

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014**

**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 2013. 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 2013.

**2. Changes in Accounting Policies**

The accounting policies and methods of computation adopted in this period in this 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 2013 except for the:

**(i) adoption of the following amendments/improvements to Financial Reporting Standards (“FRSs”) and new IC Interpretation (“IC Int”):**

**Amendments/Improvements to FRSs**

FRS 10	Consolidated Financial Statements
FRS 12	Disclosure of Interests in Other Entities
FRS 127	Separate Financial Statements
FRS 132	Financial Instruments: Presentation
FRS 136	Impairment of Assets
FRS 139	Financial Instruments: Recognition and Measurement

**New IC Int**

IC Int 21	Levies
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The adoption of the above new and revised FRSs, amendments/improvements to FRSs and new IC Int does not have any significant impact on the financial statements of the Group.

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

**(ii) New FRSs, amendments/improvement to FRSs that are issued, but not yet effective and have not been early adopted**

The Group have not adopted the following new FRSs and amendments/improvements to FRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") as at the date of authorisation of these financial statements but are not yet effective for the Group:-

<b>New FRS</b>		<b>Effective for financial periods beginning on or after</b>
FRS 9	Financial Instruments	To be announced by MASB
FRS 14	Regulatory Deferral Accounts	1 January 2016
<b>Amendments/Improvements to FRSs</b>		
FRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 July 2014
FRS 2	Share-based Payment	1 July 2014
FRS 3	Business Combinations	1 July 2014
FRS 7	Financial Instruments: Disclosures	Applies when FRS 9 is applied
FRS 8	Operating Segments	1 July 2014
FRS 9	Financial Instruments	To be announced by the MASB
FRS 11	Joint Arrangements	1 January 2016
FRS 13	Fair Value Measurement	1 July 2014
FRS 116	Property, Plant and Equipment	1 July 2014/ 1 January 2016
FRS 119	Employee Benefits	1 July 2014
FRS 124	Related Party Disclosures	1 July 2014
FRS 138	Intangible Assets	1 July 2014/ 1 January 2016
FRS 139	Financial Instruments: Recognition and Measurement	Applies when FRS 9 is applied
FRS 140	Investment Property	1 July 2014

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

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

**(iii) 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 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, and continue to adopt the existing FRSs framework until the MFRSs framework is mandated by the MASB. MASB will issue a fuller press statement by end of August 2014 as to when the Transitioning Entities should adopt the MFRS Framework. Transitioning Entities also includes 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 are Transitioning Entities have chosen to defer the adoption of the MFRSs framework. The Group will prepare their first MFRSs financial statements using the MFRSs framework when the MFRSs framework is mandated by the MASB.

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 of the Company for the financial year ended 31 December 2013 was qualified in the following manner:

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion paragraph, the Financial Statements give a true and fair view of the financial positions of the Group and of the Company as at 31st December 2013 and of their financial performance and cash flows for the financial year then ended in accordance with the Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis of Qualified Opinion

We refer to Note 28(b) to the Financial Statements which disclose that included in professional fee is an amount of RM3,000,000/- for advisory support services. We were unable to obtain sufficient appropriate audit evidence pertaining to the aforesaid expenses.

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**3. Status of Audit Qualifications (cont'd)**

**Current status**

As a proactive measure, the Board has appointed special auditors, Messrs Crowe Horwath to conduct an additional review to give comfort to the shareholders pertaining to the transaction.

Based on the work performed by Messrs Crowe Horwath and the information available, Messrs Crowe Horwath have not identified any unusual or unauthorised cash payments or whether the contracts for advisory support services were not valid.

Arising from this finding, the Group has put in place further documentation to strengthen the current limitation in the documentation and justification in supporting the payment for advisory support services in future.

