

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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 (Formerly known as MASB 26) and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the financial period ended 31 December 2005. 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 period ended 31 December 2005.

The accounting policies and methods of computation adopted in this quarterly financial statements of the Group are consistent with those adopted for the annual financial statements of the Group for the financial period ended 31 December 2005.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial period ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for the financial period beginning 1 January 2006:

FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the FRSs mentioned above does not have any significant financial impact on the Group.

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3. Status of Audit Qualifications

The auditors' report on the financial statements for the financial period ended 31 December 2005 was not subject to any qualification.

4. Nature and Amount of Exceptional and Extraordinary Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the quarter ended 30 June 2006.

5. Seasonal or Cyclical Factors

As per the results of the Group, the demand for certain imaging and information technology products are seasonal in nature, the sales of the products are usually higher in the second half of the financial year. On the other hand, the sales of telecommunication products are generally in tandem with the performance of the economy.

6. Changes in Estimates

There were no material changes in the estimates used for the preparation of this interim financial report.

7. Debt and Equity Securities

During the financial period, there were no issuances, cancellations, repurchases or resale of debt and equity securities.

8. Dividends Paid

There were no dividends paid during the financial period under review.

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9. Segmental Reporting (Analysis by geographical location of the Group Results)

The group's segmental report for the current year quarter ended 30 June 2006 is as follows:-

	Malaysia RM'000	Singapore RM'000	Total RM'000
REVENUE			
External sales	123,288	6,045	129,333
Inter-segment sales	(59)	-	(59)
TOTAL	123,229	6,045	129,274
RESULT			
Profit before taxation	1,074	64	1,138
Taxation			(498)
Profit after taxation			640

10. Revaluation of Property and Equipment

The valuations of property and equipment have been brought forward without amendment from the financial statements for the financial period ended 31 December 2005.

11. Contingent Liabilities and Contingent Assets

There were no contingent liabilities and assets as of the end of the financial period to date.

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12. Significant Related Party Transactions

The recurrent related party transactions (“RRPT”) involve the sales and purchases of prepaid cards. The RRPT had been entered into in the ordinary course of business and have been established under the terms that were mutually agreed between the parties.

Transaction parties	Nature of transaction	Current Year Quarter Ended 30 June 2006 RM'000 (Unaudited)	Corresponding Quarter Ended 30 June 2005 RM'000 (Unaudited)	Current Year To Date 30 June 2006 RM'000 (Unaudited)	Corresponding Period Ended 30 June 2005 RM'000 (Unaudited)
1 Beausoft Sdn. Bhd.	Sales of prepaid cards	13,201	N/A	20,706	N/A
2 Southall Sdn. Bhd.	Sales of prepaid cards	-	N/A	268	N/A
3 Southall Sdn. Bhd.	Purchases of prepaid cards	7	N/A	775	N/A

13. Effect of Changes in the Composition of the Group

There were no changes in the composition of the Group during the financial period ended 30 June 2006.

14. Significant Events Subsequent to the End of the Financial Period

There were no significant events subsequent to the end of the financial period to date.

15. Capital Commitment

As of 30 June 2006, the Group has the following capital expenditure in respect of purchase of properties:

	30 June 2006 RM'000
Approved and contracted for	69

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PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

16. Review of Performance

The Group registered a revenue of approximately RM129.3 million for the quarter ended 30 June 2006, which was slightly better than the previous quarter ended 31 March 2006 of approximately RM111.7 million.

Despite a gross loss of approximately RM1,534,000 incurred in the current quarter, the Group achieved a profit before taxation (“PBT”) of approximately RM1.1 million for the quarter ended 30 June 2006, which was better than the previous quarter ended 31 March 2006 of approximately RM0.6 million.

17. Comment on Material Changes in the Profit Before Taxation for the Quarter Reported on as Compared With The Immediate Preceding Quarter

The Group registered a revenue of approximately RM129.3 million for the quarter ended 30 June 2006, which was 15.8% higher than the previous quarter ended 31 March 2006 of approximately RM111.7 million.

The Group incurred a gross loss of approximately RM1,534,000 in the current quarter mainly due to stiff competition in the market which resulted in a lower selling prices in order to maintain the Group’s market share.

The Group achieved a PBT of approximately RM1.1 million in the current quarter which was 83.3% higher than previous quarter mainly due to higher rebates and sales incentives received from telcos and suppliers.

