taxation (“LBT”) during the current quarter ended 31 December 2012 of approximately RM5.9 million as compared to the preceding year corresponding quarter ended 31 December 2011 of approximately RM20.4 million. The lower LBT for current year corresponding quarter was mainly due to impairment loss on goodwill on consolidation of RM12.0 million and higher impairment loss on available-for-sales investments in preceding year corresponding quarter of RM2.6 million compared to RM1.3 million in the current year quarter and the lower LBT for current quarter was also mainly due to additional trade incentives received from a supplier during the quarter ended 31 December 2012 which was implemented on 1 July 2012.

The Bangladesh subsidiary recorded a LBT during the current quarter ended 31 December 2012 of approximately RM0.02 million as compared to the preceding year corresponding quarter ended 31 December 2011 of approximately RM2.0 million. The lower LBT for current quarter was mainly due to improved profit margin in the current quarter ended 31 December 2012.

The British Virgin Islands subsidiaries recorded a LBT during the current quarter ended 31 December 2012 of approximately RM0.1 million as compared to the preceding year corresponding quarter ended 31 December 2011 of approximately RM0.2 million. The

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16. Detailed Performance Analysis (cont'd)

lower LBT for current quarter was mainly due to increase in project advisory and management fees received in the quarter ended 31 December 2012.

During the current quarter ended 31 December 2012, the Group recorded a LBT of approximately RM5.9 million as compared to the preceding year corresponding quarter ended 31 December 2011 of approximately RM22.6 million. The lower LBT for current year corresponding quarter was mainly attributable to the lower LBT in the Malaysia segment.

During the current period ended 31 December 2012, the Group recorded a LBT of approximately RM7.9 million as compared to the preceding year corresponding period ended 31 December 2011 of approximately RM23.4 million. The lower LBT for current year was mainly due to impairment loss on goodwill on consolidation and higher impairment loss on available-for-sales investments in preceding year

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

The Group registered a revenue of approximately RM44.1 million for the quarter ended 31 December 2012, which was approximately RM53.6 million lower than the preceding quarter ended 30 September 2012 of approximately RM97.7 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.

The Group recorded a LBT of approximately RM5.9 million for the quarter ended 31 December 2012 compared to the immediate preceding quarter of approximately RM0.5 million mainly due to impairment loss on available-for-sale investment and higher administrative expenses incurred during the 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. The Board expects the Group to perform better going forward, however for the next financial year the performance is not expected to be worse off than the current year.

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 Dec 2012 RM'000	Corresponding Quarter Ended 31 Dec 2011 RM'000	Current Year To Date 31 Dec 2012 RM'000	Corresponding Period Ended 31 Dec 2011 RM'000
Current tax expense:				
- for the quarter	228	(361)	1,589	1,199
- over provision in the previous financial year	(506)	-	(507)	(161)
	<u>(278)</u>	<u>(361)</u>	<u>1,082</u>	<u>1,038</u>
Deferred taxation				
- Origination and reversal of temporary differences	-	(15)	-	(15)
	<u>(278)</u>	<u>(376)</u>	<u>1,082</u>	<u>1,023</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. 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:

	31 Dec 2012 RM'000	31 Dec 2011 RM'000
Short term borrowings – secured		
- banker's acceptance	14,400	5,359
	<u>14,400</u>	<u>5,359</u>

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23. Realised and Unrealised Losses/Profit Disclosure

	As at 31 Dec 2012 RM'000	As at 31 Dec 2011 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(167,299)	(156,902)
Unrealised	(73)	101
	<u>(167,372)</u>	<u>(156,801)</u>
Less: Consolidation adjustments	15,421	12,457
Total accumulated losses	<u>(151,951)</u>	<u>(144,344)</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 December 2012.

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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 2012	Corresponding Quarter Ended 31 Dec 2011	Current Year To Date 31 Dec 2012	Corresponding Period Ended 31 Dec 2011
Loss attributable to equity holders of parent (RM'000)	(5,292)	(20,751)	(7,607)	(22,055)
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>(0.25)</u>	<u>(0.97)</u>	<u>(0.36)</u>	<u>(1.03)</u>

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.

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27. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 31 Dec 2012 RM'000	Corresponding Quarter Ended 31 Dec 2011 RM'000	Current Year To Date 31 Dec 2012 RM'000	Corresponding Period Ended 31 Dec 2011 RM'000
Bad debts written off	-	-	-	2
Depreciation of property and equipment	181	199	753	830
Depreciation of investment property	15	15	64	62
Equipment written off	8	1	8	7
Inventories written off	-	-	4	-
Gain on disposal of equipment	-	-	(2)	(4)
Impairment loss on available-for-sale investments	1,343	2,574	1,343	2,574
Impairment loss on inventories	-	44	-	44
Impairment loss of goodwill on consolidation	-	12,000	-	12,000
Impairment loss on:				
- trade receivables	27	214	447	679
Loss/(Gain) on disposal of available-for-sale investments	-	(7)	(200)	230
Unrealised loss on foreign exchange	-	-	1	-
Realised gain on foreign exchange	(163)	-	(173)	-
Write-back of impairment loss on receivables	(42)	(87)	(524)	(743)
Write-back of allowance for inventory obsolescence	(54)	-	(92)	(383)
Interest expense	150	118	492	410
Interest income	(88)	5	(357)	(359)

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28. Authorisation

This interim financial report for the financial period ended 31 December 2012 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 25 February 2013 for release to the Bursa Securities.

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

Date : 25 February 2013