**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 2014 RM'000</b>	<b>Corresponding Quarter Ended 30 Jun 2013 RM'000 (Restated)</b>	<b>Current Year To Date 30 Jun 2014 RM'000</b>	<b>Corresponding Period ended 30 Jun 2013 RM'000 (Restated)</b>
<b>SEGMENT REVENUE</b>				
Malaysia	29,475	31,306	61,181	66,328
Bangladesh	1,040	1,890	2,376	2,589
The British Virgin Islands	322	256	587	507
Cambodia	483	867 *	1,107	2,897 *
Indonesia	402	321	703	1,366
	<b>31,722</b>	<b>34,640</b>	<b>65,954</b>	<b>73,687</b>
Inter-segment sales	(82)	(114)	(107)	(197)
<b>TOTAL</b>	<b>31,640</b>	<b>34,526</b>	<b>65,847</b>	<b>73,490</b>
	<b>Current Year Quarter Ended 30 Jun 2014 RM'000</b>	<b>Corresponding Quarter Ended 30 Jun 2013 RM'000</b>	<b>Current Year To Date 30 Jun 2014 RM'000</b>	<b>Corresponding Period ended 30 Jun 2013 RM'000</b>
<b>SEGMENT RESULTS</b>				
Malaysia	(2,404)	(1,115)	(5,378)	(3,133)
Bangladesh	(759)	23	(1,574)	(249)
The British Virgin Islands	22	(131)	55	256
Cambodia	(68)	63	(196)	(26)
Indonesia	(42)	5	(65)	1
	<b>(3,251)</b>	<b>(1,155)</b>	<b>(7,158)</b>	<b>(3,151)</b>

\*Effective from 1 March 2013, revenue is recognised on net commission basis following new sales and services agreement entered into by the subsidiary. Thus, the revenue for the corresponding quarter and period ended 30 June 2013 has been restated accordingly. If the revenue were to be recognised on gross basis, the revenue for the corresponding quarter and period ended 30 June 2013 would have been RM8,716,000 and RM12,232,000 respectively.

**10. Revaluation of Property and Equipment**

During the preceding year corresponding quarter and period ended 31 March 2013, 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.

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**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”) 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 30 June 2014 RM’000	Quarter Ended 30 June 2013 RM’000	To Date 30 June 2014 RM’000	Period Ended 30 June 2013 RM’000
1 Integra Corp Sdn Bhd	Project management fees	61	-	122	-

**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 30 June 2014.

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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 30 Jun 2014 RM'000	Corresponding Quarter Ended 30 Jun 2013 RM'000	Current Year To Date 30 Jun 2014 RM'000	Corresponding Period Ended 30 Jun 2013 RM'000
<b>SEGMENT PROFIT/(LOSS)</b>				
<b>BEFORE TAXATION</b>				
Malaysia	(2,382)	(894)	(5,328)	(2,673)
Bangladesh	(592)	282	(1,197)	114
The British Virgin Islands	22	(131)	55	256
Cambodia	(68)	62	(196)	(26)
Indonesia	(42)	5	(65)	1
<b>TOTAL</b>	<b>(3,062)</b>	<b>(676)</b>	<b>(6,731)</b>	<b>(2,328)</b>

The Group registered revenue of approximately RM31.6 million for the quarter ended 30 June 2014, which was approximately RM2.9 million lower as compared to the preceding year corresponding quarter ended 30 June 2013 of approximately RM34.5 million. The lower revenue was mainly due to the decrease in revenue contribution from Malaysia subsidiaries, lower revenue from commission received by Cambodia subsidiary and Bangladesh subsidiary.

The Malaysian subsidiaries recorded a loss before taxation (“LBT”) during the current quarter ended 30 June 2014 of approximately RM2.4 million as compared to the preceding year corresponding quarter ended 30 June 2013 LBT of approximately RM0.9 million. The higher LBT for current year quarter were mainly due to lower incentives received, decrease in the write-back of impairment on trade receivables and an increase in impairment loss on trade receivables.

The Bangladesh subsidiary recorded a LBT during the current quarter ended 30 June 2014 of approximately RM0.6 million as compared to the preceding year corresponding quarter ended 30 June 2013 of profit before tax (“PBT”) approximately RM0.3 million. The LBT for current quarter was mainly due to lower revenue from commission received.

The British Virgin Islands subsidiaries recorded a PBT during the current quarter ended 30 June 2014 of approximately RM0.02 million as compared to the preceding year corresponding quarter ended 30 June 2013 LBT of approximately RM0.1 million. The PBT for current quarter mainly due to increase in revenue and decrease in administrative expenses.

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**16. Detailed Performance Analysis (cont'd)**

The Cambodia subsidiary recorded a LBT during the current quarter ended 30 June 2014 of approximately RM0.07 million as compared to the preceding year corresponding quarter ended 30 June 2013 of PBT approximately RM0.06 million. The LBT for current quarter was mainly due to the decrease in commission.

The Indonesia subsidiary recorded a LBT during the current quarter ended 30 June 2014 of approximately RM0.04 million as compared to the preceding year corresponding quarter ended 30 June 2013 of PBT approximately RM0.005 million. The LBT for current quarter was mainly due to lower other income recorded during the current quarter ended 30 June 2014.

