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

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

<u>New MFRSs</u>

FRS 10	Consolidated Financial Statements
FRS 11	Joint Arrangements
FRS 12	Disclosure of Interests in Other Entities
FRS 13	Fair Value Measurement

<u>Revised MFRSs</u>

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 31 December 2012			
Other expenses	(1,568)	15	(1,553)
Loss before taxation	(6,143)	15	(6,128)
Loss after taxation	(5,955)	15	(5,940)
Total comprehensive loss	(5,203)	15	(5,188)
Loss attributable to:			
- Owners of the Company	(5,419)	11	(5,408)
- Non-controlling interests	(536)	4	(532)
Total comprehensive loss attributable to:			
- Owners of the Company	(4,728)	11	(4,717)
- Non-controlling interests	(475)	4	(471)

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 year ended 31 December 2012			
Other expenses	(2,617)	62	(2,555)
Loss before taxation	(8,143)	62	(8,081)
Loss after taxation	(9,315)	62	(9,253)
Total comprehensive loss	(9,035)	62	(8,972)
Loss attributable to:			
- Owners of the Company	(7,734)	44	(7,690)
- Non-controlling interests	(1,581)	18	(1,563)
Total comprehensive loss attributable to:			
- Owners of the Company	(7,560)	44	(7,516)
- Non-controlling interests	(1,474)	18	(1,456)

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
MFRS 136	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
MFRS 139	Novation of Derivatives and Continuance of Hedge Accounting	1 January 2014
<u>New IC Int</u>		
IC Int 21	Levies	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 31 Dec 2013 RM'000	Corresponding Quarter Ended 31 Dec 2012 RM'000	Current Year To Date 31 Dec 2013 RM'000	Corresponding Year Ended 31 Dec 2012 RM'000
SEGMENT REVENUE				
Malaysia	26,119	38,672	118,426	150,078
Bangladesh	1,958	768	6,480 ^	352,944
The British Virgin Islands	323	359	1,051	1,276
Cambodia	581 #	2,544	4,022 ○	12,128
Indonesia	191	2,533	1,644	9,365
	29,172	44,876	131,623	525,791
Inter-segment sales	(82)	(1,292)	(360)	(1,580)
TOTAL	29,090 *	43,584 *	131,263 *	524,211 *

	Current Year Quarter Ended 31 Dec 2013 RM'000	Corresponding Quarter Ended 31 Dec 2012 RM'000 Restated	Current Year To Date 31 Dec 2013 RM'000	Corresponding Year Ended 31 Dec 2012 RM'000 Restated
SEGMENT RESULTS				
Malaysia	(5,694)	(5,481)	(2,195)	(8,284)
Singapore	-	(6)	-	(6)
Bangladesh	(584)	(105)	(1,214)	(60)
The British Virgin Islands	50	(134)	234	(998)
Cambodia	(152)	(83)	(161)	8
Indonesia	(93)	(131)	(134)	87
	(6,473)	(5,940)	(3,470)	(9,253)

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 year ended 31 December 2012, the revenue would have been RM407,054,000.

The revenue was recognised on net commission basis following the new reseller agreement entered into by the subsidiary. If the revenue were to be recognised on gross basis as in corresponding quarter ended 31 December 2012, the revenue would have been RM8,229,000.

○The revenue was recognised on net commission basis following the new reseller agreement entered into by the subsidiary. If the revenue were to be recognised on gross basis as in corresponding year ended 31 December 2012, the revenue would have been RM25,511,000.

* Effective from 1 August 2012, revenue of Bangladesh subsidiary is recognised on net commission basis following new sales and service agreement entered into by the subsidiary. Effective from 1 March 2013, revenue of Cambodia subsidiary is recognised on net commission basis following new reseller agreement entered into by the subsidiary. If revenue of Bangladesh and Cambodia subsidiaries were to be recognised on gross basis as in corresponding quarter and year ended 31 December 2012, the revenue would have been RM117,200,000 and RM553,326,000 respectively.

