

Compugates Holdings Berhad

(Company No. 669287 - H)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2009

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 2008. 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 2008.

The accounting policies and methods of computation adopted in this quarter financial statement of the Group are consistent with those adopted for the annual financial statements of the Group for the financial year ended 31 December 2008.

2. Changes in Accounting Policies

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Financial Reporting Standards (“FRS”) and the Companies Act 1965 in Malaysia.

The Group has not applied in advance the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:

| FRSs/IC Interpretations | Effective date |
|---|-----------------------|
| Revised FRS 1 (2010) First-time Adoption of Financial Reporting Standards | 1 July 2010 |
| Revised FRS 3 (2010) Business Combinations | 1 July 2010 |
| FRS 4 Insurance Contracts | 1 January 2010 |
| FRS 7 Financial Instruments: Disclosures | 1 January 2010 |
| FRS 8 Operating Segments | 1 July 2009 |
| Revised FRS 101 (2009) Presentation of Financial Statements | 1 January 2010 |
| Revised FRS 123 (2009) Borrowing Costs | 1 January 2010 |

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

| FRSs/IC Interpretations (Cont'd) | Effective date |
|--|-----------------------|
| Revised FRS 127 (2010) Consolidated and Separate Financial Statements | 1 July 2010 |
| Revised FRS 139 (2010) Financial Instruments: Recognition and Measurement | 1 January 2010 |
| Amendments to FRS 1 and FRS 127: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | 1 January 2010 |
| Amendments to FRS 2: Vesting Conditions and Cancellations | 1 January 2010 |
| Amendments to FRS 2: Scope of FRS 2 and Revised FRS 3 (2010) | 1 July 2010 |
| Amendments to FRS 5: Plan to Sell the Controlling Interest in a Subsidiary | 1 July 2010 |
| Amendments to FRS 7, FRS 139 and IC Interpretation 9 | 1 January 2010 |
| Amendments to FRS 138: Consequential Amendments Arising from Revised FRS 3 (2010) | 1 July 2010 |
| IC Interpretation 9 Reassessment of Embedded Derivatives | 1 January 2010 |
| IC Interpretation 10 Interim Financial Reporting and Impairment | 1 January 2010 |
| IC Interpretation 11: FRS 2 – Group and Treasury Share Transactions | 1 January 2010 |
| IC Interpretation 12 Service Concession Arrangements | 1 July 2010 |
| IC Interpretation 13 Customer Loyalty Programmes | 1 January 2010 |
| IC Interpretation 14: FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | 1 January 2010 |
| IC Interpretation 15 Agreements for the Construction of Real Estate | 1 July 2010 |
| IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation | 1 July 2010 |
| IC Interpretation 17 Distributions of Non-cash Assets to Owners | 1 July 2010 |
| Amendments to IC Interpretation 9: Scope of IC Interpretation 9 and Revised FRS 3 (2010) | 1 July 2010 |
| Annual Improvements to FRSs (2009) | 1 January 2010 |

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

3. Status of Audit Qualifications

The auditors' report on the financial statements for the financial year ended 31 December 2008 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 31 December 2009 except an impairment loss of RM92,335,000 has been provided on the 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. 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

There were no issuances, cancellations, repurchases or resale of debt and equity securities during the current quarter ended 31 December 2009.

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

8. Dividends Paid

There were no dividends paid during the quarter under review.

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

| | Current Year Quarter Ended 31 Dec 2009 RM'000 | Corresponding Quarter Ended 31 Dec 2008 RM'000 | Current Year To Date 31 Dec 2009 RM'000 | Corresponding Period Ended 31 Dec 2008 RM'000 |
|----------------------------|--|---|--|--|
| SEGMENT REVENUE | | | | |
| Malaysia | 36,797 | 99,779 | 293,052 | 459,213 |
| Singapore | 9 | 844 | 466 | 6,194 |
| Bangladesh | 109,841 | 87,715 | 427,145 | 232,368 |
| The British Virgin Islands | 540 | 684 | 1,800 | 1,808 |
| Cambodia | 3,410 | 269 | 6,591 | 7,508 |
| Indonesia | 2,599 | 1,139 | 14,302 | 1,299 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Inter-segment sales | 153,196 (9,734) | 190,430 (1,058) | 743,356 (10,208) | 708,390 (21,416) |
| TOTAL | <hr/> 143,462 | <hr/> 189,372 | <hr/> 733,148 | <hr/> 686,974 |
| SEGMENT RESULTS | | | | |
| Malaysia | (94,059) | 2,123 | (93,656) | 1,218 |
| Singapore | 24 | (1,281) | (289) | (1,608) |
| Bangladesh | (95) | 279 | 629 | 415 |
| The British Virgin Islands | (330) | 214 | (294) | 317 |
| Cambodia | (44) | (100) | (123) | (41) |
| Indonesia | 1 | (16) | 246 | (68) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | (94,503) | 1,219 | (93,487) | 233 |

