

COMPUGATES HOLDINGS BERHAD

(Incorporated in Malaysia)
Company No : 669287 - H

DIRECTORS' REPORT

The directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial period from 13 October 2004 (date of incorporation) to 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the businesses of investment holding and the provision of management services whilst the principal activities of the subsidiaries are set out in Note 6 to the financial statements. There have been no significant changes in the nature of these activities during the financial period.

RESULTS

	THE GROUP RM'000	THE COMPANY RM'000
Loss after taxation	(642)	(65)

DIVIDENDS

No dividend was paid since the date of incorporation and the directors do not recommend the payment of any dividend for the current financial period.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial period except as disclosed in the financial statements.

ISSUES OF SHARES AND DEBENTURES

The Company was incorporated with an authorised share capital of RM2,500,000 comprising 2,500,000 ordinary shares of RM1.00 each, of which 2 ordinary shares of RM1.00 each were subscribed for on the date of incorporation.

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ISSUES OF SHARES AND DEBENTURES (CONT'D)

During the financial period, the Company,

- (a) increased its authorised share capital from RM2,500,000 to RM350,000,000 by the creation of 337,500,000 new ordinary shares of RM1.00 each and 100,000,000 new Irredeemable Convertible Preference Shares ("ICPS") of RM0.10 each;
- (b) increased its issued and paid-up share capital from RM2 to RM129,728,902 comprising 120,428,902 ordinary shares of RM1.00 each and 93,000,000 ICPS of RM0.10 each by way of:-
 - (i) issuance of 85,000,000 new ordinary shares of RM1.00 each at par and 77,000,000 new ICPS of RM0.10 each at an issue price of RM1.00 each as the purchase consideration for the acquisition of a subsidiary. The details of the acquisition are disclosed in Notes 6 and 32 to the financial statements;
 - (ii) issuance of 4,000,000 new ordinary shares of RM1.00 each at par and 16,000,000 new ICPS of RM0.10 each at an issue price of RM1.00 each for the settlement of debts amounting to RM243.167 million as at 30 June 2003 owing to the Secured Scheme Creditors under the Scheme of Arrangement with Creditors of Pan Pacific Asia Berhad ("PPAB") pursuant to the Restructuring Scheme undertaken by PPAB;
 - (iii) issuance of 6,428,900 new ordinary shares of RM1.00 each at par to the shareholders of PPAB under the Scheme of Arrangement with Shareholders of PPAB pursuant to the Restructuring Scheme undertaken by PPAB; and
 - (iv) allotment of 25,000,000 new ordinary shares of RM1.00 each at par by way of a renounceable restricted issue.

All new shares issued during the financial period rank pari passu in all respects with the existing shares of the Company; and

- (c) there were no issues of debentures by the Company.

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OPTIONS GRANTED OVER UNISSUED SHARES

During the financial period, no options were granted by the Company to any person to take up any unissued shares in the Company.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would further require the writing off of bad debts, or additional allowance for doubtful debts in the financial statements of the Group and of the Company.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, including their value as shown in the accounting records of the Group and of the Company, have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

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CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:-

- (i) any charge on the assets of the Group and of the Company that has arisen since the end of the financial period which secures the liabilities of any other person; or
- (ii) any contingent liability of the Group and of the Company which has arisen since the end of the financial period.

No contingent or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Company during the financial period were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial period.

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DIRECTORS

The directors who served since the date of incorporation are as follows:-

TAN SRI DATUK ASMAT BIN KAMALUDIN (APPOINTED ON 8 NOVEMBER 2005)

GOH KHENG PEOW (APPOINTED ON 8 NOVEMBER 2005)

TAN NGAIP SOON (APPOINTED ON 8 NOVEMBER 2005)

MOHAMED FAUZI BIN OMAR (APPOINTED ON 8 NOVEMBER 2005)

GOH TAI WAI (APPOINTED ON 8 NOVEMBER 2005)

TAN YIP CHIAN (FIRST DIRECTOR)

LAU KOK KENG (FIRST DIRECTOR, RESIGNED ON 8 NOVEMBER 2005)

Pursuant to Article 126 of the Articles of Association of the Company, Tan Yip Chian retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Pursuant to Article 131 of the Articles of Association of the Company, Tan Sri Datuk Asmat Bin Kamaludin, Goh Kheng Peow, Tan Ngaip Soon, Mohamed Fauzi Bin Omar and Goh Tai Wai retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors holding office at the end of the financial period in shares in the Company and its related corporations during the financial period are as follows:-

	NUMBER OF ORDINARY SHARES OF RM1 EACH			
	AT 13.10.2004 (DATE OF INCORPORATION)	ALLOTMENT/ BOUGHT	SOLD	AT 31.12.2005
<i>DIRECT INTERESTS</i>				
TAN YIP CHIAN	1	-	-	1
GOH KHENG PEOW	-	68,000,001	(2,900,000)	65,100,001
TAN NGAIP SOON	-	17,000,000	-	17,000,000
<i>DEEMED INTERESTS</i>				
GOH KHENG PEOW *	-	2,900,000	-	2,900,000
GOH TAI WAI *	-	20,000	-	20,000

* Deemed interest through spouse's shareholdings.

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DIRECTORS' REPORT

DIRECTORS' INTERESTS (CONT'D)

	NUMBER OF ICPS OF RM0.10 EACH			AT 31.12.2005
	AT 13.10.2004 (DATE OF INCORPORATION)	ALLOTMENT	SOLD	
<i>DIRECT INTERESTS</i>				
GOH KHENG PEOW	-	61,600,000	-	61,600,000
TAN NGAIP SOON	-	15,400,000	-	15,400,000

By virtue of their shareholdings in the Company, Goh Kheng Peow and Tan Ngaip Soon are deemed to have interests in the shares in the subsidiaries to the extent of the Company's interest, in accordance with Section 6A of the Companies Act, 1965.

DIRECTORS' BENEFITS

Since the date of incorporation, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arise from transactions entered into in the ordinary course of business with companies in which the directors have substantial financial interests as disclosed in Note 35 to the financial statements.

Neither during nor at the end of the financial period was the Company or its subsidiaries a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

The significant events during the financial period are disclosed in Note 37 to the financial statements.

SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

The significant event subsequent to the balance sheet date is disclosed in Note 38 to the financial statements.

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DIRECTORS' REPORT

AUDITORS

The auditors, Messrs. Horwath, have expressed their willingness to continue in office.

**SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS
DATED 21 APRIL 2006**

Goh Kheng Peow

Tan Ngaip Soon

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STATEMENT BY DIRECTORS

We, Goh Kheng Peow and Tan Ngaip Soon, being two of the directors of Compugates Holdings Berhad, state that, in the opinion of the directors, the financial statements set out on pages 11 to 55 are drawn up in accordance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2005 and of their results and cash flows for the financial period ended on that date.

SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS DATED

Goh Kheng Peow

Tan Ngaip Soon

STATUTORY DECLARATION

I, Goh Tai Wai, I/C No. 730202-10-5295, being the director primarily responsible for the financial management of Compugates Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 11 to 55 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
Goh Tai Wai, I/C No. 730202-10-5295,
at Kuala Lumpur in the Federal Territory
on this

Goh Tai Wai

Before me

REPORT OF THE AUDITORS TO THE MEMBERS OF COMPUGATES HOLDINGS BERHAD

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We have audited the financial statements set out on pages 11 to 55. The preparation of the financial statements is the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit also included an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
 - (i) the state of affairs of the Group and of the Company at 31 December 2005 and their results and cash flows for the financial period ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' report of the subsidiary of which we have not acted as auditors, as indicated in Note 6 to the financial statements.

**REPORT OF THE AUDITORS TO THE MEMBERS OF
COMPUGATES HOLDINGS BERHAD (CONT'D)**

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We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purpose of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comments made under Subsection (3) of Section 174 of the Companies Act, 1965.

Horwath
Firm No: AF 1018
Chartered Accountants

Kuala Lumpur

Onn Kien Hoe
Approval No: 1772/11/06 (J/PH)
Partner

COMPUGATES HOLDINGS BERHAD

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BALANCE SHEETS AT 31 DECEMBER 2005

				At 31.12.2005	
	NOTE	THE GROUP RM'000	THE COMPANY RM'000		
NON-CURRENT ASSETS					
Investment in a subsidiary	6	-	162,000		
Property and equipment	7	8,051	-		
Listing premium	8	26,429	26,429		
Goodwill on consolidation	9	115,684	-		
		<hr/>	<hr/>		
		150,164	188,429		
CURRENT ASSETS					
Inventories	10	5,087	-		
Trade receivables	11	37,260	-		
Other receivables, deposits and prepayments	12	11,627	3		
Tax refundable		818	-		
Short term deposits with a licensed bank	13	25,000	25,000		
Fixed deposits with licensed banks	14	7,894	-		
Cash and bank balances		4,471	6		
		<hr/>	<hr/>		
		92,157	25,009		
CURRENT LIABILITIES					
Trade payables	15	13,906	-		
Other payables and accruals	16	1,301	18		
Amount owing to a subsidiary	17	-	55		
Amount owing to a director	18	346	-		
Hire purchase payables	19	20	-		
Bankers' acceptances	20	11,629	-		
Provision for taxation		1,855	1		
		<hr/>	<hr/>		
		29,057	74		
NET CURRENT ASSETS					
		<hr/>	<hr/>		
		63,100	24,935		
		<hr/>	<hr/>		
		213,264	213,364		

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BALANCE SHEETS AT 31 DECEMBER 2005 (CONT'D)

		At 31.12.2005	
	NOTE	THE GROUP RM'000	THE COMPANY RM'000
FINANCED BY:-			
Share capital	21	120,429	120,429
Irredeemable Convertible Preference Shares ("ICPS")	22	9,300	9,300
Share premium	23	83,700	83,700
Exchange fluctuation reserve	24	3	-
Accumulated loss		(642)	(65)
SHAREHOLDERS' EQUITY		<u>212,790</u>	<u>213,364</u>
NON-CURRENT AND DEFERRED LIABILITIES			
Hire purchase payables	19	38	-
Deferred taxation	25	436	-
		<u>213,264</u>	<u>213,364</u>
NET ASSETS PER SHARE (RM)	26	<u>0.99</u>	

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INCOME STATEMENTS

FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004
(DATE OF INCORPORATION) TO 31 DECEMBER 2005

		13.10.2004 (date of incorporation) to 31.12.2005	
	NOTE	THE GROUP RM'000	THE COMPANY RM'000
REVENUE	27	60,815	-
COST OF SALES		(64,720)	-
GROSS LOSS		(3,905)	-
OTHER OPERATING INCOME		6,951	3
		3,046	3
ADMINISTRATIVE EXPENSES		(1,162)	(67)
SALES AND MARKETING EXPENSES		(372)	-
OTHER OPERATING EXPENSES		(209)	-
PROFIT/(LOSS) FROM OPERATIONS		1,303	(64)
FINANCE COSTS		(102)	-
PROFIT/(LOSS) BEFORE TAXATION	28	1,201	(64)
TAXATION	29	(1,843)	(1)
LOSS AFTER TAXATION		(642)	(65)
LOSS PER SHARE (RM)			
- Basic	30	(0.04)	
- Diluted		Not applicable	

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STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

	SHARE CAPITAL RM'000	ICPS RM'000	SHARE PREMIUM RM'000	EXCHANGE FLUCTUATION RESERVE RM'000	ACCUMULATED LOSS RM'000	TOTAL RM'000
THE GROUP						
Balance at 13.10.2004 (Date of incorporation)	#	-	-	-	-	#
Issuance of ordinary shares pursuant to the:						
- acquisition of a subsidiary	85,000	7,700	69,300	-	-	162,000
- Scheme of Arrangement with Creditors of PPAB	4,000	1,600	14,400	-	-	20,000
- Scheme of Arrangement with Shareholders of PPAB	6,429	-	-	-	-	6,429
- Renounceable Restricted Issue	25,000	-	-	-	-	25,000
Loss after taxation	-	-	-	-	(642)	(642)
Exchange difference	-	-	-	3	-	3
Balance at 31.12.2005	120,429	9,300	83,700	3	(642)	212,790
THE COMPANY						
Balance at 13.10.2004 (Date of incorporation)	#	-	-	-	-	#
Issuance of shares pursuant to the:						
- acquisition of a subsidiary	85,000	7,700	69,300	-	-	162,000
- Scheme of Arrangement with Creditors of PPAB	4,000	1,600	14,400	-	-	20,000
- Scheme of Arrangement with Shareholders of PPAB	6,429	-	-	-	-	6,429
- Renounceable Restricted Issue	25,000	-	-	-	-	25,000
Loss for the financial period	-	-	-	-	(65)	(65)
Balance at 31.12.2005	120,429	9,300	83,700	-	(65)	213,364

- 2 ordinary shares of RM1.00 each.