10. Revaluation of Property and Equipment

During the financial year, leasehold land, freehold land and certain 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, purchases of IT products and project management fee. 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 2013 RM'000	Corresponding Quarter Ended 31 Dec 2012 RM'000	Current Year To Date 31 Dec 2013 RM'000	Corresponding Year Ended 31 Dec 2012 RM'000
1	Southall Sdn Bhd	Sales of IT products & accessories	-	-	-	1
2	Southall Sdn Bhd	Purchases of IT products	112	2	112	5
3	Integra Corp Sdn Bhd	Project Management fee	58	157	28	678

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 22 January 2014, the Group received offer to purchase from third party for disposal of 2 units 3-storey shop offices with net carrying amount of RM1,382,700 and RM 1,613,200 respectively for cash consideration of RM2,300,000 each.

15. Capital Commitment

The Group has no capital commitment as of 31 December 2013.

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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 2013 RM'000	Corresponding Quarter Ended 31 Dec 2012 RM'000	Current Year To Date 31 Dec 2013 RM'000	Corresponding Year Ended 31 Dec 2012 RM'000
SEGMENT PROFIT/(LOSS) BEFORE TAXATION				
Malaysia	(5,662)	(5,911)	(6,883)	(7,987)
Bangladesh	(483)	49	(475)	727
The British Virgin Islands	50	(134)	234	(998)
Cambodia	(152)	(81)	(161)	10
Indonesia	(93)	(51)	(134)	167
TOTAL	(6,340)	(6,128)	(7,419)	(8,081)

The Group registered revenue of approximately RM29.1 million for the quarter ended 31 December 2013, which was approximately RM14.5 million lower as compared to the preceding year corresponding quarter ended 31 December 2012 of approximately RM43.6 million. The lower revenue was mainly due from Malaysia segment and revenue recognized on net commission basis by Cambodia subsidiary following the new reseller agreement entered into by the subsidiary in the current financial year.

The Malaysian subsidiaries recorded a loss before taxation ("LBT") during the current quarter ended 31 December 2013 of approximately RM5.7 million, which was approximately RM0.2 million lower as compared to the preceding year corresponding quarter ended 31 December 2012 of approximately RM5.9 million mainly due to write back of impairment loss on trade receivables amounting to RM0.2 million.

The Bangladesh subsidiary recorded a LBT during the current quarter ended 31 December 2013 of approximately RM0.5 million as compared to the preceding year corresponding quarter ended 31 December 2012 profit before tax ("PBT") of RM0.05 million. The LBT for the current quarter was mainly due to increase in staff costs.

The British Virgin Islands subsidiaries recorded a PBT during the current quarter ended 31 December 2013 of RM0.05 million as compared to the preceding year corresponding quarter ended 31 December 2012 LBT of approximately RM0.1 million. The PBT for current quarter were mainly due to decrease in consultancy service fees and project management fees provided.

16. Detailed Performance Analysis (cont'd)

During the current quarter ended 31 December 2013, the Group recorded a LBT of approximately RM6.3 million as compared to the preceding year corresponding quarter ended 31 December 2012 LBT of approximately RM6.1 million. The LBT for current quarter ended 31 December 2013 was mainly due to decrease in other income of Malaysian subsidiaries.

During the current year ended 31 December 2013, the Group recorded a LBT of approximately RM7.4 million as compared to the preceding year corresponding year ended 31 December 2012 of approximately RM8.1 million was mainly due to the net impact of the increase in administrative expenses against the gain on disposal of available-for-sale investments and gain on disposal of properties.

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 RM6.3 million for the quarter ended 31 December 2013 compared to the immediate preceding quarter PBT of approximately RM1.2 million. Higher LBT during the current quarter ended 31 December 2013 was mainly due to increase in administrative expenses during the current quarter and there was an amount of RM3.8 million being gain on disposal of properties in the immediate preceding quarter which is not recurring in this current 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.

