

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER
2007**

**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 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 year ended 31 December 2006. 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 2006.

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 year ended 31 December 2006.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2006.

The following Financial Reporting Standards ("FRS") have been issued and are effective for financial periods beginning on or after 1 October 2006 and will be effective for the Group's financial statements for the financial period commencing 1 January 2007:-

FRS 117	Leases
FRS 124	Related Party Disclosures

The Group anticipates that the adoption of FRS 124 will not have any material effects to the Group and relevant disclosures have been made in Note 12 on significant related party transactions. FRS 117 is not applicable as it is not relevant to the Group.

FRS 6 - Exploration for and Evaluation of Mineral Resources has been issued and is effective for financial periods beginning on or after 1 January 2007. This standard is not relevant to the Group's operations.

Amendment to FRS 119₂₀₀₄ – Employee Benefits Actuarial Gains and Losses, Group Plans and Disclosures has been issued and is effective for financial periods beginning on or after 1 January 2007. The Group will apply this amendment for the Group's financial statements for the financial year ending 31 December 2007.

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2. Changes in Accounting Policies (Cont'd)

The following FRSs have been issued and are effective for financial periods beginning on or after 1 July 2007 and will be effective for the Group's financial statements for the financial period commencing 1 January 2008:-

FRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates <i>Net Investment in a Foreign Operation</i>

Framework for the Preparation and Presentation of Financial Statements has been issued and is effective immediately. This Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. It is not an MASB approved accounting standard and hence, does not define standards for any particular measurement or disclosure issue. The Group will apply this Framework from the financial year ending 31 December 2007 onwards.

The following IC Interpretations have been issued and are effective for financial periods beginning on or after 1 July 2007:-

IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 ₂₀₀₄ Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

The above IC Interpretations are not applicable as they are not relevant to the Group.

FRS 139 - Financial Instruments: Recognition and Measurement has been issued and the effective date has yet to be determined by the MASB. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group and the Company will apply this standard when it becomes effective.

3. Status of Audit Qualifications

The auditors' report on the financial statements for the financial year ended 31 December 2006 was not subject to any qualification.

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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 2007.

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

7. Debt and Equity Securities

Save as disclosed below, there were no issuances, cancellations, repurchases or resale of debt and equity securities during the current financial period to date as of 30 September 2007:-

The Company announced that the proposed share split exercise whereby one ordinary share of RM1.00 each in Compugates Holdings Berhad ("CHB") will be divided into ten new ordinary shares of RM0.10 each has been completed as at 21 September 2007. The issued and paid-up share capital of CHB of RM213,428,902 comprising 213,428,902 ordinary shares of RM1.00 each has been sub-divided into 2,134,289,020 ordinary shares of RM0.10 each after the share split.

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)

	Current Year Quarter Ended 30 Sept 2007 RM'000 (Unaudited)	Corresponding Quarter Ended 30 Sept 2006 RM'000 (Unaudited)	Current Year To Date 30 Sept 2007 RM'000 (Unaudited)	Corresponding Period Ended 30 Sept 2006 RM'000 (Unaudited)
SEGMENT REVENUE				
Malaysia	91,559	93,604	306,493	324,213
Singapore	2,685	7,626	9,108	18,072
Bangladesh	32,789	-	134,183	-
Others	-	-	-	-
	127,033	101,230	449,784	342,285
Inter-segment sales	(90)	(107)	(145)	(213)
TOTAL	126,943	101,123	449,639	342,072
SEGMENT RESULTS				
Malaysia	(502)	(87)	1,801	838
Singapore	(64)	103	(117)	251
Bangladesh	551	-	964	-
Others	(220)	-	(324)	-
	(235)	16	2,324	1,089

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 2006.

11. Contingent Liabilities and Contingent Assets

The Company had given corporate guarantees amounting to approximately RM27 million to secure banking facilities granted to its subsidiaries, Compugates Sdn. Bhd. and Compugates Marketing Sdn. Bhd.

There were no contingent 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 30Sept 2007 RM'000 (Unaudited)	Corresponding Quarter Ended 30Sept 2006 RM'000 (Unaudited)	Current Year To Date 30Sept 2007 RM'000 (Unaudited)	Corresponding Period Ended 30Sept 2006 RM'000 (Unaudited)
1 Beausoft Sdn. Bhd.	Sales of prepaid cards	2,571	3,095	10,816	23,801
2 Southall Sdn. Bhd.	Sales of prepaid cards	6,107	6	16,721	274
3 Southall Sdn. Bhd.	Purchases of prepaid cards	-	-	-	775

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 2007.

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

The Group has no capital commitment as of 30 September 2007.

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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 RM126.9 million for the quarter ended 30 September 2007, which was higher by approximately RM25.8 million as compared to the preceding corresponding quarter ended 30 September 2006 of approximately RM101.1 million. The higher revenue was partly due to the contribution from the subsidiary in Bangladesh, which commenced its business operations in the current year.

