

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006

PART A – EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (“FRS”) 134

1. Basis of Preparation

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

The interim financial statements should be read in conjunction with the audited financial statements for the financial period ended 31 December 2005. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial period ended 31 December 2005.

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 Group for the financial period ended 31 December 2005 except as mentioned in Note 2 below.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial period ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for the financial period beginning 1 January 2006:

FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the above FRSs does not have any significant financial impact on the Group.

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3. Status of Audit Qualifications

The auditors' report on the financial statements for the financial period ended 31 December 2005 was not subject to any qualification.

4. Nature and Amount of Exceptional and Extraordinary Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the quarter ended 31 December 2006.

5. Seasonal or Cyclical Factors

The demand for certain imaging and information technology products are seasonal in nature, the sales of these products are usually higher towards the end of the financial year due to festive seasons. On the other hand, the sales of telecommunication products are generally in tandem with the performance of the economy.

6. Changes in Estimates

There were no material changes in the estimates used for the preparation of this interim financial report.

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7. 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 2006:-

SHARE CAPITAL

The movements in the ordinary shares of RM1.00 each are as follows:-

	THE COMPANY At 31.12.2006	
	NUMBER OF SHARES '000	RM'000
ORDINARY SHARES OF RM1 EACH		
ISSUED AND FULLY PAID-UP		
At 1 January 2006	120,429	120,429
Issuance of shares pursuant to the conversion of ICPS	93,000	93,000
At 31 December 2006	<u>213,429</u>	<u>213,429</u>

8. Dividends Paid

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

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

	Current Year Quarter Ended 31 Dec 2006 RM'000 (Unaudited)	Corresponding Quarter Ended 31 Dec 2005 RM'000 (Unaudited)	Current Year To Date 31 Dec 2006 RM'000 (Unaudited)	Corresponding Period Ended 31 Dec 2005 RM'000 (Unaudited)
SEGMENT REVENUE				
Malaysia	91,780	57,633	415,993	57,633
Singapore	6,953	3,817	25,024	3,817
	<hr/>	<hr/>	<hr/>	<hr/>
Inter-segment sales	98,733 (161)	61,450 (635)	441,017 (373)	61,450 (635)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	98,572	60,815	440,644	60,815
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SEGMENT RESULTS				
Malaysia	(238)	(788)	652	(792)
Singapore	20	150	219	150
	<hr/>	<hr/>	<hr/>	<hr/>
	(218)	(638)	871	(642)
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10. Revaluation of Property and Equipment

The valuations of property and equipment have been brought forward without amendment from the financial statements for the financial period ended 31 December 2005.

11. Contingent Liabilities and Contingent Assets

The Company had given corporate guarantees amounting to approximately RM27 million to secure banking facilities granted to certain subsidiaries.

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

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12. Significant Related Party Transactions

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

Transaction parties	Nature of transaction	Current Year Quarter Ended 31 Dec 2006 RM'000 (Unaudited)	Corresponding Quarter Ended 31 Dec 2005 RM'000 (Unaudited)	Current Year To Date 31 Dec 2006 RM'000 (Unaudited)	Corresponding Period Ended 31 Dec 2005 RM'000 (Unaudited)
1 Beausoft Sdn. Bhd.	Sales of prepaid cards	3,303	1,799	27,104	1,799
2 Southall Sdn. Bhd.	Sales of prepaid cards	-	1,041	274	1,041
3 Southall Sdn. Bhd.	Purchases of prepaid cards	-	3	775	3

13. 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 2006.

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

There were no significant events subsequent to the end of the financial period to date except that Compugates International (BD) Limited, a subsidiary of the Company, had on 21 January 2007 incorporated a new subsidiary, namely Compugates International (Bangladesh) Limited (“CIBL”). CIBL was incorporated in Bangladesh with an authorised share capital of Taka 50,000,000 and issued and paid-up share capital of Taka 2,000,000 divided into 2,000 shares of Taka 1,000 each.

The proposed principal activity of CIBL is distribution of telecommunication products and management agent of franchises.

15. Capital Commitment

The Group has no capital commitment as of 31 December 2006.

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PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

16. Review of Performance

The Group registered revenue of approximately RM98.6 million for the quarter ended 31 December 2006, which was lower by approximately RM2.5 million as compared to the previous quarter ended 30 September 2006 of approximately RM101.1 million.

