

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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>Effective for financial periods beginning on or after</b>
<b>New FRSs</b>		
FRS 9	Financial Instruments	1 January 2018
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 5	Non-current Asset Held for Sale and Discontinued Operations	1 January 2016
FRS 7	Financial Instruments: Disclosures	1 January 2016
FRS 8	Operating Segments	1 July 2014
FRS 10	Consolidated Financial Statements	1 January 2016
FRS 11	Joint Arrangements	1 January 2016
FRS 12	Disclosures of Interests in Other Entities	1 January 2016
FRS 13	Fair Value Measurement	1 July 2014
FRS 101	Presentation of Financial Statements	1 January 2016
FRS 116	Property, Plant and Equipment	1 July 2014/ 1 January 2016
FRS 119	Employee Benefits	1 July 2014/ 1 January 2016
FRS 124	Related Party Disclosures	1 July 2014
FRS 127	Separate Financial Statements	1 January 2016
FRS 128	Investments in Associates and Joint Ventures	1 January 2016
FRS 138	Intangible Assets	1 July 2014/ 1 January 2016
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 standards 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 shall apply the MFRSs framework for annual periods beginning on or after 1 January 2017. 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 are Transitioning Entities have chosen to defer the adoption of the MFRSs framework. As such, the Group will prepare its first MFRSs financial statements using the MFRSs framework for financial year ending 31 December 2017.

The Group is currently in the process of determining the financial impact arising from the adoption of the MFRSs 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 other than impairment of goodwill on consolidation.

**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 2014 RM'000	Corresponding Quarter Ended 31 Dec 2013 RM'000	Current Year To Date 31 Dec 2014 RM'000	Corresponding Year ended 31 Dec 2013 RM'000
<b>SEGMENT REVENUE</b>				
Malaysia	30,683	26,119	118,150	118,426
Bangladesh	1,262	1,958	4,805	6,480
The British Virgin Islands	(8)	323	664	1,051
Cambodia	789	577	2,456 *	4,018 *
Indonesia	1,877	191	3,235	1,644
	<hr/> 34,603	<hr/> 29,168	<hr/> 129,310	<hr/> 131,619
Inter-segment sales	25	(82)	(165)	(360)
	<hr/> 34,628	<hr/> 29,086	<hr/> 129,145	<hr/> 131,259
<b>SEGMENT RESULTS</b>				
Malaysia	(23,249)	(5,694)	(30,577)	(2,195)
Bangladesh	(185)	(584)	(1,672)	(1,214)
The British Virgin Islands	(208)	50	(220)	234
Cambodia	(317)	(151)	(911)	(160)
Indonesia	54	(298)	(31)	(339)
	<hr/> (23,905)	<hr/> (6,677)	<hr/> (33,411)	<hr/> (3,674)

\*Effective from 1 March 2013, revenue is recognised on net commission basis following new sales and services agreement entered into by the subsidiary. Thus, if the revenue were to be recognised on gross basis, the revenue for the corresponding quarter and period ended 31 December 2013 would have been RM8,493,000 and RM25,511,000 respectively.

**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 2013.

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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 shareholders.

Transaction parties	Nature of transaction	Current Year	Corresponding	Current Year	Corresponding
		Quarter Ended	Quarter Ended	To Date	Year ended
		31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
		RM’000	RM’000	RM’000	RM’000
Integra Corp Sdn Bhd	Project management fees	70	58	255	28

**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 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 31 Dec 2014 RM'000	Corresponding Quarter Ended 31 Dec 2013 RM'000	Current Year To Date 31 Dec 2014 RM'000	Corresponding Year ended 31 Dec 2013 RM'000
<b>SEGMENT LOSS</b>				
<b>BEFORE TAXATION</b>				
Malaysia	(23,854)	(5,662)	(31,109)	(6,883)
Bangladesh	(7)	(483)	(1,274)	(475)
The British Virgin Islands	(208)	50	(220)	234
Cambodia	(316)	(140)	(911)	(149)
Indonesia	54	(410)	(30)	(451)
<b>TOTAL</b>	<b>(24,331)</b>	<b>(6,645)</b>	<b>(33,544)</b>	<b>(7,724)</b>

The Group registered revenue of approximately RM34.6 million for the quarter ended 31 December 2014, which was approximate RM5.5 million higher as compared to the preceding year corresponding quarter ended 31 December 2013 of approximately RM29.1 million. For the twelve months ended 31 December 2014, the Group recorded a revenue of approximately RM129.1 million, which was approximate RM2.2 million lower as compared to the preceding year corresponding period ended 31 December 2013 of approximately RM131.3 million. The higher revenue for the current quarter under review was mainly due to increase in revenue from Malaysian and Indonesia segments.

The Malaysian subsidiaries recorded a Loss before taxation (“LBT”) during the current quarter and financial year-to-date ended 31 December 2014 of approximately RM23.9 million and RM31.1 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2013 of approximately RM5.7 million and RM6.9 million respectively. The LBT for the current year quarter and financial year-to-date were mainly due to impairment loss of goodwill on consolidation.

The Bangladesh subsidiary recorded a LBT of RM0.007 million and RM1.3 million respectively during the current quarter and financial year-to-date ended 31 December 2014 as compared to RM0.5 million respectively for the preceding year corresponding quarter and financial year-to-date ended 31 December 2013. The lower LBT for current quarter was mainly due to reversal of staff cost over-provided.

