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

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

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

Amendments to IC Int

IC Int 2	Members' Shares in Co-operative Entities & Similar Instruments

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 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.

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 corresponding quarter ended 30 June 2012			
Other expenses	(327)	15	(312)
Loss before taxation	(578)	15	(563)
Loss after taxation	(1,071)	15	(1,056)
Total comprehensive loss	(2,066)	15	(2,051)
Loss attributable to:			
- Owners of the Parent	(857)	11	(846)
- Non-controlling interests	(214)	4	(210)
Total comprehensive loss attributable to:			
- Owners of the Parent	(1,820)	11	(1,809)
- Non-controlling interests	(246)	4	(242)

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 (cont'd):

	As previously reported RM'000	Effect of change on accounting policy RM'000	As restated RM'000
Condensed Consolidated Statement of Comprehensive Income (cont'd)			
Cumulative period corresponding period ended 30 June 2012			
Other expenses	(714)	31	(683)
Loss before taxation	(1,453)	31	(1,422)
Loss after taxation	(2,354)	31	(2,323)
Total comprehensive loss	(2,666)	31	(2,635)
Loss attributable to:			
- Owners of the Parent	(1,599)	22	(1,577)
- Non-controlling interests	(755)	9	(746)
Total comprehensive loss attributable to:			
- Owners of the Parent	(1,897)	22	(1,875)
- Non-controlling interests	(769)	9	(760)

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

2. Changes in Accounting Policies (cont'd)

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 2015. 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 2015. The Group will prepare its first MFRSs financial statements using the MFRSs Framework for the financial year ending 31 December 2015.

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 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 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 30 Jun 2013 RM'000		Corresponding Quarter Ended 30 Jun 2012 RM'000	Current Year To Date 30 Jun 2013 RM'000		Corresponding Period Ended 30 Jun 2012 RM'000
SEGMENT REVENUE						
Malaysia	31,306		38,585	66,328		76,354
Bangladesh	1,890	#	162,663	2,589	*	297,493
The British Virgin Islands	256		405	507		586
Cambodia	8,716		3,451	12,232		6,603
Indonesia	321		2,827	1,366		4,731
	42,489		207,931	83,022		385,767
Inter-segment sales	(114)		(118)	(197)		(209)
TOTAL	42,375		207,813	82,825		385,558

	Current Year Quarter Ended 30 Jun 2013 RM'000	Corresponding Quarter Ended 30 Jun 2012 RM'000 Restated	Current Year To Date 30 Jun 2013 RM'000	Corresponding Period Ended 30 Jun 2012 RM'000 Restated
SEGMENT RESULTS				
Malaysia	(1,115)	(1,026)	(3,133)	(2,026)
Bangladesh	23	109	(249)	77
The British Virgin Islands	(131)	(272)	256	(604)
Cambodia	63	45	(26)	90
Indonesia	5	88	1	140
	(1,155)	(1,056)	(3,151)	(2,323)

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

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 30 June 2012, the revenue would have been RM119,465,000.

* 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 period ended 30 June 2012, the revenue would have been RM232,484,000.

10. Revaluation of Property and Equipment

During the financial period, 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") 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 Quarter Ended 30 Jun 2013 RM'000	Corresponding Quarter Ended 30 Jun 2012 RM'000	Current Year To Date 30 Jun 2013 RM'000	Corresponding Period Ended 30 Jun 2012 RM'000
1	Southall Sdn Bhd	Sales of IT products & accessories	-	-	-	1
2	Southall Sdn Bhd	Purchases of IT products	-	-	-	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 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 save for the following:

On 30 July 2013, a subsidiary of the Group, Compugates Sdn. Bhd. ("CSB"), disposed a 3-storey shop office with net carrying amount of RM1,223,200 for cash consideration of RM3,150,000 resulting in net gain on disposal of RM1,924,810 (after deducting professional charges of RM1,990).

15. Capital Commitment

The Group has no capital commitment as of 30 June 2013.

16. Detailed Performance Analysis

	Current Year Quarter Ended 30 Jun 2013 RM'000	Corresponding Quarter Ended 30 Jun 2012 RM'000 Restated	Current Year To Date 30 Jun 2013 RM'000	Corresponding Period Ended 30 Jun 2012 RM'000 Restated
SEGMENT LOSS BEFORE TAXATION				
Malaysia	(894)	(771)	(2,673)	(1,548)
Bangladesh	282	333	114	500
The British Virgin Islands	(131)	(268)	256	(604)
Cambodia	62	46	(26)	90
Indonesia	5	97	1	140
TOTAL	(676)	(563)	(2,328)	(1,422)

The Group registered revenue of approximately RM42.3 million for the quarter ended 30 June 2013, which was approximately RM165.5 million lower as compared to the preceding year corresponding quarter ended 30 June 2012 of approximately RM207.8 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 in the previous financial year.