The Group incurred a gross loss of approximately RM539,000 compared to a gross profit of approximately RM949,000 reported in the previous quarter .

During the current quarter, the Group recorded a profit before taxation (“PBT”) of approximately RM110,000 compared to the previous quarter of approximately RM106,000.

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

The Group registered revenue of approximately RM98.6 million for the quarter ended 31 December 2006, which was 2.5% lower than the previous quarter ended 30 September 2006 of approximately RM101.1 million.

The Group achieved a PBT of approximately RM110,000 in the current quarter which was not materially different from the previous quarter PBT of approximately RM106,000.

18. Current Year Prospect

The Board is of the view that, barring unforeseen circumstances, the Group’s business prospects will continue to improve in the next quarter but with profit margin remaining tight.

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19. Variances of Actual Profit and Forecast Profit of the Group

The Board of Directors wish to inform that the Group's unaudited profit after taxation for the financial year ended 31 December 2006 was RM871,000. The Group had in its listing prospectus ("Prospectus") dated 23 November 2005 forecasted a profit after taxation of approximately RM18.34 million for the financial year ended 31 December 2006. Therefore, the results achieved by the Group for the financial year ended 31 December 2006 showed a deviation of RM17.47 million or 95.3% from the profit forecast stated in the Prospectus.

	Unaudited FY 2006 RM'000	Profit Forecast FY 2006 RM'000	Variance	
			RM'000	%
Revenue	<u>440,644</u>	<u>589,724</u>	(149,080)	(25.3)
Profit before taxation	1,966	25,386	(23,420)	(92.3)
Taxation	(1,095)	(7,045)	5,950	84.5
Profit after taxation	<u>871</u>	<u>18,341</u>	(17,470)	(95.3)
Weighted average no. of ordinary shares of RM1.00 each	135,212	120,429		
Gross earnings per share ("EPS") (sen)	1.45	21.08		
Net EPS (sen)	<u>0.64</u>	<u>15.23</u>		

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19. Variances of Actual Profit and Forecast Profit of the Group (Cont'd)

The reconciliation of the deviation is shown as follows:-

	<u>Note</u>	<u>RM'000</u>
Profit after taxation as per Forecast		18,341
Lower revenue	19.1	(149,080)
Gross profit	19.2	(26,649)
Other operating income	19.3	3,993
Operating expenses	19.4	(863)
Finance costs	19.5	99
		(23,420)
Taxation	19.6	5,950
		(17,470)
Profit after taxation as per unaudited results		871

The non-achievement of the Profit Forecast is primarily due to the following factors:-

19.1 Group revenue lower by approximately RM149 million or 25.3% compared to revenue forecast

The shortfall in the forecasted revenue was attributed to the following:-

- a) lower sales of reload coupon and starter packs due to smaller territory coverage granted by telcos to distribute prepaid cards;
- b) lower sales of Time Kontakt STD/IDD Prepaid Cards ("TKC") due to telco's change of business focus and prices of prepaid cards which fluctuated according to market demand; and
- c) proposed bundling exercise with certain suppliers did not materialise due to reason above. Bundling exercise represents TKC cards that were proposed to be bundled with other products sold by the Group.

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19. Variances of Actual Profit and Forecast Profit of the Group (Cont'd)

19.2 Group gross profit lower by approximately RM27 million or 102.0% compared to forecast

	Unaudited FY 2006 RM'000	Profit Forecast FY 2006 RM'000	Variance	
			RM'000	%
Revenue	440,644	589,724	(149,080)	(25.3)
Gross (loss)/profit ("(GL)/GP")	(532)	26,117	(26,649)	(102.0)
(GL)/GP Margin (%)	(0.1)	4.4	N/A	(4.5)

The shortfall in gross profit was mainly due to lower sales as explained in earlier section and also variance in margin earned, as tabulated above.

Lower GP and GP margin earned by the Group was due to the following:-

- a) lower margin contributed from sales of reload coupon and starter packs and Time Kontakt STD/IDD Prepaid Cards;
- b) stiff competition in the market which resulted in lower selling prices in order to maintain the Group's market share. The selling price of the products distributed by the Group normally fluctuated according to market demand and condition. The Group was compensated through sales incentives from certain suppliers for the losses incurred. These sales incentives have been included in other operating income as explained in Note 19.3; and
- c) proposed bundling exercise with certain suppliers did not materialise.