The Group recorded a gross profit of approximately RM1.7 million in the current quarter which was higher by approximately RM0.7 million as compared to the preceding corresponding quarter. This was partly due to the contribution from the Bangladesh subsidiary as well as the improved selling prices of some of the Group's products in the current quarter.

During the current quarter, the Group recorded a profit before taxation ("PBT") of approximately RM0.3 million as compared to the preceding corresponding quarter of approximately RM0.1 million mainly due to the improved revenue as mentioned above.

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 RM126.9 million for the quarter ended 30 September 2007, which was 9% lower than the previous quarter ended 30 June 2007 of approximately RM138.9 million. The lower revenue was mainly due to lower sales contribution from the Malaysia subsidiaries.

The Group achieved a PBT of approximately RM0.3 million in the current quarter which was 83% lower than the previous quarter PBT of approximately RM1.5 million mainly due to lower revenue generated.

18. Current Year Prospect

The Board is of the view that, barring unforeseen circumstances, the Group's business prospects for the remaining quarter of this year will remain challenging.

19. Profit Forecast or Profit Guarantee

The disclosure requirements for explanatory notes for the variance of actual profit and forecast profit and for the shortfall in profit guarantee are not applicable.

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20. Income Tax Expense

	Current Year Quarter Ended 30 Sept 2007 RM'000 (Unaudited)	Corresponding Quarter Ended 30 Sept 2006 RM'000 (Unaudited)	Current Year To Date 30 Sept 2007 RM'000 (Unaudited)	Corresponding Period Ended 30 Sept 2006 RM'000 (Unaudited)
Current taxation	<u>495</u>	<u>90</u>	<u>1,490</u>	<u>767</u>

The Group's effective tax rate 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 September 2007.

22. Quoted Investments

There were no purchases or disposals of quoted investments in the quarter ended 30 September 2007.

23. Status Of Corporate Proposals

On 21 September 2007, the Company has completed the following:

- i) the share split involving the subdivision of every one ordinary share of RM1.00 each in Compugates Holdings Berhad into ten new ordinary shares of RM0.10 each ("Share Split"); and
- ii) the amendments to the Memorandum and Articles of Association of the Company to facilitate the Share Split

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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 23 November 2007 RM'000	Intended Timeframe For Utilisation	Deviation RM'000	%	Explanations
Repayment of bank borrowings	6,500	6,500	Within one year from the date of completion of the Restricted Issue	-	-	Bank borrowings fully repaid.
Working capital	18,500	18,500		-	-	Fully utilised.
	<u>25,000</u>	<u>25,000</u>		-	-	

25. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 30 September 2007 RM'000
Short term borrowing – secured - hire purchase	<u>59</u>
Long term borrowing – secured - hire purchase	<u>195</u>

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.

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28. Dividend

The Board of Directors does not recommend any dividend for the period ended 30 September 2007.

29. Earnings per Share

a) Basic

The earnings per share is calculated by dividing the Group's profit attributable to equity holders of the parent for the financial period over the weighted average number of ordinary shares in issue during the financial period as follows:-

	Current Year Quarter Ended 30 Sept 2007 (Unaudited)	Corresponding Quarter Ended 30 Sept 2006 (Unaudited)	Current Year To Date 30 Sept 2007 (Unaudited)	Corresponding Period Ended 30 Sept 2006 (Unaudited)
Profit attributable to equity holders of parent (RM'000)	18	16	1,941	1,089
Weighted average number of ordinary shares in issue ('000)				
- RM0.10 each	2,134,289	-	2,134,289	-
- RM1.00 each	-	120,429	-	120,429
Basic earnings per share (sen)	#	0.01	0.09	0.90

- Amount less than 0.01 sen

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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 attributable to equity holders of the parent for the financial period over the weighted average assumed number of ordinary shares in issue during the financial period as follows:-

	Current Year Quarter Ended 30 Sept 2007 (Unaudited)	Corresponding Quarter Ended 30 Sept 2006 (Unaudited)	Current Year To Date 30 Sept 2007 (Unaudited)	Corresponding Period Ended 30 Sept 2006 (Unaudited)
Profit attributable to equity holders of parent (RM'000)	18	16	1,941	1,089
Weighted average number of ordinary shares in issue ('000)				
- RM0.10 each	2,134,289	-	2,134,289	-
- RM1.00 each	-	120,429	-	120,429
Effects of dilution ('000)	- *	93,000	- *	93,000
Adjusted number of ordinary shares in issue ('000)	2,134,289	213,429	2,134,289	213,429
Diluted earnings per share (sen)	N/A	0.01	N/A	0.51

Notes:-

* - ICPS has been fully converted during the previous financial year.

30. Authorisation

This interim financial report for the financial period ended 30 September 2007 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 23 November 2007 for release to the Bursa Securities.

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

Dated : 23 November 2007