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CASH FLOW STATEMENTS

FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004

(DATE OF INCORPORATION) TO 31 DECEMBER 2005

		13.10.2004 (date of incorporation) to 31.12.2005	
	NOTE	THE GROUP RM'000	THE COMPANY RM'000
CASH FLOWS FOR OPERATING ACTIVITIES			
Profit/(Loss) before taxation		1,201	(64)
Adjustments for:-			
Allowance for doubtful debts		10	-
Allowance for obsolete inventories		62	-
Bad debts written off		59	-
Depreciation of property and equipment		76	-
Interest expense		78	-
Interest income		(202)	(3)
Unrealised gain on foreign exchange		(7)	-
Writeback of allowance for doubtful debts		(64)	-
Operating profit/(loss) before working capital changes		1,213	(67)
Decrease in inventories		4,484	-
Increase in trade and other receivables		(11,680)	(3)
Decrease in trade and other payables		(785)	18
CASH FOR OPERATIONS		(6,768)	(52)
Income tax paid		(1,000)	-
Interest paid		(78)	-
NET CASH FOR OPERATING ACTIVITIES		(7,846)	(52)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	31	(174)	-
Acquisition of a subsidiary, net of cash acquired	32	16,356	-
Interest received		202	3
Advances from a subsidiary		-	55
NET CASH FROM INVESTING ACTIVITIES		16,384	58
BALANCE CARRIED FORWARD		8,538	6

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CASH FLOW STATEMENTS

FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004
(DATE OF INCORPORATION) TO 31 DECEMBER 2005 (CONT'D)

		13.10.2004 (date of incorporation) to 31.12.2005	
	NOTE	THE GROUP RM'000	THE COMPANY RM'000
BALANCE BROUGHT FORWARD		8,538	6
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		25,000	25,000
Increase in bankers' acceptances		4,316	-
Repayment of hire purchase obligations		(3)	-
Repayment to a director		(489)	-
NET CASH FROM FINANCING ACTIVITIES		28,824	25,000
Effects of foreign exchange rate changes on cash and cash equivalents		3	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		37,365	25,006
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD		-	-
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	33	37,365	25,006

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

1. GENERAL INFORMATION

The Company is a public company limited by shares and is incorporated under the Malaysian Companies Act, 1965. The domicile of the Company is Malaysia. The registered office and principal place of business are as follows:-

Registered office : C-15-1, Level 15 Tower C, Megan Avenue II,
12 Jalan Yap Kwan Seng,
50450 Kuala Lumpur.

Principal place of business : No. 3, Jalan PJU 1/41, Dataran Prima,
47301 Petaling Jaya, Selangor Darul Ehsan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 21 April 2006.

2. PRINCIPAL ACTIVITIES

The Company is principally engaged in the businesses of investment holding and provision of management services whilst the principal activities of the subsidiaries are set out in Note 6 to the financial statements. There have been no significant changes in the nature of these activities during the financial period.

3. FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, market, credit, liquidity and cash flow risks. The policies in respect of the major areas of treasury activity are as follows:-

(a) Foreign Currency Risk

The Group is exposed to foreign exchange risk on purchases that are denominated in foreign currencies.

The Group manages its foreign exchange exposure by a policy of matching as far as possible receipts and payments in each individual currency.

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3. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Interest Rate Risk

The Group obtains financing through bank borrowings and hire purchase facilities. Its policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

(c) Market Risk

The Group does not have any quoted investments and hence is not exposed to market risks.

(d) Credit Risk

The Group's exposure to credit risks, or the risk of counterparties defaulting, arises mainly from receivables. The maximum exposure to credit risks is represented by the total carrying amount of this financial asset in the balance sheet reduced by the effects of any netting arrangements with counterparties.

The Group's concentration of credit risks relates to a major customer which makes up 54% of its total receivables.

The Group manages its exposure to credit risk by investing its cash assets safely and profitably, and by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis.

(e) Liquidity and Cash Flow Risks

The Group's exposure to liquidity and cash flow risks arises mainly from general funding and business activities.

It practises prudent liquidity risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

4. BASIS OF PREPARATION

The financial statements of the Group and of the Company 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 applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

5. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis Of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2005.

A subsidiary is defined as a company in which the Group has the power, directly or indirectly, to exercise control over the financial and operating policies so as to obtain benefits therefrom.

All subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair value of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiary to ensure consistency of accounting policies with those of the Group.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to financial instruments classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

(c) Goodwill on Consolidation

Goodwill on consolidation represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the separable net assets of the subsidiary at the date of acquisition.

Goodwill on consolidation is retained in the consolidated balance sheet. The carrying value of the goodwill is reviewed annually, and is written down for impairment where it is considered necessary. The impairment value of goodwill written off is taken to the income statement.

(d) Investments in Subsidiaries

Investments in subsidiaries are held on a long term basis and are stated at cost in the balance sheet of the Company, and are reviewed for impairment at the end of the financial period if events or changes in circumstances indicate that their carrying values may not be recoverable.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Property and Equipment

Property and equipment, other than freehold land, are stated at cost or revalued amount less accumulated depreciation and impairment losses, if any.

Freehold land is stated at cost or revalued amount less impairment losses, if any, and is not depreciated.

Depreciation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Buildings	2%
Motor vehicles	20%
Office equipment, furniture and fittings	20% to 33 1/3%
Renovation	50%
Signboard	20%

The building-in-progress represents assets under construction, and which are not ready for commercial use at the balance sheet date. The building-in-progress is stated at cost, and will be transferred to the relevant category of long term assets and depreciated accordingly when the assets are completed and ready for commercial use.

(f) Listing Premium

The listing premium, being the cost of shares issued for the acquisition of a public listed company, is retained in the balance sheet as an intangible asset.

The carrying amount of the listing premium is reviewed annually and adjusted for impairment where it is considered necessary. The policy for the recognition and measurement of impairment losses is in accordance with Note 5(g).

(g) Impairment of Assets

The carrying values of assets, other than those to which MASB 23 - Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Impairment of Assets (Cont'd)

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(h) Inventories

Inventories comprise goods held for trading and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

In arriving at net realisable value, due allowance is made for all obsolete, damaged and slow-moving items.