20. Income Tax Expense

	Current Year Quarter Ended 31 Dec 2013 RM'000	Corresponding Quarter Ended 31 Dec 2012 RM'000	Current Year To Date 31 Dec 2013 RM'000	Corresponding Year Ended 31 Dec 2012 RM'000
Current tax expense:				
- for the period	183	315	1,537	1,676
- over provision in the previous financial year	-	(493)	(622)	(494)
	183	(178)	915	1,182
Deferred taxation				
- Origination and reversal of temporary differences	(50)	(10)	(4,864)	(10)
Tax expense/(credit)	133	(188)	(3,949)	1,172

The Group's current year ended 31 December 2013 tax credit included reversal of deferred tax liability amounting to RM4.7 million relating to revaluation of investment property due to the Group has held the property for more than 5 years and the Real Property Gains Tax rate after 5 years is at 5% in accordance with the recent Budget 2014 announcement. Excluding the reversal of the deferred tax liability of RM4.7 million, the Group's tax expense is 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 Dec 2013 RM'000	As at 31 Dec 2012 RM'000
Short term borrowings – secured		
- banker's acceptance	12,626	14,400

23. Realised and Unrealised Losses/Profit Disclosure

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(163,600)	(167,602)
Unrealised	89,887	84,838
	(73,713)	(82,764)
Less: Consolidation adjustments	(20,358)	(9,876)
Total accumulated losses	(94,071)	(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 31 December 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 Company for the financial year over the number of ordinary shares in issue during the financial year as follows:-

	Current Year Quarter Ended 31 Dec 2013	Corresponding Quarter Ended 31 Dec 2012	Current Year To Date 31 Dec 2013	Corresponding Year Ended 31 Dec 2012
Loss attributable to equity holders of Company (RM'000)	(4,624)	(5,408)	(1,429)	(7,690)
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)	(0.22)	(0.25)	(0.07)	(0.36)

26. Loss per Share (cont'd)

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.

27. Loss before taxation

Loss before taxation includes the following items:-

	Current Year Quarter Ended 31 Dec 2013 RM'000	**Corresponding Quarter Ended 31 Dec 2012 RM'000**	**Current Year To Date 31 Dec 2013 RM'000**	**Corresponding Year Ended 31 Dec 2012 RM'000**
Bad debts written off	1	-	1	-
Depreciation of property and equipment	415	181	1,355	755
Equipment written off	-	8	53	8
Inventories written off	-	-	-	4
Impairment loss on available-for- sale investments	17	1,343	17	1,343
Impairment loss on trade receivables	392	27	1,197	447
Gain on disposal of equipment	-	-	-	(2)
Gain on disposal of available-for- sale investments	-	-	(873)	(200)
Gain on disposal of properties	-	-	(3,794)	-
Loss on subsidiary strike off	69	-	69	-
Unrealised (gain)/loss on foreign exchange	-	-	(2)	1
Realised (gain)/loss on foreign exchange	2	(163)	4	(173)
Write-back of impairment loss on trade receivables	(205)	(42)	(723)	(524)

27. Loss before taxation (cont'd)

Loss before taxation includes the following items (cont'd):-

	Current Year Quarter Ended 31 Dec 2013 RM'000	Corresponding Quarter Ended 31 Dec 2012 RM'000 Restated	Current Year To Date 31 Dec 2013 RM'000	Corresponding Year Ended 31 Dec 2012 RM'000 Restated
Write-back of allowance for inventory obsolescence	(9)	(54)	(9)	(92)
Interest expense	143	150	521	492
Interest income	(89)	(88)	(346)	(357)
Rental income	(35)	(98)	(292)	(352)

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 year ended 31 December 2013 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 20 February 2014 for release to the Bursa Securities.

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

Date: 20 February 2014