

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30
SEPTEMBER 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:-

New FRSs		Effective for financial periods beginning on or after
FRS 9	Financial Instruments	To be announced by MASB
FRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments/Improvements to FRSs		
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 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.

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 30 Sep 2014 RM'000	Corresponding Quarter Ended 30 Sep 2013 RM'000 (Restated)	Current Year To Date 30 Sep 2014 RM'000	Corresponding Period ended 30 Sep 2013 RM'000 (Restated)
SEGMENT REVENUE				
Malaysia	26,284	25,979	87,465	92,307
Bangladesh	1,167	1,933	3,543	4,522
The British Virgin Islands	86	221	673	728
Cambodia	559	542 *	1,666	3,441 *
Indonesia	656	87	1,359	1,453
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	28,752	28,762	94,706	102,451
Inter-segment sales	(82)	(81)	(189)	(278)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	28,670	28,681	94,517	102,173
	<hr/>	<hr/>	<hr/>	<hr/>
	Current Year Quarter Ended 30 Sep 2014 RM'000	Corresponding Quarter Ended 30 Sep 2013 RM'000	Current Year To Date 30 Sep 2014 RM'000	Corresponding Period ended 30 Sep 2013 RM'000
SEGMENT RESULTS				
Malaysia	(1,950)	6,632	(7,328)	3,499
Bangladesh	87	(381)	(1,487)	(630)
The British Virgin Islands	(67)	(72)	(12)	184
Cambodia	(399)	17	(595)	(9)
Indonesia	(19)	(42)	(84)	(41)
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	(2,348)	6,154	(9,506)	3,003
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*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 September 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 September 2013 would have been RM4,786,000 and RM17,018,000 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	Period Ended
		30 Sep 2014	30 Sep 2013	30 Sep 2014	30 Sep 2013
		RM'000	RM'000	RM'000	RM'000
Integra Corp Sdn Bhd	Project management fees	63	60	185	(30)
		63	60	185	(30)

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 September 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 Sep 2014 RM'000	Corresponding Quarter Ended 30 Sep 2013 RM'000	Current Year To Date 30 Sep 2014 RM'000	Corresponding Period Ended 30 Sep 2013 RM'000
SEGMENT PROFIT/(LOSS)				
BEFORE TAXATION				
Malaysia	(1,927)	1,452	(7,255)	(1,221)
Bangladesh	(70)	(106)	(1,267)	8
The British Virgin Islands	(67)	(72)	(12)	184
Cambodia	(399)	17	(595)	(9)
Indonesia	(19)	(42)	(84)	(41)
TOTAL	(2,482)	1,249	(9,213)	(1,079)

The Group registered revenue of approximately RM28.67 million for the quarter ended 30 September 2014, which approximate the preceding year corresponding quarter ended 30 September 2013 of approximately RM28.68 million.

The Malaysian subsidiaries recorded a loss before taxation (“LBT”) during the current quarter ended 30 September 2014 of approximately RM1.93 million as compared to the preceding year corresponding quarter ended 30 September 2013 profit before tax (“PBT”) of approximately RM1.45 million. The LBT for the current year quarter were mainly due to lower incentives received and lower gain on disposal of properties.

The Bangladesh subsidiary recorded a LBT during the current quarter ended 30 September 2014 of approximately RM0.07 million as compared to the preceding year corresponding quarter ended 30 September 2013 LBT approximately RM0.11 million. The lower LBT for current quarter was mainly due to lower commission paid and lower administrative expenses.

The Cambodia subsidiary recorded a LBT during the current quarter ended 30 September 2014 of approximately RM0.4 million as compared to the preceding year corresponding quarter ended 30 September 2013 of PBT approximately RM0.02 million. The LBT for current quarter was mainly due to the increase in commission paid.

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16. Detailed Performance Analysis (cont'd)

During the current quarter ended 30 September 2014, the Group recorded a LBT of approximately RM2.5 million as compared to the preceding year corresponding quarter ended 30 September 2013 PBT of approximately RM1.2 million. The LBT for current quarter ended 30 September 2014 were mainly due to decrease in trade incentives received, lower gain on disposal of properties in Malaysia segment and higher commission paid in Cambodia segment.

