

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 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 (“Bursa Securities”).

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 except as mentioned in Note 2 below.

**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 above FRSs 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 September 2006.

**5. Seasonal or Cyclical Factors**

The demand for certain imaging and information technology products are seasonal in nature, the sales of these products are usually higher towards the end of the financial year due to festive seasons. 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 September 2006 is as follows:-

<b>3 Month ended 30 September 2006</b>	<b>Malaysia RM'000</b>	<b>Singapore RM'000</b>	<b>Total RM'000</b>
REVENUE			
External sales	93,604	7,626	101,230
Inter-segment sales	(105)	(2)	(107)
TOTAL	93,499	7,624	101,123
RESULT			
Profit before taxation	3	103	106
Taxation			(90)
Profit after taxation			16

Compugates Holdings Berhad was listed on the Main Board of Bursa Securities on 30 December 2005 and as such no corresponding figures for the period ended 30 September 2005 have been included.

**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”) involved the sales and purchases of prepaid cards. The RRPT had been entered into in the ordinary course of business and have been established under terms that were mutually agreed between the parties.

Transaction parties	Nature of transaction	Current Year Quarter Ended 30 Sept 2006 RM'000 (Unaudited)	Corresponding Quarter Ended 30 Sept 2005 RM'000 (Unaudited)	Current Year To Date 30 Sept 2006 RM'000 (Unaudited)	Corresponding Period Ended 30 Sept 2005 RM'000 (Unaudited)
1 Beausoft Sdn. Bhd.	Sales of prepaid cards	3,095	N/A	23,801	N/A
2 Southall Sdn. Bhd.	Sales of prepaid cards	6	N/A	274	N/A
3 Southall Sdn. Bhd.	Purchases of prepaid cards	-	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 September 2006 except for the following:-

- a) on 25 September 2006, Compugates International Sdn. Bhd., a wholly-owned subsidiary of the Company, subscribed for 15,300 ordinary shares at USD1.00 each in Compugates International Ltd (“CIL”), representing 51% of the total issued and paid up capital of CIL for a consideration of USD15,300; and
- b) CIL, on even date, has subscribed for 24,000 ordinary shares at USD1.00 each in Compugates International (BD) Ltd (“CIBDL”), representing 80% of the total issued and paid up capital of CIBDL for a consideration of USD24,000.

The proposed principal activity of CIL and CIBDL is investment holding and both are presently dormant.

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

Subsequent to the end of the financial period:

- a) on 27 October 2006, the Company has converted 62,230,500 Irredeemable Convertible Preference Shares (“ICPS”) of RM0.10 each into 62,230,500 ordinary shares of RM1.00 each. The 62,230,500 new ordinary shares have been granted listing and quotation on the Main Board of Bursa Securities with effect from 3 November 2006; and
- b) on 3 November 2006, the Company has converted 16,658,000 ICPS of RM0.10 each into 16,658,000 ordinary shares of RM1.00 each. The 16,658,000 new ordinary shares have been granted listing and quotation on the Main Board of Bursa Securities with effect from 13 November 2006

**15. Capital Commitment**

The Group has no capital commitment as of 30 September 2006.

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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 RM101.1 million for the quarter ended 30 September 2006, which was lower than the previous quarter ended 30 June 2006 of approximately RM129.2 million.

The Group achieved a gross profit of approximately RM949,000 compared to a gross loss of approximately RM1,534,000 reported in the previous quarter .

During the current quarter, the Group recorded a profit before taxation (“PBT”) of approximately RM106,000 compared to the previous quarter of approximately RM1.1 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 RM101.1 million for the quarter ended 30 September 2006, which was 22% lower than the previous quarter ended 30 June 2006 of approximately RM129.2 million.

The Group achieved a PBT of approximately RM106,000 in the current quarter which was 91% lower than the previous quarter mainly due to lower revenue achieved and lower 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 in the next quarter 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 Securities on 30 December 2005. In its listing prospectus dated 23 November 2005, the Group 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 9 month ended 30 September 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 sales from Time Kontakt STD/IDD Prepaid Cards and IDD Call Cards compared to forecast;
- c) lower rebates are expected to be contributed from telcos;
- d) smaller territory coverage granted by telcos to distribute prepaid cards;
- e) stiff competition in the market which resulted in a lower selling prices in order to maintain the Group's market share; and
- f) higher operating expenses incurred due to expansion of business operations of the Group.

**20. Taxation**

	<b>Current Year Quarter Ended 30 Sept 2006 RM'000 (Unaudited)</b>	<b>Corresponding Quarter Ended 30 Sept 2005 RM'000 (Unaudited)</b>	<b>Current Year To Date 30 Sept 2006 RM'000 (Unaudited)</b>	<b>Corresponding Period Ended 30 Sept 2005 RM'000 (Unaudited)</b>
Current taxation	<u>90</u>	<u>N/A</u>	<u>767</u>	<u>N/A</u>

The Group's effective tax rate for the current quarter and current year to date is higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes, and losses of the Company and 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 September 2006 except as disclosed in Note 13 to the interim financial report.

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**22. Quoted Investments**

There were no purchases or disposals of quoted investments in the quarter ended 30 September 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:

<b>Purpose</b>	<b>Proposed Utilisation RM'000</b>	<b>Utilisation As At 28 November 2006 RM'000</b>	<b>Balance Unutilised RM'000</b>
Repayment of bank borrowings	6,500	6,500	-
Working capital	18,500	14,300	4,200
	<hr/> 25,000	<hr/> 20,800	<hr/> 4,200

As at the date of this report, the balance of unutilised proceeds of RM4.2 million from the Restricted Issue has been retained as short term deposits pending utilisation.

**25. Borrowings and Debt Securities**

The Group's borrowings are as follows:

	As at 30 September 2006 RM'000
Short term borrowing – secured - hire purchase	<hr/> 86
Long term borrowing – secured - hire purchase	<hr/> 253



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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 September 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 Sept 2006	Current Year To Date 30 Sept 2006
Profit after taxation (RM'000)	16	1,089
Number of ordinary shares in issue (‘000)	120,429	120,429
Basic earnings per share (sen)	0.01	0.90

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**29. Earnings per Share (Cont'd)**

**b) Diluted**

The diluted earnings per share is calculated by dividing the Group's (loss)/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 Sept 2006	Current Year To Date 30 Sept 2006
Profit after taxation (RM'000)	16	1,089
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)	0.01	0.51

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

There were no any new agreement, arrangement, joint venture and major contracts entered by the Group during the quarter ended 30 September 2006.

**31. Authorisation**

This interim financial report for the financial period ended 30 September 2006 have been seen and approved by the Board of Directors of Compugates Holdings Berhad on 28 November 2006 for release to the Bursa Securities.

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

Dated this 28 November 2006