10. Revaluation of Property and Equipment

The land and buildings of a subsidiary were revalued during the previous quarter ended 30 September 2009 and the revaluation surplus of RM883,107 have been accounted for in the Group results.

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 current quarter.

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

12. Significant Related Party Transactions

The recurrent related party transactions (“RRPT”) involved the sales of prepaid cards and IT product & accessory, purchases of skin care products and commission paid. The 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 minority shareholders.

| Transaction parties | Nature of transaction | Current Year Quarter Ended 31 Dec 2009 RM'000 | Corresponding Quarter Ended 31 Dec 2008 RM'000 | Current Year To Date 31 Dec 2009 RM'000 | Corresponding Period Ended 31 Dec 2008 RM'000 |
|-----------------------------|---------------------------------|--|---|--|--|
| 1 Beausoft Sdn. Bhd. | Sales of prepaid cards | - | - | - | 2,089 |
| 2 Southall Sdn. Bhd. | Sales of prepaid cards | - | 659 | 1,503 | 6,502 |
| | Sales of IT product & accessory | 1 | - | 7 | - |
| | Purchase of prepaid cards | - | 184 | - | 184 |
| 3 Beausoft Sdn. Bhd. | Purchases of skin care products | - | (1,839)* | - | 1,839 |
| | Deposit paid | - | - | - | 5,000 # |
| 4 Integra Communication Ltd | Commission Paid | 545 | 558 | 1,364 | 1,411 |
| 5 Deens Telecom Ltd | Commission Paid | | | | |
| | | <u>504</u> | <u>537</u> | <u>1,221</u> | <u>1,305</u> |

* Stock return during the quarter

Deposit paid for purchase of skin care products

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

13. Effect of Changes in the Composition of the Group

Save as disclosed below, there were no material changes in the composition of the Group during the quarter ended 31 December 2009:-

The Company had on 22 December 2009, entered into a Share Sale Agreement with Rata Awana Sdn Bhd to acquire the remaining 40% of the entire equity interest in Selama Muda Jaya Sdn Bhd ("SMJSB") comprising 20,000 issued and paid up ordinary shares of RM1.00 each for a total cash consideration of RM10,000,000.

On completion of the acquisition, SMJSB became a wholly owned subsidiary of the Company.

The effect of the financial position of the Group at the end of the financial year are as follows :

| | 31 Dec 2009 RM'000 |
|---|-------------------------------------|
| Non-current assets | 2,248 |
| Current assets | - # |
| Current liabilities | (11) |
| Minority interest | (5) |
| Net assets acquired | <u>2,232</u> |
| Goodwill on consolidation | <u>13,768</u> |
| Total cost of acquisition, satisfied by cash | 16,000 |
| Less : Cash and cash equivalents of the subsidiary acquired | <u>- #</u> |
| Net cash outflow from acquisition of subsidiary | <u><u>16,000</u></u> |

- Amount less than RM1,000

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

14. Significant Subsequent Events

There were no significant events subsequent to the end of the current quarter.

15. Capital Commitment

There were no capital commitments for Group during the quarter ended 31 December 2009.

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

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 RM143.5 million for the quarter ended 31 December 2009, which was approximately RM45.9 million lower as compared to the preceding corresponding quarter ended 31 December 2008 of approximately RM189.4 million. The lower revenue was mainly due to lower revenue contribution from Malaysia subsidiaries by approximately RM63.0 million which was offset with higher revenue contribution mainly from Bangladesh subsidiary.

The Group recorded a gross profit of approximately RM0.6 million for the current quarter which was about RM2.1 million lower as compared to the preceding corresponding quarter of approximately RM2.7 million.