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

The British Virgin Islands subsidiaries recorded a LBT during the current quarter and financial year-to-date ended 31 December 2014 of approximately RM0.2 million respectively as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2013 of PBT approximately RM0.05 million and RM0.2 million respectively. The LBT for current quarter were mainly due to the decrease in consultancy service fees and project management fees received.

The Cambodia subsidiary recorded a LBT of RM0.3 million and RM0.9 million respectively during the current quarter and financial year-to-date ended 31 December 2014 as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2013 of LBT approximately RM0.14 million and RM0.15 million respectively. The higher LBT for current quarter were mainly due to the increase in administrative expenses.

During the current quarter ended 31 December 2014, the Group recorded a LBT of approximately RM24.3 million as compared to the preceding year corresponding quarter ended 31 December 2013 of approximately RM6.7 million. The LBT for current quarter ended 31 December 2014 were mainly due to impairment loss of goodwill on consolidation.

During the current year ended 31 December 2014, the Group recorded a LBT of approximately RM33.5 million as compared to the preceding year corresponding period ended 31 December 2013 of approximately RM7.7 million. The higher LBT for the current year were mainly due to impairment loss of goodwill on consolidation.

**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 RM24.3 million for the current quarter ended 31 December 2014 as compared to the immediate preceding quarter of approximately RM2.5 million. The lower LBT was mainly attributed to impairment loss of goodwill on consolidation.



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**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**

	<b>Current Year Quarter Ended 31 Dec 2014 RM'000</b>	<b>Corresponding Quarter Ended 31 Dec 2013 RM'000</b>	<b>Current Year To Date 31 Dec 2014 RM'000</b>	<b>Corresponding Year ended 31 Dec 2013 RM'000</b>
Current tax expense:				
- for the period	219	183	652	1,537
- over provision in the previous financial year	(598)	-	(598)	(622)
	<u>(379)</u>	<u>183</u>	<u>54</u>	<u>915</u>
Deferred taxation				
- Origination and reversal of temporary differences	(47)	(151)	(187)	(4,965)
Tax (credit)/expense	<u>(426)</u>	<u>32</u>	<u>(133)</u>	<u>(4,050)</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.

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**22. Borrowings and Debt Securities**

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

	<b>As at 31 Dec 2014 RM'000</b>	<b>As at 31 Dec 2013 RM'000</b>
Short term borrowings – secured - banker's acceptance	14,360	12,626

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

	<b>As at 31 Dec 2014 RM'000</b>	<b>As at 31 Dec 2013 RM'000</b>
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(173,427)	(164,451)
Unrealised	89,629	89,887
	<u>(83,798)</u>	<u>(74,564)</u>
Less: Consolidation adjustments	(41,710)	(20,250)
Total accumulated losses	<u>(125,508)</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 31 December 2014 and financial year-to-date.

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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 year over the number of ordinary shares in issue during the financial year as follows:-

	<b>Current Year Quarter Ended 31 Dec 2014</b>	<b>Corresponding Quarter Ended 31 Dec 2013</b>	<b>Current Year To Date 31 Dec 2014</b>	<b>Corresponding Year ended 31 Dec 2013</b>
Loss attributable to equity holders of parent (RM'000)	(23,388)	(4,325)	(30,694)	(1,514)
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)	(1.10)	(0.20)	(1.44)	(0.07)

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.

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**27. Loss before taxation**

Loss before taxation includes the following items:-

	<b>Current Year Quarter Ended 31 Dec 2014 RM'000</b>	<b>Corresponding Quarter Ended 31 Dec 2013 RM'000</b>	<b>Current Year To Date 31 Dec 2014 RM'000</b>	<b>Corresponding Year Ended 31 Dec 2013 RM'000</b>
Bad debts written off	58	11	82	12
Depreciation of property and equipment	343	299	1,386	1,239
Equipment written off	-	1	-	54
Inventories written off	6	-	6	-
Impairment loss on:				
- trade receivables	242	129	731	934
- other receivables	104	48	111	48
Impairment loss of consolidation	23,991	-	23,991	-
Loss on subsidiary struck struck off	-	-	-	69
Realised (gain)/loss on foreign exchange	1	31	(5)	33
Write down of inventories to net realisable value	7	171	7	171
Gain on disposal of equipment	(12)	-	(40)	-
Gain on disposal of available-for- sale investments	-	-	-	(873)
Gain on disposal of non-current assets held for sale	-	-	(1,604)	-
Gain on disposal of properties	-	(3,794)	-	(3,794)
Unrealised gain on foreign exchange	2	-	-	(2)
Write-back of impairment loss on trade receivables	(128)	(205)	(428)	(723)

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**27. Loss before taxation (cont'd)**

Loss before taxation includes the following items:-

	<b>Current Year Quarter Ended 31 Dec 2014 RM'000</b>	<b>Corresponding Quarter Ended 31 Dec 2013 RM'000</b>	<b>Current Year To Date 31 Dec 2014 RM'000</b>	<b>Corresponding Year Ended 31 Dec 2013 RM'000</b>
Interest expense	234	216	922	594
Interest income	(266)	(89)	(631)	(346)
Rental income	-	(35)	(58)	(292)
Write back of net realisable value on inventories	-	(9)	-	(9)

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.

**28. Authorisation**

This interim financial report for the financial period ended 31 December 2014 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 26 February 2015 for release to the Bursa Securities.

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

Date: 26 February 2015