During the current year-to-date ended 30 September 2014, the Group recorded a LBT of approximately RM9.2 million as compared to the preceding year corresponding period ended 30 September 2013 of approximately RM1.1 million. The LBT for the current year-to-date was mainly due to lower commission received in the Bangladesh segment, higher commission paid by the Cambodia segment and the Malaysia segment registered lower other income 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 RM2.5 million for the current quarter ended 30 September 2014 as compared to the immediate preceding quarter of approximately RM3.1 million. The lower LBT was mainly attributed to higher gain on disposal of properties, lower impairment loss on trade receivables in Malaysia segment and lower operating expenses in the Bangladesh segment.

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

	Current Year Quarter Ended 30 Sep 2014 RM'000	Corresponding Quarter Ended 30 Sep 2013 RM'000	Current Year To Date 30 Sep 2014 RM'000	Corresponding Period Ended 30 Sep 2013 RM'000
Current tax expense:				
- for the period	(88)	533	433	1,354
- under provision in the previous financial year	-	(624)	-	(622)
	<u>(88)</u>	<u>(91)</u>	<u>433</u>	<u>732</u>
Deferred taxation				
- Origination and reversal of temporary differences	(46)	(4,814)	(140)	(4,814)
Tax (credit)/expense	<u>(134)</u>	<u>(4,905)</u>	<u>293</u>	<u>(4,082)</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:

	As at 30 Sep 2014 RM'000	As at 31 Dec 2013 RM'000
Short term borrowings – secured		
- banker's acceptance	14,019	12,626
	<u>14,019</u>	<u>12,626</u>

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23. Realised and Unrealised (Losses)/Profit Disclosure

	30 Sep 2014 RM'000	31 Dec 2013 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:		
Realised	(173,008)	(164,451)
Unrealised	90,028	89,887
	<u>(82,980)</u>	<u>(74,564)</u>
Less: Consolidation adjustments	(19,140)	(20,250)
Total accumulated losses	<u>(102,120)</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 September 2014 and financial year-to-date.

26. (Loss)/Earning per Share

The (loss)/earning per share is calculated by dividing the Group's (loss)/profit 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 Sep 2014	Corresponding Quarter Ended 30 Sep 2013	Current Year To Date 30 Sep 2014	Corresponding Period Ended 30 Sep 2013
(Loss)/Profit attributable to equity holders of parent (RM'000)	(1,809)	5,370	(7,306)	2,811
Number of ordinary shares in issue ('000) - RM0.10 each	2,134,289	2,134,289	2,134,289	2,134,289
Basic (loss)/earning per share (sen)	<u>(0.08)</u>	<u>0.25</u>	<u>(0.34)</u>	<u>0.13</u>

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26. (Loss)/Earning per Share (cont'd)

The diluted (loss)/earning per share is equivalent to basic (loss)/earning per share as there were no potential ordinary shares outstanding which are dilutive in nature at the end of reporting period.

27. (Loss)/Profit before taxation

(Loss)/Profit before taxation includes the following items:-

	Current Year Quarter Ended 30 Sep 2014 RM'000	Corresponding Quarter Ended 30 Sep 2013 RM'000	Current Year To Date 30 Sep 2014 RM'000	Corresponding Year Ended 30 Sep 2013 RM'000
Bad debts written off	-	1	24	1
Depreciation of property and equipment	344	399	1,043	940
Equipment written off	-	7	2	53
Impairment loss on:				
- trade receivables	125	242	489	805
- other receivables	-	-	7	-
Gain/(loss) on disposal of equipment	1	-	(28)	-
Gain on disposal of available-for- sale investments	-	-	-	(873)
Gain on disposal of non-current assets held for sale	(917)	-	(1,604)	-
Gain on disposal of properties	-	(3,794)	-	(3,794)
Unrealised gain on foreign exchange	(5)	(1)	(2)	(2)
Realised (gain)/loss on foreign exchange	-	(7)	(6)	2
Write-back of impairment loss on trade receivables	(162)	(64)	(300)	(518)
Interest expense	258	149	688	378
Interest income	(121)	(91)	(365)	(257)
Rental income	-	(73)	(58)	(257)

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 September 2014 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 27 November 2014 for release to the Bursa Securities.

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

Date: 27 November 2014