(i) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(k) Assets Under Hire Purchase

Equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 5(e) above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the periods of the respective hire purchase agreements.

(l) Interest-bearing Borrowings

Interest-bearing borrowings are recorded at the amount of proceeds received, net of transaction costs.

All the borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

(m) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings and treated as a separate component of equity. Upon the approval of the proposed dividend, it will be accounted for as a liability.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Irredeemable Convertible Preference Shares ("ICPS")

FRS 132 - Financial Instruments: Disclosure and Presentation requires the Company as an issuer of a financial instrument to classify the instrument either as a liability or equity in accordance with the substance of the contractual arrangement on initial recognition. Consequently, ICPS, which, amongst other conditions, are convertible to ordinary shares, are classified as equity under such circumstances. Dividends from the ICPS are recognised in equity when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is recognised as an appropriation from retained earnings and treated as a separate component of equity. Upon the approval of the proposed dividend, it will be accounted for as a liability.

(o) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(p) Revaluation Reserve

Freehold land and buildings classified under property and equipment are appraised periodically, at least once in every five years. The net increase arising from revaluation of the properties, if adjusted, is credited to a revaluation reserve. A net decrease, to the extent that it is not supported by any previous revaluation is charged to the income statement. Revaluation surpluses relating to properties disposed during the year are transferred from the revaluation reserve to the retained earnings.

(q) Employee Benefits

(i) Short-term Benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Employee Benefits (Cont'd)

(ii) *Defined Contribution Plans*

The Company's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plan.

(r) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the rates ruling as of that date. All exchange differences are taken to the income statement.

The financial statements of the foreign subsidiary are translated into Ringgit Malaysia using the closing rate method for the balance sheet whilst the average rate is used for the translation of the income statement for consolidation purposes. All exchange differences arising are taken directly to equity as a movement in the foreign exchange translation reserve. Foreign exchange differences relating to a foreign subsidiary are recognised as income or expense upon the disposal of that subsidiary.

(s) Taxation

Taxation for the period comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Taxation (Cont'd)

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

(t) Revenue Recognition

(i) *Sales of goods*

Sales are recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

(ii) *Interest income*

Interest income is recognised on an accrual basis.

(iii) *Rental income*

Rental income is recognised on an accrual basis.

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6. INVESTMENT IN A SUBSIDIARY

THE COMPANY
AT
31.12.2005
RM'000

Unquoted shares, at cost

162,000

Details of the subsidiaries are as follows:-

Name of Company	Equity Interest 31.12.2005	Principal Activities
Compugates Sdn. Bhd. ("CSB") (Incorporated in Malaysia)	100%	Trading, marketing and distribution of imaging, information technology and communication-based products.
Compugates Marketing Sdn. Bhd. [#] (Incorporated in Malaysia)	100%	Trading, marketing and distribution of cellular phones and communication-based products.
Compugates (S) Pte. Ltd. ^{# *} ("CSPL") (Incorporated in the Republic of Singapore)	99.99%	Distribution of calculators, digital cameras and accessories.

Held through CSB.

* Not audited by Horwath.

During the financial period, the Company acquired the entire issued and paid-up ordinary share capital of CSB comprising 3,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM162 million. The purchase consideration was satisfied by the issuance of 85,000,000 ordinary shares of RM1.00 each at par and 77,000,000 Irredeemable Convertible Preference Shares of RM0.10 each at an issue price of RM1.00 each.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

7. PROPERTY AND EQUIPMENT

	AT 13.10.2004 (DATE OF INCORPORATION) RM'000	ACQUISITION OF SUBSIDIARY RM'000	ADDITIONS RM'000	DEPRECIATION CHARGE RM'000	AT 31.12.2005 RM'000
THE GROUP					
NET BOOK VALUE					
Freehold land	-	989	-	-	989
Buildings	-	4,130	-	(9)	4,121
Motor vehicles	-	27	59	(5)	81
Office equipment, furniture and fittings	-	208	12	(52)	168
Renovation	-	115	4	(10)	109
Building-in-progress	-	2,444	139	-	2,583
	-	7,913	214	(76)	8,051

	AT COST RM'000	AT VALUATION RM'000	ACCUMULATED DEPRECIATION RM'000	NET BOOK VALUE RM'000
AT 31.12.2005				
Freehold land	-	989	-	989
Buildings	-	4,121	-	4,121
Motor vehicles	186	-	(105)	81
Office equipment, furniture and fittings	851	-	(683)	168
Renovation	515	-	(406)	109
Signboard	31	-	(31)	-
Building-in-progress	2,583	-	-	2,583
	4,166	5,110	(1,225)	8,051

THE GROUP
At
31.12.2005
RM'000

Net book value of properties, had the assets been stated at cost less accumulated depreciation, are as follows:-

Freehold land	692
Buildings	2,862
	<u>3,554</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

7. PROPERTY AND EQUIPMENT (CONT'D)

The freehold land and buildings stated at valuation at the balance sheet date were revalued in October 2004 by an independent professional valuer, Paul Khong, a registered valuer of Regroup Associates Sdn. Bhd., an independent firm of valuers at open market value based on the comparison method of valuation supported by the investment method.

The motor vehicles of the Group were acquired under hire purchase terms.

8. LISTING PREMIUM

	THE GROUP/ THE COMPANY AT 31.12.2005 RM'000
Listing premium	
At 13 October 2004 (date of incorporation)	-
Arising from the acquisition of Pan Pacific Asia Berhad ("PPAB")	26,429
At 31 December 2005	<u>26,429</u>

9. GOODWILL ON CONSOLIDATION

	THE GROUP AT 31.12.2005 RM'000
Goodwill on consolidation	
At 13 October 2004 (date of incorporation)	-
Arising from the acquisition of CSPL by CSB	247
Arising from the acquisition of CSB	115,437
At 31 December 2005	<u>115,684</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

10. INVENTORIES

	THE GROUP AT 31.12.2005 RM'000
Inventories held for trading:	
- at cost	4,672
- at net realisable value	415
	<hr/>
	5,087
	<hr/>

The foreign currency exposure profile of inventories at the balance sheet date was as follows:-

	THE GROUP AT 31.12.2005 RM'000
Singapore Dollar	415
	<hr/>

11. TRADE RECEIVABLES

	THE GROUP AT 31.12.2005 RM'000
Trade receivables	37,290
Allowance for doubtful debts	(30)
	<hr/>
	37,260
	<hr/>
Allowance for doubtful debts	
At 13 October 2004 (date of incorporation)	-
Arising from acquisition of CSB	84
Additions during the financial period	10
Write-back during the financial period	(64)
	<hr/>
At 31 December 2005	30
	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

11. TRADE RECEIVABLES (CONT'D)

The Group's normal trade credit terms range from 1 to 60 days.

