

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE 9-MONTH ENDED 30 SEPTEMBER 2005

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134 - Interim Financial Reporting (Formerly known as MASB 26) and Paragraph 9.22 and part A of Appendix 9B of Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements have been prepared on a proforma basis on the assumption that the acquisition of the subsidiaries (as disclosed in Note 14) was completed on 1 January 2005. The accounting policies and methods of computation adopted in the proforma results of the Group are consistent with those adopted for the annual financial statements of the subsidiaries for the financial year ended 31 December 2004.

2. Status of Audit Qualifications

The Company was incorporated on 13 October 2004, as such the first set of audited report will be on 31 December 2005. There was no audit qualification on the audit reports of the subsidiaries in the preceding year's audited financial statements.

3. Nature and Amount of Exceptional and Extraordinary Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the quarter ended 30 September 2005.

4. Seasonal or Cyclical Factors

As per the proforma results of the Group, the demand for certain imaging and information technology products are seasonal in nature, the sales of the products are usually higher in the second half of the financial year. On the other hand, the sales of telecommunication products are generally in tandem with the performance of the economy.

5. Changes in Estimates

There were no material changes in the estimates which may have a material effect in the current interim period.

6. Debt and Equity Securities

During the financial period, there were no issuances, cancellations, repurchases or resale of debt and equity securities.

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7. Dividends Paid

There were no dividends paid during the financial period under review.

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

	Current quarter 3 months ended 30.09.2005		Cumulative 9 months ended 30.09.2005	
	Revenue RM'000	Profit/(Loss) Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
Malaysia	114,563	11,267	323,736	18,805
Singapore	2,743	(27)	10,865	86
Total	117,306	11,240	334,601	18,891

9. Revaluation of Property, Plant and Equipment

The land and buildings of a subsidiary were revalued in the financial year ended 2004 and the revaluation surplus of approximately RM1,501,000 have been accounted for in the Proforma Group results.

10. Pre-acquisition Profit

The results of the Proforma Group for the 3rd quarter did not include any pre-acquisition profits. The actual date of completion of acquisition of Compugates Sdn. Bhd. ("CSB") was 25 October 2005.

For the purpose of the Proforma Group results for the period ended 30 September 2005, it is assumed that the acquisition of CSB and its subsidiaries, namely Compugates Marketing Sdn. Bhd. and Compugates (S) Pte. Ltd., was completed on 1 January 2005. As such, there were no pre-acquisition profits.

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11. Unquoted Investments and/or Properties

There were no purchases or disposals of unquoted investments and/or properties in the quarter ended 30 September 2005.

12. Quoted Investments

There were no purchases or disposals of quoted investments in the quarter ended 30 September 2005.

13. Contingent Liabilities

There were no contingent liabilities since 31 December 2004.

14. Effect of Changes in the Composition of the Group

There were no changes in the composition of the Group during the financial period 30 September 2005 except for the following:-

Acquisition of CSB Group

The Company entered into a Sale and Purchase Agreement with CSB Vendors (collectively, Mr. Goh Kheng Peow and Mr. 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 CHB Irredeemable Convertible Preference Shares ("ICPS") at an issue price of RM1.00 per ICPS.

The Acquisition was completed on 25 October 2005.

Upon completion of the acquisition, CSB became a wholly-owned subsidiary of the Company and the issued and paid-up share capital of the Company increased from RM2 comprising 2 ordinary shares of RM1.00 each to RM104,729,002 comprising 95,429,002 ordinary shares of RM1.00 each and 93,000,000 ICPS of RM0.10 each credited as fully paid-up.

15. Material Events Subsequent to the End of the Financial Period

Subsequent to the financial period, the Company has undertaken the corporate proposal as detailed in Note 16 below.

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16. Status of Corporate Proposal

There were no corporate proposals announced or completed as at the date of this announcement except for the following:-

The Company has issued a prospectus dated 23 November 2005 for the following proposals:-

16.1 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.

16.2 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 have given an undertaking that they will not accept the said general offer.

Premised on the above, the CSB Vendors seek 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.

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(Cont'd)

16. Status of Corporate Proposal (Cont'd)

16.3 Scheme of Arrangement with Creditors

The Scheme of Arrangement with Creditors entails the settlement of Pan Pacific Asia Berhad's ("PPAB") liabilities through the issuance of 4,000,000 new CHB Shares and 16,000,000 ICPS at an issue price of RM1.00 each.

