

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 accounting policies and methods of computation adopted in this quarterly financial statements of the Group are consistent with those adopted for the annual financial statements of the subsidiaries for the financial year ended 31 December 2004.

2. Status of Audit Qualifications

The Company was incorporated on 13 October 2004. No comparative figures are presented for the Group as this is the first set of financial statements prepared by the Company since incorporation. 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 31 December 2005.

4. Seasonal or Cyclical Factors

As per the 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 used for the preparation of this interim financial report.

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6. Debt and Equity Securities

Save as disclosed below, there were no issuances, cancellations, repurchases or resale of debt and equity securities during the current financial period to date as of 31 December 2005:-

SHARE CAPITAL

The movements in the ordinary shares of RM1.00 each 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
	340,000	340,000
At 31 December 2005	340,000	340,000
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
	120,429	120,429
At 31 December 2005	120,429	120,429

* - 2 ordinary shares of RM1.00 each.

- Amount equal to RM2.00.

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6. Debt and Equity Securities (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;
 - (ii) issuance of 4,000,000 new ordinary shares of RM1.00 each at par for the part settlement of debts amounted 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;
 - (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 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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6. Debt and Equity Securities (Cont'd)

IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES ("ICPS")

The movements in the ICPS of RM0.10 each 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; and
- (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; and
 - (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 amounted 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.

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6. Debt and Equity Securities (Cont'd)

ICPS ("CONT'D")

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 where 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.
- 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.

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6. Debt and Equity Securities (Cont'd)

ICPS ("CONT'D")

- 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 CHB new Shares.
- Redemption : Each ICPS shall not be redeemed for cash.
- Listing Status : The ICPS will not be listed on Bursa Malaysia Securities Berhad.

7. Dividends Paid

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

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

The group's segmental report for the financial period is as follows:-

	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	1,157	150	1,307
Finance costs			(102)
Profit before taxation			1,205
Taxation			(1,843)
Loss after taxation			(638)

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 RM1,556,043 have been accounted for in the Group results.

10. Unquoted Investments and/or Properties

There were no disposal of unquoted investments and/or properties in the quarter ended 31 December 2005.

11. Quoted Investments

There were no purchases or disposals of quoted investments in the quarter ended 31 December 2005.

12. Contingent Liabilities and Contingent Assets

There were no contingent liabilities and assets as of the end of the financial period to date.

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13. Significant Related Party Transactions

The recurrent related party transactions (“RRPT”) involve the sales and purchases of prepaid cards. The RRPT had been entered into in the ordinary course of business and have been established under the terms that were mutually agreed between the parties.

			Current Year Quarter Ended RM'000
Item	Transaction parties	Nature of transaction	
1	Beausoft Sdn Bhd	Sales of prepaid cards	1,799
2	Southall Sdn Bhd	Sales of prepaid cards	1,041
3	Southall Sdn Bhd	Purchases of prepaid cards	3

14. Effect of Changes in the Composition of the Group

There were no changes in the composition of the Group during the financial period ended 31 December 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.

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15. Status Of Corporate Proposals

During the financial period, the company has issued a prospectus dated 23 November 2005 for the following proposals:-

15.1 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.

15.2 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.

15.3 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.

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15. Status Of Corporate Proposals (Cont'd)

15.4 Scheme of Arrangement with Shareholders

PPAB has undertaken 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 has 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
- (e) forthwith and contingent upon the Cancellation, PPAB has 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 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").

15.5 Restricted Issue

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

15.6 Listing Transfer

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

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15. Status Of Corporate Proposals (Cont'd)

15.7 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 has undertaken 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 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.

On 30 December 2005, the Company has been 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.

16. Significant Events Subsequent to the End of the Financial Period

Subsequent to the financial period, the Company incorporated a wholly-owned subsidiary, Compugates International Sdn. Bhd. 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.

17. Review of Performance

The Group registered a turnover of approximately RM60.8 million for the quarter ended 31 December 2005.

The results of the Group was further strengthened by rebates and sales incentives from telcos and suppliers amounting to approximately RM6.1 million recognised as other operating income for the quarter ended 31 December 2005.

The Group achieved a profit before taxation of approximately RM1.2 million for the quarter ended 31 December 2005.

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 on 25 October 2005.

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19. Current Year Prospect

The Board is of the view that, barring unforeseen circumstances, the Group's business prospects for the next quarter would remain in line with expectations but with profit margin remaining tight. However, the Board 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 Group

The Group was successfully listed on the Main Board of the Bursa Malaysia Securities Berhad on 30 December 2005. In its listing prospectus dated 23 November 2005, the Group had forecasted a profit after taxation of approximately RM18.02 million for the financial year ended 31 December 2005.

The Group had forecasted a profit attributable to shareholders amounted to approximately RM5.7 million in its listing prospectus dated 23 November 2005 for the financial year ended 31 December 2005.

For the current financial period ended 31 December 2005, the Group incurred a loss attributable to shareholders of approximately RM0.6 million, which is approximately 111% lower than the forecast profit attributable to shareholders of approximately RM5.7 million. The shortfall of the Group's results against the profit forecast is mainly due to drop in sales in the current quarter.

The loss attributable to shareholders was due to lower sales of prepaid cards as a result of the restriction in the supply of prepaid cards by a telco.

21. Taxation

	Current Year Quarter Ended 31.12.2005 RM'000	Current Year To Date 31.12.2005 RM'000
Current taxation	<u>1,843</u>	<u>1,843</u>

The Group's effective tax rate for the period is higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes and also underestimation of taxation in previous quarter

The current taxation of the proforma results of the Group are as follows:-

	Current Year Quarter Ended 31.12.2005 RM'000	Current Year To Date 31.12.2005 RM'000
Current taxation	<u>2,839</u>	<u>7,189</u>

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The Proforma Group's effective tax rate for the year approximates the statutory tax rate of 28%.

22. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 31.12.2005 RM'000
Short term borrowings – secured	
- bankers' acceptances	11,629
- hire purchase	20
	<hr/>
	11,649
	<hr/>
Long term borrowing – secured	
- hire purchase	38
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23. 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.

24. Material Litigation

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

25. Dividend

The Board of Directors does not recommend any dividend for the period ended 31 December 2005.

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26. Loss per Share

a) Basic

The calculation of loss per share is calculated by dividing the Group's net loss attributable to shareholders over the weighted average number of ordinary shares in issue during the financial period as follows:-

	Current Year Quarter Ended 31.12.2005 RM'000	Current Year To Date 31.12.2005 RM'000
Loss attributable to shareholders	<u>(638)</u>	<u>(642)</u>
Weighted average number of ordinary shares in issue	14,826,360	14,826,360
Basic loss per share (sen)	<u>4.30</u>	<u>4.33</u>

b) Diluted

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

27. Capital Commitment

As of 31 December 2005, the Group has the following capital expenditure in respect of purchase of properties:

	31 December 2005 RM'000
Approved and contracted for	<u>287</u>

By order of the Board
Mah Li Chen
Kim Yi Hwa
 Company Secretaries

Dated this 20th day of February 2006