The foreign currency exposure profile of trade receivables at the balance sheet date was as follows:-

	THE GROUP AT 31.12.2005 RM'000
Singapore Dollar	3,560

Included in trade receivables is an amount of RM1,632 owing by a company in which the spouse of a director has a substantial financial interest.

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in other receivables, deposits and prepayments is an amount of RM10 million being advance payment to a third party for the purchase of telecommunication products.

The foreign currency exposure profile of other receivables, deposits and prepayments at the balance sheet date was as follows:-

	THE GROUP AT 31.12.2005 RM'000
Singapore Dollar	205

13. SHORT TERM DEPOSITS WITH A LICENSED BANK

The effective interest rate of the short term deposits at the balance sheet date was 2.10% per annum. The short term deposits have a maturity period of 4 days.

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14. FIXED DEPOSITS WITH LICENSED BANKS

Fixed deposits of the Group amounting to RM6,751,328 have been pledged as collateral to licensed banks to secure banking facilities granted to certain subsidiaries.

The effective interest rates of the fixed deposits at the balance sheet date ranged from 2.62% to 3.16% per annum. The fixed deposits have maturity periods ranging from 1 month to 12 months.

15. TRADE PAYABLES

Included in trade payables is an amount of RM1,400 owing to a company in which the spouse of a director has a substantial financial interest.

The normal trade credit terms granted to the Group range from 1 to 90 days.

The foreign currency exposure profile of trade payables at the balance sheet date was as follows:-

	THE GROUP AT 31.12.2005 RM'000
Singapore Dollar	2,193
United States Dollar	2,435
	<hr/>

16. OTHER PAYABLES AND ACCRUALS

The foreign currency exposure profile of other payables and accruals at the balance sheet date was as follows:-

	THE GROUP AT 31.12.2005 RM'000
Singapore Dollar	397
	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

17. AMOUNT OWING TO A SUBSIDIARY

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

18. AMOUNT OWING TO A DIRECTOR

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

19. HIRE PURCHASE PAYABLES

	THE GROUP AT 31.12.2005 RM'000
Future minimum hire purchase payments:	
- not later than one year	23
- later than one year and not later than five years	41
	<hr/> 64
Future finance charges	(6)
	<hr/> 58
Present value of hire purchase payables	<hr/> <hr/> 58
The net hire purchase payables are repayable as follows:-	
Current:	
- not later than one year	20
Non-Current:	
- later than one year and not later than five years	38
	<hr/> 58
	<hr/> <hr/> 58

The hire purchase payables of the Group bore effective interest rates ranging from 4.73% to 9.60% per annum at the balance sheet date.

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20. BANKERS' ACCEPTANCES

The bankers' acceptances of the Group bore effective interest rates ranging from 2.95% to 3.28% per annum and are secured by way of:-

- (i) a pledge of certain fixed deposits of the Group; and
- (ii) a joint and several guarantee of certain directors of the Company.

21. SHARE CAPITAL

The movements in the share capital are as follows:-

	THE COMPANY At 31.12.2005	
	NUMBER OF SHARES '000	RM'000
ORDINARY SHARES OF RM1 EACH		
AUTHORISED		
At 13 October 2004 (date of incorporation)	2,500	2,500
Increase during the financial period	337,500	337,500
At 31 December 2005	<u>340,000</u>	<u>340,000</u>
ISSUED AND FULLY PAID-UP		
At 13 October 2004 (date of incorporation)	*	#
Issuance of shares pursuant to the:		
- acquisition of a subsidiary	85,000	85,000
- Scheme of Arrangement with Creditors of Pan Pacific Asia Berhad ("PPAB")	4,000	4,000
- Scheme of Arrangement with Shareholders of PPAB	6,429	6,429
- Renounceable Restricted Issue	25,000	25,000
At 31 December 2005	<u>120,429</u>	<u>120,429</u>

* - 2 ordinary shares of RM1.00 each.

- Amount equals to RM2.00.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

21. SHARE CAPITAL (CONT'D)

During the financial period, the Company,

- (a) increased its authorised ordinary share capital from RM2,500,000 to RM340,000,000 by the creation of 337,500,000 new ordinary shares of RM1.00 each; and
- (b) increased its issued and paid-up ordinary share capital from RM2 to RM120,428,902 by way of:-
 - (i) issuance of 85,000,000 new ordinary shares of RM1.00 each at par as part of the purchase consideration for the acquisition of a subsidiary. The details of the acquisition are disclosed in Notes 6 and 32 to the financial statements;
 - (ii) issuance of 4,000,000 new ordinary shares of RM1.00 each at par for the part settlement of debts amounting to RM243.167 million as at 30 June 2003 owing to the Secured Scheme Creditors under the Scheme of Arrangement with Creditors of Pan Pacific Asia Berhad ("PPAB") pursuant to the Restructuring Scheme undertaken by PPAB;
 - (iii) issuance of 6,428,900 new ordinary shares of RM1.00 each at par to the shareholders of PPAB under the Scheme of Arrangement with Shareholders of PPAB pursuant to the Restructuring Scheme undertaken by PPAB; and
 - (iv) allotment of 25,000,000 new ordinary shares of RM1.00 each by way of a renounceable restricted issue.

All new shares issued during the financial period rank pari passu in all respects with the existing shares of the Company.

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22. IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES ("ICPS")

The movements in the ICPS are as follows:-

	THE COMPANY At 31.12.2005	
	NUMBER OF SHARES '000	RM'000
ICPS OF RM0.10 EACH		
AUTHORISED		
At 13 October 2004 (date of incorporation)	-	-
Increase during the financial period	100,000	10,000
At 31 December 2005	<u>100,000</u>	<u>10,000</u>
ISSUED AND FULLY PAID-UP		
At 13 October 2004 (date of incorporation)		
Issuance of shares pursuant to the:		
- acquisition of a subsidiary	77,000	7,700
- Scheme of Arrangement with Creditors of PPAB	16,000	1,600
At 31 December 2005	<u>93,000</u>	<u>9,300</u>

During the financial period, the Company,

- (a) increased its authorised share capital by the creation of 100,000,000 new ICPS of RM0.10 each;
- (b) increased its issued and fully paid-up share capital by way of:-
 - (i) issuance of 77,000,000 new ICPS of RM0.10 each at an issue price of RM1.00 each as part of the purchase consideration for the acquisition of a subsidiary. The details of the acquisition are disclosed in Notes 6 and 32 to the financial statements; and

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22. ICPS (“CONT’D”)

- (ii) issuance of 16,000,000 new ICPS of RM0.10 each at an issue price of RM1.00 each for the part settlement of debts amounting to RM243.167 million as at 30 June 2003 owing to Secured Scheme Creditors under the Scheme of Arrangement with Creditors of Pan Pacific Asia Berhad (“PPAB”) pursuant to the Restructuring Scheme undertaken by PPAB.