16.4 Scheme of Arrangement with Shareholders

PPAB will undertake the following:-

- (a) 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");
- (b) consolidation of the 128,578,004 ordinary shares of approximately RM0.05 each in PPAB into 6,428,900 PPAB Shares ("Consolidation");
- (c) 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");
- (d) in consideration for the Cancellation, CHB shall allot and issue 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
- (e) forthwith and contingent upon the Cancellation, PPAB shall apply an amount of RM6,428,900 out of the credit reserve arising in paying in full at par 6,428,900 PPAB Shares which shall be allotted and issued, credited as fully paid-up to CHB.

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

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(Cont'd)

16. Status of Corporate Proposal (Cont'd)

16.5 Restricted Issue

In order to meet the public spread requirement of Bursa Malaysia, CHB will undertake a restricted issue of up to 25,000,000 new CHB Shares to Entitled Shareholders at an issue price of RM1.00 per share. The final basis of allotment of the new CHB Shares pursuant to the Restricted Issue will only be determined on the entitlement date for the Restricted Issue.

16.6 Listing Transfer

The entire issued and paid-up share capital of PPAB will be de-listed from the Official List of the Main Board of Bursa Malaysia and CHB will be 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.

16.7 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 shall undertake a disposal of the entire issued and paid-up share capital of PPAB comprising 6,428,900 PPAB Shares to a special purpose vehicle to be identified. This is 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.

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17. Review of Performance

The proforma Group registered a turnover of approximately RM117.3 million for the current quarter or RM334.6 million for the 9 months ended 30 September 2005.

The proforma Group achieved a profit before taxation of approximately RM11.2 million for the current quarter and approximately RM18.9 million for the 9 months ended 30 September 2005. The better results achieved in the third quarter was due to rebates from telcos recognised during the quarter and the demand for certain imaging and information technology products that are seasonal in nature where the sales of the products are usually higher towards the second half of the financial year.

18. Comment on Material Changes in the Profit Before Taxation for the Quarter Reported on as Compared With The Immediate Preceding Quarter

Not applicable as the acquisition was completed subsequent to the reporting period.

19. Current Year Prospect

The Board is of the view that, barring unforeseen circumstances, the Group's business prospects for the remainder of the current year would remain in line with expectations but with profit margin remaining tight. However, the Board expects favourable business activity for the remainder of the year due to the various festivities. Nonetheless, the Group expects to continue tapping on new markets and customers for its products, and focusing on its products bundling exercises.

20. Variances of Actual Profit and Forecast Profit of the Proforma Group

The proforma profit after taxation was RM14.541 million for the 9 months ended 30 September 2005. Management expects to achieve its 2005 forecast profit after taxation of RM18.019 million for the full financial year.

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21. Taxation

	Current quarter 3 months ended 30.09.2005 RM'000	Cumulative 9 months ended 30.09.2005 RM'000
Current taxation	2,237	4,350

The effective tax rate for the current quarter is lower than the statutory tax rate of 28%. The Group normally makes provision of taxation based on estimates of tax payable submitted to the Inland Revenue Board and any revision in tax estimates will be adjusted in the fourth quarter when the tax estimate is finalised.

22. Borrowings and Debt Securities

The Proforma Group's borrowings are as follows:

	As at 30.09.2005 RM'000
Short term borrowings - secured	
- bankers' acceptances	1,911
- hire purchase	16
	<hr/> 1,927 <hr/>
Long term borrowing - secured	
- hire purchase	<hr/> 7 <hr/>

23. Off Balance Sheet Financial Instruments

There were no off Balance Sheet financial instruments entered into by the Proforma Group as at the date of this announcement.

24. Material Litigation

The Proforma Group is not engaged in any material litigation either as plaintiff or defendant and the directors do not have any knowledge of any proceedings pending or threatened against the Proforma Group which might materially and adversely affect the financial position or business of the Group.

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25. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 30 September 2005.

26. Earnings per Share

a) Basic

The earnings per share is calculated by dividing the profit after taxation for the quarter ended 30 September 2005 over the number of shares in issue.

As for the proforma earnings per share of the Group, it is calculated based on proforma profit after taxation of the Proforma Group divided by the number of ordinary shares in issue after the issuance of new shares pursuant to the acquisition of CSB.

b) Diluted

Not applicable.

By order of the Board

Mah Li Chen

Kim Yi Hwa

Company Secretaries

Dated this 13 December 2005