18. Current Year Prospect

The Board is of the view that, barring unforeseen circumstances, the Group’s business prospects will continue to improve for the next two quarters but with profit margin remaining tight.

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19. Variances of Actual Profit and Forecast Profit of the Group

The Group was successfully listed on the Main Board of the Bursa Malaysia Securities Berhad on 30 December 2005. In its listing prospectus dated 23 November 2005, the Group had forecasted a profit after taxation ("PAT") of approximately RM18.34 million for the financial year ending 31 December 2006. The Group achieved a PAT of approximately RM1.1 million for the 6 months ended 30 June 2006 and expects to fall short of its 2006 profit forecast. The shortfall was due to the following:-

- a) bundling exercise with certain suppliers did not materialise;
- b) lower rebates are expected to be contributed from telcos;
- c) smaller territory coverage granted by telcos to distribute prepaid cards;
- d) stiff competition in the market which resulted in a lower selling prices in order to maintain the Group's market share; and
- e) higher operating expenses incurred due to expansion of business operations of the Group.

20. Taxation

	Current Year Quarter Ended 30 June 2006 RM'000 (Unaudited)	Corresponding Quarter Ended 30 June 2005 RM'000 (Unaudited)	Current Year To Date 30 June 2006 RM'000 (Unaudited)	Corresponding Period Ended 30 June 2005 RM'000 (Unaudited)
Current taxation	<u>498</u>	<u>N/A</u>	<u>677</u>	<u>N/A</u>

The Group's effective tax rate for the period is higher than the statutory tax rate 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. Unquoted Investments and/or Properties

There were no purchases or disposals of unquoted investments and/or properties in the quarter ended 30 June 2006.

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22. Quoted Investments

There were no purchases or disposals of quoted investments in the quarter ended 30 June 2006.

23. Status Of Corporate Proposals

There were no corporate proposals announced or completed as at the date of this announcement.

24. Status of Utilisation of Proceeds

The proceeds of RM25 million raised by the Company from its Restricted Issue have been utilised as follows:

Purpose	Proposed Utilisation RM'000	Utilisation As At 18 August 2006 RM'000	Balance Unutilised RM'000
Repayment of bank borrowings	6,500	6,500	-
Working capital	18,500	12,250	6,250
	<u>25,000</u>	<u>18,750</u>	<u>6,250</u>

As at the date of this report, the balance of unutilised proceeds of RM6.25 million from the Restricted Issue has been retained as short term deposits pending for utilisation.

25. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 30 June 2006 RM'000
Short term borrowing – secured - hire purchase	<u>86</u>
Long term borrowing – secured - hire purchase	<u>274</u>

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26. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments entered into by the Group as at the date of this announcement.

27. 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 or threatened against the Group which might materially and adversely affect the financial position or business of the Group.

28. Dividend

The Board of Directors does not recommend any dividend for the period ended 30 June 2006.

29. Earnings per Share

a) Basic

The earnings per share is calculated by dividing the Group's profit after taxation for the financial period over the number of ordinary shares in issue during the financial period as follows:-

	Current Year Quarter Ended 30 June 2006	Current Year To Date 30 June 2006
Profit after taxation (RM'000)	640	1,073
Number of ordinary shares in issue (‘000)	120,429	120,429
Basic earnings per share (sen)	0.53	0.89

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29. Earnings per Share (Cont'd)

b) Diluted

The diluted earnings per share is calculated by dividing the Group's profit after taxation for the financial period over the assumed number of ordinary shares in issue during the financial period as follows:-

	Current Year Quarter Ended 30 June 2006	Current Year To Date 30 June 2006
Profit after taxation (RM'000)	640	1,073
Number of ordinary shares in issue ('000)	120,429	120,429
Effects of dilution ('000)	93,000	93,000
Adjusted number of ordinary shares in issue ('000)	213,429	213,429
Diluted earnings per share (sen)	0.30	0.50

30. Disclosure In Relation To Any Agreement, Arrangement, Joint Venture Or Collaboration For The Purpose Of Bidding For Or Securing A Project Or Contract

On 10 July 2006, Compugates International Sdn. Bhd., a subsidiary of the Company has been appointed by TM International (Bangladesh) Limited as a Franchisee Agent to establish AKTEL Touch Points in Bangladesh. There is no development since the date of the announcement on 11 July 2006.

By order of the Board
Mah Li Chen
Lee Wai Kim
Company Secretaries

Dated this 21 August 2006