The salient terms of the ICPS are as follows:-

- Par Value : RM0.10 per ICPS.
- Maturity Date : The date immediately preceding the third (3rd) anniversary date of the issue date of the ICPS. On the Maturity Date, all ICPS shall be automatically converted into Compugates Holdings Berhad Shares (“CHB Shares”).
- Dividend : The ICPS shall bear a fixed non-cumulative gross dividend of 2% per annum on the par value of the ICPS. During the financial years when the ICPS are issued or the Maturity Date falls respectively, the dividends of the ICPS shall be pro-rated based on the period the ICPS is in existence during the said financial year.

No dividends shall be paid on the ordinary shares of the Company unless the dividends on the ICPS have been fully paid up. The rights of the ICPS holder to receive dividends prior to conversion of the ICPS are subject to there being sufficient net PAT available for distribution to be determined by the Board of Directors based on the latest audited accounts.

- Voting Rights : The registered holders of the ICPS shall not have any right to vote at any general meeting of the Company, unless the meeting was convened for the purpose of reducing the capital, or winding-up or during the winding-up or disposing the whole of the Company’s properties, businesses and undertakings or where the proposition to be submitted to the meeting directly affects their rights and privileges or when the dividend or part of the dividend on the ICPS is in arrears for more than six (6) months.

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22. ICPS (“CONT’D”)

- Conversion Rights : Each ICPS shall entitle its holder the right to convert such ICPS held into fully paid-up ordinary shares at the Conversion Ratio at any time during the Conversion Period. Any ICPS not converted into CHB Shares on the Maturity Date shall be automatically converted into new CHB Shares of RM1.00 each at the Conversion Ratio.
- Conversion Ratio : Each ICPS shall be convertible into one (1) new CHB Share payable in full by way of surrendering one (1) ICPS of RM0.10 each for cancellation by the Company and the remaining RM0.90 capitalised from the share premium account of the Company.
- Conversion Period : The ICPS can be converted into CHB Shares at any time after the first (1st) anniversary from the date of issue of the ICPS until the Maturity Date
- Status of the new CHB Shares : New CHB Shares to be issued pursuant to the conversion of the ICPS shall rank pari passu in all respects with the existing CHB Shares except that they will not be entitled to any rights, dividends, allotments and/or other distributions for which the relevant entitlement date precedes the relevant issue date of the new CHB Shares.
- Redemption : Each ICPS shall not be redeemed for cash.
- Listing Status : The ICPS will not be listed on Bursa Malaysia Securities Berhad.

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23. SHARE PREMIUM

	THE COMPANY AT 31.12.2005 RM'000
At 13 October 2004 (date of incorporation)	-
Premium arising from:	
- acquisition of a subsidiary	69,300
- Scheme of Arrangement with Creditors of PPAB	14,400
	<hr/>
At 31 December 2005	83,700
	<hr/>

The share premium is not distributable by way of dividends.

24. EXCHANGE FLUCTUATION RESERVE

The exchange fluctuation reserve arose from the translation of the financial statements of the foreign subsidiary and is not distributable by way of cash dividends.

25. DEFERRED TAXATION

	THE GROUP AT 31.12.2005 RM'000
At 13 October 2004 (date of incorporation)	-
Arising from acquisition of a subsidiary	436
	<hr/>
At 31 December 2005	436
	<hr/>

The deferred taxation arose from the revaluation of the properties held by the Group.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

26. NET ASSETS PER SHARE

The net assets per share is calculated based on the net assets value at the balance sheet date of RM119,790,000 divided by the number of ordinary shares in issue at the balance sheet date of 120,428,902.

27. REVENUE

Revenue of the Group represents the invoiced value of goods sold less trade discounts and returns.

28. PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation is arrived at after charging/(crediting):-

	13.10.2004 (date of incorporation) to 31.12.2005	
	THE GROUP RM'000	THE COMPANY RM'000
Allowance for doubtful debts	10	-
Allowance for obsolete inventories	62	-
Audit fee - statutory	55	15
- non-statutory	17	1
Bad debts written off	59	-
Depreciation of property and equipment	76	-
Directors' fee	45	45
Directors' non-fee emoluments	651	1
Interest expense:		
- bankers' acceptances	77	-
- hire purchase	1	-
Office rental	14	-
Staff costs	1,069	-
Gain on foreign exchange		
- realised	(32)	-
- unrealised	(7)	-
Interest income	(202)	(3)
Rental income	(27)	-
Rebate and sales incentives	(6,296)	-
Writeback of allowance for doubtful debts	(64)	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

29. TAXATION

	13.10.2004 (date of incorporation) to 31.12.2005	
	THE GROUP RM'000	THE COMPANY RM'000
Current tax:		
- for the financial period	1,590	1
- underprovision in previous financial year	253	-
	<u>1,843</u>	<u>1</u>

A reconciliation of income tax expense applicable to the profit/(loss) before taxation at the statutory tax rate to income tax expense at the effective tax rate of the Group and of the Company is as follows:-

	13.10.2004 to 31.12.2005	
	THE GROUP RM'000	THE COMPANY RM'000
Profit/(Loss) before taxation	<u>1,201</u>	<u>(64)</u>
Tax at the statutory tax rate	336	(18)
Tax effects of:		
Non-deductible expenses	85	19
Non-taxable gain	(228)	-
Differential in tax rates	(40)	-
Underprovision in previous financial year	253	-
Others	1,437	-
Tax for the financial period	<u>1,843</u>	<u>1</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

30. LOSS PER SHARE

The basic loss per share is arrived at by dividing the Group's loss after taxation of RM642,000 by the weighted average number of ordinary shares in issue during the financial period of approximately 14,826,360.