The Malaysian subsidiaries recorded a loss before taxation ("LBT") during the current quarter ended 30 June 2013 of approximately RM0.9 million as compared to the preceding year corresponding quarter ended 30 June 2012 LBT of approximately RM0.8 million. The higher LBT for current year quarter were mainly due to higher impairment loss on trade receivables.

The Bangladesh subsidiary recorded a PBT during the current quarter ended 30 June 2013 of approximately RM0.3 million, which is not materially difference as compared to the preceding year corresponding quarter ended 30 June 2012.

The British Virgin Islands subsidiaries recorded a LBT during the current quarter ended 30 June 2013 of approximately RM0.1 million as compared to the preceding year corresponding quarter ended 30 June 2012 LBT of approximately RM0.3 million. The LBT for current quarter were mainly due to reversal of previous years' consultancy service fees which were over provided.

16. Detailed Performance Analysis (cont'd)

The Cambodia subsidiary recorded a higher PBT while the Indonesia subsidiary recorded a lower PBT during the current quarter ended 30 June 2013 as compared to the preceding year corresponding quarter ended 30 June 2012. The reasons were mainly due to increase in sales of recharge vouchers and SIM cards in Cambodia and decrease in sales of vouchers and starter packs and other income in Indonesia.

During the current quarter ended 30 June 2013, the Group recorded a LBT of approximately RM0.7 million as compared to the preceding year corresponding quarter ended 30 June 2012 of approximately RM0.6 million. The higher LBT for current quarter was mainly attributable to the higher LBT in the Malaysia segment.

During the current period ended 30 June 2013, the Group recorded a LBT of approximately RM2.3 million as compared to the preceding year corresponding period ended 30 June 2012 of approximately RM1.4 million. The higher LBT for current period were mainly due to staff incentives under accrued in preceding year adjusted in current period and higher impairment loss on trade receivables.

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 RM0.7 million for the quarter ended 30 June 2013 compared to the immediate preceding quarter of approximately RM1.7 million. Lower LBT during the current quarter ended 30 June 2013 was mainly due to gain on disposal of available-for-sale investments of RM0.9 million.

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.

20. Income Tax Expense

	Current Year Quarter Ended 30 Jun 2013 RM'000	Corresponding Quarter Ended 30 Jun 2012 RM'000	Current Year To Date 30 Jun 2013 RM'000	Corresponding Period Ended 30 Jun 2012 RM'000
Current tax expense:				
- for the period	479	497	821	880
- under provision in the previous financial year	-	(4)	2	21
	479	493	823	901
Deferred taxation				
- Origination and reversal of temporary differences	-	-	-	-
	479	493	823	901

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 30 Jun 2013 RM'000	As at 31 Dec 2012 RM'000
Short term borrowings – secured		
- banker's acceptance	12,556	14,400

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23. Realised and Unrealised Losses/Profit Disclosure

	As at 30 Jun 2013 RM'000	As at 31 Dec 2012 RM'000 Restated
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(170,990)	(167,602)
Unrealised	85,074	84,838
	(85,916)	(82,764)
Less: Consolidation adjustments	(9,303)	(9,876)
Total accumulated losses	(95,219)	(92,640)

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 30 June 2013 and financial year-to-date.

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 30 Jun 2013	Corresponding Quarter Ended 30 Jun 2012 Restated	Current Year To Date 30 Jun 2013	Corresponding Period Ended 30 Jun 2012 Restated
Loss attributable to equity holders of parent (RM'000)	(811)	(846)	(2,559)	(1,577)
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)	(0.04)	(0.04)	(0.12)	(0.07)

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 30 Jun 2013 RM'000	Corresponding Quarter Ended 30 Jun 2012 RM'000 Restated	Current Year To Date 30 Jun 2013 RM'000	Corresponding Period Ended 30 Jun 2012 RM'000 Restated
Depreciation of property and equipment	360	193	541	389
Equipment written off	-	-	46	-
Inventories written off	-	-	-	4
Gain on disposal of equipment	-	-	-	(2)
Impairment loss on trade receivables	90	119	563	291
Gain on disposal of available-for- sale investments	(873)	-	(873)	(26)
Unrealised loss on foreign exchange	-	-	-	1
Unrealised gain on foreign exchange	(1)	(1)	(1)	(1)
Realised loss on foreign exchange	3	-	9	-
Write-back of impairment loss on trade receivables	(381)	(204)	(454)	(417)
Interest expense	142	120	229	196
Interest income	(82)	(88)	(166)	(181)
Rental income	(92)	(78)	(184)	(157)

Save as disclosed above, the other items as required under Appendix 9B Part A (16) of the Main Market Listing Requirements of Bursa Securities are not applicable.

28. Authorisation

This interim financial report for the financial period ended 30 June 2013 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 27 August 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 August 2013