During the current quarter, the Group recorded a loss before taxation (“LBT”) of approximately RM94.4 million as compared to the preceding corresponding quarter profit before taxation (“PBT”) of approximately RM1.1 million. This was mainly due to impairment of goodwill recorded for the current quarter for 2 Malaysian subsidiaries amounting to RM92.3 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 RM143.5 million for the quarter ended 31 December 2009, which was approximately RM30.5 million lower than the previous quarter ended 30 September 2009 of approximately RM174.0 million. The lower revenue was mainly due to lower revenue contribution from Malaysia and Bangladesh subsidiaries by approximately RM20.5 million.

The Group recorded a LBT of approximately RM94.4 million for the quarter ended 31 December 2009 which is lower by approximately RM95.3 million from the previous quarter PBT of approximately RM0.9 million. This was mainly due to impairment of goodwill recorded for the current quarter for 2 Malaysian subsidiaries amounting to RM92.3 million.

18. Current Year Prospect

The Board is of the view that, barring unforeseen circumstances, the Group’s business prospects will remain challenging given the competitive market. At the same time, the Board will continuously explore other business activities that will add value to the Group.

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.

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

20. Income Tax Expense

| | Current Year Quarter Ended 31 Dec 2009 RM'000 | Corresponding Quarter Ended 31 Dec 2008 RM'000 | Current Year To Date 31 Dec 2009 RM'000 | Corresponding Period Ended 31 Dec 2008 RM'000 |
|------------------|--|---|--|--|
| Current taxation | <u>110</u> | <u>(88)</u> | <u>1,669</u> | <u>1,375</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 31 December 2009.

22. Quoted Investments

Save as disclosed below, there were no purchases or disposals of quoted investments in the quarter ended 31 December 2009:-

a) Total purchases and disposal of quoted investments by the Group were as follows:-

| | Current Year Quarter Ended 31 Dec 2009 RM'000 | Corresponding Quarter Ended 31 Dec 2008 RM'000 | Current Year To Date 31 Dec 2009 RM'000 | Corresponding Period Ended 31 Dec 2008 RM'000 |
|---------------------------------------|--|---|--|--|
| Purchases of quoted investments | - | - | 12,684 | - |
| Sales proceeds of quoted investment | - | - | 688 | - |
| Gain on disposal of quoted investment | - | - | 38 | - |

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

22. Quoted Investments (cont'd)

b) Quoted investments as at end of the quarter were as follows:-

| | As at 31 Dec 2009 RM'000 | As at 31 Dec 2008 RM'000 |
|-----------------|---|---|
| At cost | 12,034 | - |
| At book value | 12,034 | - |
| At market value | 8,548 | - |

23. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

24. Borrowings and Debt Securities

The Group's borrowings are as follows:

| | As at 31 Dec 2009 RM'000 | As at 31 Dec 2008 RM'000 |
|---------------------------------|---|---|
| Short term borrowings – secured | | |
| - hire purchase | 86 | 112 |
| - banker's acceptance | - | 2,074 |
| | <u>86</u> | <u>2,186</u> |
| Long term borrowing – secured | | |
| - hire purchase | - | 86 |

25. 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.

26. 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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(Company No. 669287 - H)
(Incorporated in Malaysia)

27. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 31 December 2009.

28. Earnings per Share

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

| | Current Year Quarter Ended 31 Dec 2009 | Corresponding Quarter Ended 31 Dec 2008 | Current Year To Date 31 Dec 2009 | Corresponding Period Ended 31 Dec 2008 |
|---|---|--|---|---|
| (Loss)/profit attributable to equity holders of parent (RM'000) | (94,251) | 941 | (93,835) | (240) |
| Number of ordinary shares in issue ('000) - RM0.10 each | 2,134,289 | 2,134,289 | 2,134,289 | 2,134,289 |
| Basic (loss)/earnings per share (sen) | (4.42) | 0.04 | (4.40) | (0.01) |

The diluted earnings per share was not applicable as there were no diluted potential ordinary shares outstanding at the balance sheet date.

29. Authorisation

This interim financial report for the financial period ended 31 December 2009 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 22 February 2010 for release to the Bursa Securities.

By order of the Board
Lim Ming Toong
Ng Lai Yee
 Company Secretaries

Dated : 22 February 2010