During the current quarter ended 30 June 2014, the Group recorded a LBT of approximately RM3.1 million as compared to the preceding year corresponding quarter ended 30 June 2013 LBT of approximately RM0.6 million. The LBT for current quarter ended 30 June 2014 were mainly due to the decreased in trade incentives received in Malaysia and commission received in Bangladesh segments. In addition, there was decreased in the write-back of impairment on trade receivables and an increase in impairment loss on trade receivables in the Malaysia segment.

During the current year-to-date ended 30 June 2014, the Group recorded a LBT of approximately RM6.7 million as compared to the preceding year corresponding period ended 30 June 2013 of approximately RM2.3 million. The LBT for the current year-to-date was mainly due the reasons as mentioned above and an increase in administrative expenses in the Bangladesh segment.

**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 RM3.1 million for the current quarter ended 30 June 2014 as compared to the immediate preceding quarter of approximately RM3.7 million. The lower LBT was mainly attributed to the gain on disposal of properties in the quarter ended 30 June 2014.

**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.



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**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**

	<b>Current Year Quarter Ended 30 Jun 2014 RM'000</b>	<b>Corresponding Quarter Ended 30 Jun 2013 RM'000</b>	<b>Current Year To Date 30 Jun 2014 RM'000</b>	<b>Corresponding Period Ended 30 Jun 2013 RM'000</b>
Current tax expense:				
- for the period	236	479	521	821
- under provision in the previous financial year	-	-	-	2
	<u>236</u>	<u>479</u>	<u>521</u>	<u>823</u>
Deferred taxation				
- Origination and reversal of temporary differences	(47)	-	(94)	-
Tax expense	<u>189</u>	<u>479</u>	<u>427</u>	<u>823</u>

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:

	<b>As at 30 Jun 2014 RM'000</b>	<b>As at 31 Dec 2013 RM'000</b>
Short term borrowings – secured		
- banker's acceptance	14,371	12,626
	<u>14,371</u>	<u>12,626</u>

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**23. Realised and Unrealised Losses/Profit Disclosure**

	<b>As at 30 Jun 2014 RM'000</b>	<b>As at 31 Dec 2013 RM'000</b>
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(170,761)	(164,451)
Unrealised	89,981	89,887
	<u>(80,780)</u>	<u>(74,564)</u>
Less: Consolidation adjustments	(19,532)	(20,250)
Total accumulated losses	<u>(100,312)</u>	<u>(94,814)</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 30 June 2014 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:-

	<b>Current Year Quarter Ended 30 Jun 2014</b>	<b>Corresponding Quarter Ended 30 Jun 2013</b>	<b>Current Year To Date 30 Jun 2014</b>	<b>Corresponding Period Ended 30 Jun 2013</b>
Loss attributable to equity holders of parent (RM'000)	(2,452)	(811)	(5,498)	(2,559)
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>(0.11)</u>	<u>(0.04)</u>	<u>(0.26)</u>	<u>(0.12)</u>

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**26. Loss per Share (cont'd)**

The diluted loss per share is equivalent to basic loss per share 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:-

	<b>Current Year Quarter Ended 30 Jun 2014 RM'000</b>	<b>Corresponding Quarter Ended 30 Jun 2013 RM'000</b>	<b>Current Year To Date 30 Jun 2014 RM'000</b>	<b>Corresponding Year Ended 30 Jun 2013 RM'000</b>
Bad debts written off	24	-	24	-
Depreciation of property and equipment	278	360	699	541
Equipment written off	49	-	49	46
Impairment loss on:				
- trade receivables	308	90	364	563
- other receivables	-	-	7	-
Gain on disposal of equipment	(7)	-	(7)	-
Gain on disposal of available-for- sale investments	-	(873)	-	(873)
Gain on disposal of properties	(687)	-	(687)	-
Unrealised loss/(gain) on foreign exchange	3	(1)	3	(1)
Realised (gain)/loss on foreign exchange	(3)	3	(6)	9
Write-back of impairment loss on trade receivables	(61)	(381)	(138)	(454)
Write-back of allowance for inventory obsolescence				
Interest expense	291	142	430	229
Interest income	(140)	(82)	(244)	(166)
Rental income	(23)	(92)	(58)	(184)

Save as disclosed above, the other items as required under Appendix 9B Part A (1B) of the Main Market Listing Requirements of Bursa Securities are not applicable.

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**28. Authorisation**

This interim financial report for the financial period ended 30 June 2014 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 26 August 2014 for release to the Bursa Securities.

By order of the Board  
**Wong Keo Rou**  
**Jenny Wong Chew Boey**  
Company Secretaries

Date: 26 August 2014