The fully diluted loss per share for the Group is not presented as the effect on the loss per share on the assumed conversion from the ICPS during the financial period would be anti-dilutive.

31. PURCHASE OF PROPERTY AND EQUIPMENT

	THE GROUP 13.10.2004 to 31.12.2005 RM'000
Cost of property and equipment purchased	214
Amount financed through hire purchase	(40)
	<hr/>
Cash disbursed for purchase of property and equipment	174
	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

32. ACQUISITION OF A SUBSIDIARY

The effects of the acquisition of the subsidiary, CSB, on the financial results of the Group at the end of the financial period were as follows:-

	THE GROUP 13.10.2004 (date of Incorporation) to 31.12.2005 RM'000
Revenue	60,815
Cost of sales	(64,720)
	<hr/>
Gross loss	(3,905)
Other operating income	6,948
	<hr/>
Operating overheads	3,043
	(1,778)
	<hr/>
Profit before taxation	1,265
Taxation	(1,842)
	<hr/>
Loss after taxation	(577)
	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

32. ACQUISITION OF A SUBSIDIARY (CONT'D)

The effects of the acquisition of the subsidiary on the financial position of the Group at the end of the financial period were as follows:-

	THE GROUP 31.12.2005 RM'000
Goodwill on consolidation	247
Property and equipment	8,051
Inventories	5,087
Trade receivables	37,260
Other receivables, deposits and prepayments	11,679
Tax refundable	818
Fixed deposits with licensed banks	7,894
Cash and bank balances	4,465
Trade payables	(13,906)
Other payables and accruals	(1,283)
Amount owing to a director	(346)
Provision for taxation	(1,854)
Banker's acceptances	(11,629)
Hire purchase payables	(58)
Deferred taxation	(436)
Exchange fluctuation reserve	(3)
	<hr/>
Group's share of net assets	45,986

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

32. ACQUISITION OF A SUBSIDIARY (CONT'D)

The details of net assets acquired and cash flow arising from the acquisition of the subsidiary were as follows:-

	THE GROUP 31.12.2005 RM'000
Goodwill on consolidation	247
Property and equipment	7,913
Inventories	9,633
Trade receivables	36,052
Other receivables, deposits and prepayments	1,160
Fixed deposits with licensed banks	7,674
Cash and bank balances	8,682
Trade payables	(14,826)
Other payables and accruals	(1,173)
Amount owing to a director	(835)
Bankers' acceptances	(7,313)
Hire purchase payables	(21)
Provision for taxation	(194)
Deferred taxation	(436)
	<hr/>
Fair value of net assets acquired	46,563
Goodwill on acquisition	115,437
	<hr/>
Total purchase consideration	162,000
Satisfied by the issuance of:-	
- Ordinary shares	(85,000)
- ICPS	(77,000)
	<hr/>
	-
Add: Cash and cash equivalents of subsidiary acquired	16,356
	<hr/>
Net cash inflow from acquisition of a subsidiary	16,356
	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

33. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statements, cash and cash equivalents comprise the following:-

	At 31.12.2005	
	THE GROUP RM'000	THE COMPANY RM'000
Short term deposits with a licensed bank	25,000	25,000
Fixed deposits with licensed banks	7,894	-
Cash and bank balances	4,471	6
	<hr/>	<hr/>
	37,365	25,006
	<hr/>	<hr/>

The foreign currency exposure profile of cash and cash equivalents at the balance sheet date was as follows:-

	THE GROUP At 31.12.2005 RM'000
Singapore Dollar	1,714
	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

34. DIRECTORS' REMUNERATION

The aggregate amount of emoluments received and receivable by Directors of the Group and of the Company during the financial period are as follows:-

	13.10.2004 (date of incorporation) to 31.12.2005	
	THE GROUP RM'000	THE COMPANY RM'000
Executive directors:-		
- basic salaries, incentives, allowances, bonus and EPF	650	-
- fee	2	2
	<hr/>	<hr/>
	652	2
	<hr/>	<hr/>
Non-executive directors:-		
- allowance	1	1
- fee	43	43
	<hr/>	<hr/>
	44	44
	<hr/>	<hr/>

Details of emoluments for the directors of the Group and of the Company received/receivable for the financial period in bands of RM50,000 are as follows:-

	THE GROUP/THE COMPANY At 31.12.2005	
	Executive Directors	Non- Executive Directors
Below RM50,000	1	3
RM250,001 – RM300,000	1	-
RM350,001 – RM400,000	1	-
	<hr/>	<hr/>

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35. SIGNIFICANT RELATED PARTY TRANSACTIONS

		At 31.12.2005	
	NOTE	THE GROUP RM'000	THE COMPANY RM'000
Acquisition of CSB from directors	(a)	-	162,000
Sales to related party:			
- Beausoft Sdn. Bhd.	(b)	1,799	-
- Southall Sdn. Bhd.	(b)	1,041	-
Purchases from related party:			
- Southall Sdn. Bhd.	(b)	3	-

(a) A company in which Goh Kheng Peow and Tan Ngaip Soon, who are the directors of the Company, have substantial financial interests.

(b) A company in which See Thoo Chan, spouse of Goh Kheng Peow, has a substantial financial interest.

In the opinion of the directors, the above transactions had been entered into in the ordinary course of business and have been established under terms that were mutually agreed between the parties.

36. CAPITAL COMMITMENTS

	THE GROUP At 31.12.2005 RM'000
In respect of purchase of properties approved and contracted for	287

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

37. SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

During the financial period, the Company issued a prospectus dated 23 November 2005 in conjunction with the following exercise:-

a) Acquisition

Compugates Holdings Berhad ("CHB") entered into a Sale and Purchase Agreement with CSB Vendors (collectively, Goh Kheng Peow and Tan Ngaip Soon) in relation to the Acquisition of the entire equity interest in CSB comprising 3,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM162,000,000 to be satisfied entirely via the issuance of 85,000,000 new CHB Shares at an issue price of RM1.00 each and 77,000,000 ICPS at an issue price of RM1.00 per ICPS.

b) Exemption

Upon completion of the Acquisition, the CSB Vendors will collectively hold 85,000,000 new CHB Shares and 77,000,000 CHB ICPS. The 85,000,000 new CHB Shares represent more than 99.99% (but less than 100.00%) of the equity interest in CHB immediately after the Acquisition comprising 85,000,002 CHB Shares.

