

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31
DECEMBER 2010**

**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 2009. 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 2009.

2. Changes in Accounting Policies

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 2009 except for the adoption of the following new and revised Financial Reporting Standards ("FRSs"), Amendments to FRSs and IC Interpretations and Technical Releases ("TR"):

FRS 4 Insurance Contracts
FRS 7 Financial Instruments: Disclosures
FRS 8 Operating Segments
Revised FRS 101 (2009) Presentation of Financial Statements
Revised FRS 123 (2009) Borrowing Costs
Revised FRS 139 (2010) Financial Instruments: Recognition and Measurement
Amendments to FRS 1 and FRS 127: Cost of an Investment in a Subsidiary, Jointly
Controlled Entity or Associate
Amendments to FRS 2: Vesting Conditions and Cancellations
Amendments to FRS 7, FRS 139 and IC Interpretation 9
Amendments to FRS 132: Classification of Rights Issues and the Transitional Provision in
Relation to Compound Instruments
IC Interpretation 9 Reassessment of Embedded Derivatives
IC Interpretation 10 Interim Financial Reporting and Impairment
IC Interpretation 11: FRS 2 – Group and Treasury Share Transactions
IC Interpretation 13 Customer Loyalty Programmes
IC Interpretation 14: FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding
Requirements and their Interaction
Annual Improvements to FRSs (2009)

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

2. Changes in Accounting Policies (cont'd)

The adoption of the above FRSs, Amendments to FRSs, IC Interpretations and TR did not have any material impact on the financial performance and financial position of the Group other than as stated below:

FRS 7: Financial Instruments: Disclosures

Prior to the adoption of FRS 7, the disclosures for financial instruments were based on the requirements of the original FRS 132: Financial Instruments: Disclosures and Presentation. This standard requires disclosure on the nature and extent of risks arising from financial instrument which includes qualitative and quantitative disclosure. The Group applied this standard prospectively in accordance with the transitional provision. This standard only affects the form and content of the disclosure in the Group's financial statements.

FRS 8: Operating Segments

FRS 8 replaces FRS 114₂₀₀₄ Segment Reporting and requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes that are regularly reviewed by the Group's chief operating decision maker. The Group presents its segment information based on its geographical segments, which is also the basis of presenting its internal management reports. The basis of measurement of operating results, segment assets and segment liabilities are the same as the basis of measurement for external reporting.

Revised FRS 101 (2009) Presentation of Financial Statements

The revised FRS 101 requires Statement of Changes in Equity includes only transaction with owners, and all non-owner changes (i.e. other comprehensive income) are presented in a separate statement. This standard also introduces Statement of Comprehensive Income which presents all items of income and expense recognised in profit or loss and all other items of income and expensed recognised directly in equity, either in one single statement or two linked statements. The Group has applied this standard retrospectively and elected to present in one single statement. The adoption of this standard only impacted the form and content of the presentation of the Group's financial statements.

Annual Improvements to FRSs (2009) – FRS 117: Leases

FRS 117 clarifies on the classification of leases of land and buildings. The resulting effect of this standard was the reclassification of leasehold land to property, plant and equipment or investment property rather than being separately classified under prepaid land lease payments on the condensed consolidated statement of financial position, as disclosed below. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment. The reclassification does not have any impact on the financial performance and earning per share of the Group.

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

2. Changes in Accounting Policies (cont'd)

The following comparatives have been reclassified upon adoption of the amendments to FRS 117:

	As Restated RM'000	As Previously Stated RM'000
Condensed Statement of Financial Position		
Non-current assets		
Property and equipment	16,724	11,365
Investment property	5,780	-
Prepaid land lease payments	-	10,761

FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 prescribes the principles for recognising, derecognising and measuring financial asset, financial liabilities, including all derivatives and certain embedded derivatives. The Group has applied this standard prospectively on 1 January 2010 in accordance with the transitional provision. The effects arising from the adoption of this standard has been accounted for by adjusting the opening balance of retained earnings as at 1 January 2010. The comparative figures have not been restated.

Prior to 1 January 2010, the Group classified its investment in quoted securities which were held for non-trading purposes as non-current quoted investments. Such investments were carried at cost less allowance for permanent diminution in value. Upon adoption of FRS 139, these investments were designated at 1 January 2010 as available-for-sale investments and accordingly are stated at their fair values as at that date at RM8,548,000. As at 1 January 2010, an impairment loss of RM3,025,000 was also recognised for available-for-sale investments as an adjustment to the opening balance of retained earnings.