In accordance with Paragraph 6(1)(a) of Part II of the Malaysian Code on Take-Overs and Mergers, 1998 ("Code"), the CSB Vendors are obliged to undertake a mandatory general offer for all the remaining CHB Shares not already held by them upon completion of the Acquisition. The holders of the remaining two (2) CHB Shares not held by the CSB Vendors after the Acquisition had given an undertaking that they would not accept the said general offer.

Premised on the above, the CSB Vendors sought an exemption from undertaking a mandatory general offer for all the remaining CHB Shares not already held by them upon completion of the Acquisition under Practice Note 2.9.6 of the Code.

c) Scheme of Arrangement with Creditors

The Scheme of Arrangement with Creditors entailed the settlement of PPAB's liabilities through the issuance of 4,000,000 new CHB Shares and 16,000,000 ICPS at an issue price of RM1.00 each.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

37. SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD (CONT'D)

d) Scheme of Arrangement with Shareholders

PPAB has undertaken the following:-

- (i) reduction of the existing issued and paid-up share capital of PPAB of RM128,578,004 comprising 128,578,004 ordinary shares of RM1.00 each ("PPAB Shares") to RM6,428,900 comprising 128,578,004 ordinary shares of approximately RM0.05 each ("Reduction");
- (ii) consolidation of the 128,578,004 ordinary shares of approximately RM0.05 each in PPAB into 6,428,900 PPAB Shares ("Consolidation");
- (iii) cancellation of the entire issued and paid-up share capital of PPAB of RM6,428,900 comprising 6,428,900 PPAB Shares, resulting in a credit reserve of RM6,428,900 arising in the financial statements of PPAB ("Cancellation");
- (iv) in consideration for the Cancellation, CHB allotted and issued to the shareholders of PPAB 6,428,900 ordinary shares of RM1.00 each in CHB ("CHB Shares") at par, credited as fully paid-up on the basis of one (1) CHB Share for every one (1) PPAB Share held after the Consolidation; and
- (v) forthwith and contingent upon the Cancellation, PPAB applied an amount of RM6,428,900 out of the credit reserve arising in paying in full at par 6,428,900 PPAB Shares which has been allotted and issued, credited as fully paid-up to CHB.

The Scheme of Arrangement with Shareholders was effected pursuant to Sections 64 and 176 of the Malaysian Companies Act, 1965 ("Act").

e) Restricted Issue

In order to meet the public spread requirement of Bursa Malaysia, CHB undertook a restricted issue of up to 25,000,000 new CHB Shares to Entitled Shareholders at an issue price of RM1.00 per share.

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37. SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD (CONT'D)

f) Listing Transfer

The entire issued and paid-up share capital of PPAB was de-listed from the Official List of the Main Board of Bursa Malaysia and CHB was admitted to the Official List of the Main Board of Bursa Malaysia with the listing of its entire enlarged issued and paid-up share capital upon completion of the Restructuring Scheme.

g) Disposal/Liquidation of PPAB

Upon the completion of the Acquisition, Exemption, Scheme of Arrangement with Creditors, Scheme of Arrangement with Shareholders, Restricted Issue and Listing Transfer, CHB undertook a disposal of the entire issued and paid-up share capital of PPAB comprising 6,428,900 PPAB Shares to Pacific Stage Sdn. Bhd.. This was to facilitate the disposal, winding-up and/or liquidation of PPAB and its subsidiaries. The amount recovered net of recovery expenses, if any, will be set aside for distribution to the prescribed creditors of PPAB ("Scheme Creditors") on a pro-rata basis based on the net liabilities to be settled under the Scheme of Arrangement with Creditors.

On 30 December 2005, the Company was admitted to the Official List of the Main Board of Bursa Malaysia with the listing of its entire enlarged issued and paid-up share capital.

38. SIGNIFICANT EVENT SUBSEQUENT TO THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the Company incorporated a wholly-owned subsidiary with an authorised share capital of RM2,500,000 comprising 2,500,000 ordinary shares of RM1.00 each and a paid-up share capital of RM2.00 comprising 2 ordinary shares of RM1.00 each.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

39. NUMBER OF EMPLOYEES

	At 31.12.2005	
	THE GROUP	THE COMPANY
Number of employees at the balance sheet date	70	-

40. FOREIGN EXCHANGE RATES

The principal closing foreign exchange rates used (expressed on the basis of one unit of foreign currency to RM equivalent) for the translation of foreign currency balances at the balance sheet date are as follows:-

	THE GROUP/ THE COMPANY At 31.12.2005 RM
Singapore Dollar	2.27
United States Dollar	3.78

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

41. SEGMENTAL REPORTING

31.12.2005	Malaysia RM'000	Singapore RM'000	Total RM'000
REVENUE			
External sales	57,633	3,817	61,450
Inter-segment sales	(578)	(57)	(635)
TOTAL	57,055	3,760	60,815
RESULT			
Segment profit	1,153	150	1,303
Finance costs			(102)
Profit before taxation			1,201
Taxation			(1,843)
Loss after taxation			(642)
OTHER INFORMATION			
Segment assets #	236,403	5,918	242,321
Segment liabilities *	26,929	2,602	29,531
Capital expenditure	210	4	214
Depreciation	72	4	76

- Segment assets comprise total current and non-current assets.

* - Segment liabilities comprise total current and long term liabilities.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

42. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) Investments In Subsidiaries

It is not practicable to determine the fair values because of the lack of quoted market prices and the assumptions used in valuation models to value the investments cannot be reasonably determined.

(b) Cash And Cash Equivalents And Short Term Receivables

The carrying amounts approximated their fair values due to the relatively short term maturity of these investments.

(c) Short Term Borrowings And Other Current Liabilities

The carrying amounts approximated their fair values because of the short period to maturity of these instruments.

(d) Hire Purchase Obligations

The carrying amounts approximate the fair values of the instruments. The fair value of hire purchase payables are determined by discounting the relevant cash flows using current interest rates for similar types of instruments.

(b) Amount Owing To A Subsidiary And A Director

It is not practicable to estimate the fair values of the amounts owing to a subsidiary and a director due principally to the lack of fixed repayment terms. However, the Company does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be settled.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

43. COMPARATIVE FIGURES

No comparative figures are presented for the Group and the Company as this is the first set of financial statements prepared by the Company since incorporation.

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FINANCIAL REPORT *for the financial period from 13 October 2004 (date of incorporation) to 31 December 2005*

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