The following are the effects arising from the changes in the accounting policies as at 1 January 2010 upon the first application of FRS 139:

	As Previously Stated RM'000	Effect of FRS 139 RM'000	As Restated RM'000
Condensed Statement of Financial Position			
Non-current assets			
Quoted investments	12,033	(12,033)	-
Available-for-sale investments	-	8,548	8,548
Equity			
Fair value reserve	-	(460)	(460)
Accumulated losses	(107,352)	(3,025)	(110,377)

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

2. Changes in Accounting Policies (cont'd)

The Group has not applied in advance the following new and revised FRSs, Amendments to FRSs, IC Interpretations and TR 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
Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters (Amendment to FRS 1)	1 January 2011
Improving Disclosures about Financial Instruments (Amendments to FRS 7)	1 January 2011
Additional Exemptions for First-time Adopters (Amendments to FRS 1)	1 January 2011
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)	1 January 2011
Revised FRS 1 (2010) First-time Adoption of Financial Reporting Standards	1 July 2010

FRS 139: Financial Instruments: Recognition and Measurement (cont'd)

FRSs/IC Interpretations	Effective date
Revised FRS 3 (2010) Business Combinations	1 July 2010
Revised FRS 124 (2010) Related Party Disclosures	1 January 2012
Revised FRS 127 (2010) Consolidated and Separate Financial Statements	1 July 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 132: Financial Instruments: Presentation	1 March 2010
Amendments to FRS 138: Consequential Amendments Arising from Revised FRS 3 (2010)	1 July 2010
Annual Improvements to FRSs (2010)	1 January 2011
IC Interpretation 4 Determining whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 12 Service Concession Arrangements	1 July 2010
IC Interpretation 15 Agreements for the Construction of Real Estate	1 January 2012
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
IC Interpretation 18 Transfers of Assets from Customers	1 January 2011
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)	1 July 2011
TR i-4 Shariah Compliant Sale Contracts	1 January 2011
Amendments to IC Interpretation 9: Scope of IC Interpretation	1 July 2010

The adoption of the above FRSs, Amendments to FRSs, IC Interpretations and TR is not expected to have any material impact on the results and financial position of the Group.

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 2009 was not subject to any qualification.

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. 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 changes in the estimates of amounts reported in the prior financial years that have material effect in the current quarter under review and financial year-to-date.

7. Debt and Equity Securities

There were no issuances, cancellations, repurchases or resale and 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 quarter under review and financial year-to-date.

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

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

	Current Year Quarter Ended 31 Dec 2010 RM'000	Corresponding Quarter Ended 31 Dec 2009 RM'000	Current Year To Date 31 Dec 2010 RM'000	Corresponding Period Ended 31 Dec 2009 RM'000
SEGMENT REVENUE				
Malaysia	32,355	36,797	141,272	293,052
Singapore	-	9	-	466
Bangladesh	125,358	109,841	488,098	427,145
The British Virgin Islands	101	1,215	2,079	2,475
Cambodia	2,453	3,411	9,473	6,592
Indonesia	1,680	2,599	6,891	14,302
	<hr/>	<hr/>	<hr/>	<hr/>
	161,947	153,872	647,813	743,032
Inter-segment sales	(1,454)	(10,410)	(10,044)	(10,884)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	160,493	143,462	637,769	733,148
<hr/>				
SEGMENT RESULTS				
Malaysia	(6,457)	(94,059)	(10,889)	(93,656)
Singapore	2	24	2	(289)
Bangladesh	(538)	(95)	(850)	629
The British Virgin Islands	(451)	(330)	(1,182)	(294)
Cambodia	23	(47)	(49)	(126)
Indonesia	45	(42)	215	203
	<hr/>	<hr/>	<hr/>	<hr/>
	(7,376)	(94,549)	(12,753)	(93,533)
<hr/>				

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 2009.

11. Contingent Liabilities and Contingent Assets

The Company had given corporate guarantees amounting to approximately RM52 million to the banks and suppliers to secure banking facilities and credit term granted to its subsidiaries as of 31 December 2010.

There were no contingent assets as of 31 December 2010.

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 IT product 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 2010 RM’000	Corresponding Quarter Ended 31 Dec 2009 RM’000	Current Year To Date 31 Dec 2010 RM’000	Corresponding Period Ended 31 Dec 2009 RM’000
1	Southall Sdn. Bhd.	Sales of prepaid cards	-	-	-	1,503
		Sales /(sales return) of IT product & accessory	(28)	1	237	7
2	Southall Sdn. Bhd.	Purchases of IT products	5	-	8	-
3	Integra Communication Ltd	Commission Paid	422	545	1,731	1,364
4	Deens Telecom Ltd	Commission Paid	352	504	1,444	1,221

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 current quarter under review and financial year-to-date.

Compugates Marketing Sdn. Bhd. (“CMSB”) a subsidiary of Compugates Holdings Berhad (“CHB”) had on 15 March 2010 disposed off two (2) ordinary shares of RM1.00 each, representing 2% of the total issued and paid up share capital of Compugates Sabah Sdn. Bhd. (“CSSB”). With the aforesaid disposal, CMSB’s shareholding in CSSB was reduced from 51% to 49%. However, on 19 May 2010 CMSB has re-acquired 2% of the total issued and paid-up capital of CSSB, resulting in CMSB’s shareholding in CSSB increased from 49% to 51%.

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 up to the date of this report that have not been reflected in the financial statements for the current quarter under review.

15. Capital Commitment

The Group has the following capital commitment as of 31 December 2010.

Approved but not contracted for - Property, plant & equipment	RM'000 <u>225</u>
---	----------------------

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 RM160.4 million for the quarter ended 31 December 2010, which was approximately RM17 million higher as compared to the preceding corresponding quarter ended 31 December 2009 of approximately RM143.4 million. The higher revenue was mainly due to higher revenue contribution from Bangladesh subsidiary. For the twelve months ended 31 December 2010, the Group recorded a revenue of approximately RM637.7 million, which was approximately RM95.4 million lower as compared to the preceding year corresponding period ended 31 December 2009 of approximately RM733.1 million. The lower revenue was mainly due to lower revenue contribution from Malaysian subsidiaries, resulted from the termination of distributorship by Celcom, which was partially offset by higher revenue contribution from Bangladesh subsidiary.

During the current quarter and financial year-to-date ended 31 December 2010, the Group recorded a loss before taxation (“LBT”) of approximately RM7.4 million and RM12.1 million as compared to the preceding year corresponding quarter and financial year-to-date ended 31 December 2009 loss before taxation (“LBT”) of approximately RM94.4 million and RM 91.8 million respectively . The lower LBT for current quarter and financial year-to-date were mainly due to impairment loss on goodwill amounting to RM92.3 million recognised in the previous year corresponding quarter ended 31 December 2009.

17. Comment on Material Changes in the Results for the Quarter Reported on as Compared With the Immediate Preceding Quarter

The Group registered revenue of approximately RM160.4 million for the quarter ended 31 December 2010, which was approximately RM7.5 million higher than the previous quarter ended 30 September 2010 of approximately RM152.9 million. The higher revenue was mainly due to higher revenue contribution from Bangladesh subsidiary.

The Group recorded a LBT of approximately RM7.4 million for the quarter ended 31 December 2010 as compared to the preceding quarter LBT of approximately RM0.4 million. This was mainly due to allowance for impairment loss on receivables and higher administrative expenses provided by the Malaysian subsidiaries in the current quarter.

18. Current Year Prospect

The Board is of the view that, barring any 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.

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

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.

20. Income Tax Expense

	Current Year Quarter Ended 31 Dec 2010 RM'000	Corresponding Quarter Ended 31 Dec 2009 RM'000	Current Year To Date 31 Dec 2010 RM'000	Corresponding Period Ended 31 Dec 2009 RM'000
Current tax expense:				
- for the quarter	1,134	(25)	1,907	1,662
- (over)/under provision In the previous financial year	(1,172)	186	(1,199)	58
	<u>(38)</u>	<u>161</u>	<u>708</u>	<u>1,720</u>
Deferred taxation				
- Origination and reversal of temporary differences	(3)	(2)	(40)	(2)
	<u>(41)</u>	<u>159</u>	<u>668</u>	<u>1,718</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 current quarter under review and financial year-to-date.

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

22. Quoted Securities

Save as disclosed below, there were no purchases or disposals of quoted securities in the current quarter under review and financial year-to-date:-

a) Total purchase and disposal of quoted securities by the Group were as follows:-

	Current Year Quarter Ended 31 Dec 2010 RM'000	Corresponding Quarter Ended 31 Dec 2009 RM'000	Current Year To Date 31 Dec 2010 RM'000	Corresponding Period Ended 31 Dec 2009 RM'000
Purchase of quoted Securities	-	-	3,331	12,684
Proceeds from disposal of quoted securities	-	-	411	688
Gain on disposal of quoted securities	-	-	21	38

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

	As at 31 Dec 2010 RM'000
At carrying amount	<u>9,834</u>
At market value	<u>9,834</u>

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 2010 RM'000	As at 31 Dec 2009 RM'000
Short term borrowings – secured (denominated in Ringgit Malaysia)		
- bankers' acceptance	6,348	-
- hire purchase	-	86
	<u>6,348</u>	<u>86</u>

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

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. Realised and Unrealised Profits/Losses Disclosure

	As at 30 Sept 2010 RM'000	As at 31 Dec 2010 RM'000	As at 31 Dec 2009 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:			
Realised	(116,092)	(122,214)	Not applicable
Unrealised	(1)	(33)	
Total accumulated losses	<u>(116,093)</u>	<u>(122,247)</u>	<u> </u>

Comparative figures were not required in the first financial year of complying with the Realised and Unrealised Profits/Losses Disclosure.

27. Material Litigation

The Group did 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 quarter ended 31 December 2010.

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

29. Loss per Share

The loss per share is calculated by dividing the Group's loss 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 2010	Corresponding Quarter Ended 31 Dec 2009	Current Year To Date 31 Dec 2010	Corresponding Period Ended 31 Dec 2009
Loss attributable to equity holders of parent (RM'000)	(6,154)	(94,271)	(11,870)	(93,855)
Number of ordinary shares in issue ('000) - RM0.10 each	2,134,289	2,134,289	2,134,289	2,134,289
Basic loss per share (sen)	(0.29)	(4.42)	(0.56)	(4.40)

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

30. Authorisation

This interim financial report for the financial period ended 31 December 2010 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 21 February 2011 for release to the Bursa Securities.

By order of the Board
Mah Li Chen
Chew Mei Ling
Cynthia Gloria Louis
 Company Secretaries

Dated: 21 February 2011