19.3 Other Operating Income

Despite lower rebates contributed from telcos, other operating income is higher than forecasted due to higher rebates and sales incentives received from other suppliers as explained in Note 19.2(b) above.

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19. Variances of Actual Profit and Forecast Profit of the Group (Cont'd)

19.4 Operating Expenses

Operating expenses were higher by approximately RM863,000 due to higher administrative expenses for the holding company and a newly incorporated subsidiary, Compugates International Sdn Bhd.

19.5 Finance Costs

Finance costs of the Group comprised hire purchase interest. Finance costs were lower by approximately RM99,000 or 19.5% due to lower utilisation of credit facilities.

19.6 Taxation

Actual taxation charge is lower than forecast consistent with the lower profit made by the Group.

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20. Taxation

	Current Year Quarter Ended 31 Dec 2006 RM'000 (Unaudited)	Corresponding Quarter Ended 31 Dec 2005 RM'000 (Unaudited)	Current Year To Date 31 Dec 2006 RM'000 (Unaudited)	Corresponding Period Ended 31 Dec 2005 RM'000 (Unaudited)
Current taxation	<u>328</u>	<u>1,843</u>	<u>1,095</u>	<u>1,843</u>

The Group's effective tax rate for the current quarter and current year to date is higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes, and losses of the Company and certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries.

21. Unquoted Investments and/or Properties

There were no purchases or disposals of unquoted investments and/or properties in the quarter ended 31 December 2006.

22. Quoted Investments

There were no purchases or disposals of quoted investments in the quarter ended 31 December 2006.

23. Status Of Corporate Proposals

There were no corporate proposals announced or completed as at the date of this announcement.

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24. Status of Utilisation of Proceeds

The proceeds of RM25 million raised by the Company from its Restricted Issue have been utilised as follows:

Purpose	Proposed Utilisation RM'000	Utilisation As At 12 February 2006 RM'000	Balance Unutilised RM'000
Repayment of bank borrowings	6,500	6,500	-
Working capital	18,500	14,400	4,100
	<u>25,000</u>	<u>20,900</u>	<u>4,100</u>

As at the date of this report, the balance of unutilised proceeds of RM4.1 million from the Restricted Issue has been retained as short term deposits pending utilisation.

25. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 31 December 2006 RM'000
Short term borrowing – secured - hire purchase	<u>86</u>
Long term borrowing – secured - hire purchase	<u>231</u>

26. 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.

27. Material Litigation

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

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28. Dividend

The Board of Directors does not recommend any dividend for the period ended 31 December 2006.

29. (Loss)/Earnings per Share

a) Basic

The (loss)/earnings per share is calculated by dividing the Group's (loss)/profit after taxation for the financial period/year over the number of ordinary shares in issue during the financial period/year as follows:-

	Current Year Quarter Ended 31 Dec 2006 (Unaudited)	Corresponding Quarter Ended 31 Dec 2005 (Unaudited)	Current Year To Date 31 Dec 2006 (Unaudited)	Corresponding Period Ended 31 Dec 2005 (Unaudited)
(Loss)/Profit after taxation (RM'000)	(218)	(638)	871	(642)
Weighted average number of ordinary shares in issue ('000)	179,080	14,826	135,212	14,826
Basic (loss)/earnings per share (sen)	(0.12)	(4.30)	0.64	(4.33)

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29. (Loss)/Earnings per Share (Cont'd)

b) Diluted

The diluted (loss)/earnings per share is calculated by dividing the Group's (loss)/profit after taxation for the financial period/year over the assumed number of ordinary shares in issue during the financial period/year as follows:-.

	Current Year Quarter Ended 31 Dec 2006 (Unaudited)	Corresponding Quarter Ended 31 Dec 2005 (Unaudited)	Current Year To Date 31 Dec 2006 (Unaudited)	Corresponding Period Ended 31 Dec 2005 (Unaudited)
(Loss)/Profit after taxation (RM'000)	(218)	(638)	871	(642)
Weighted average number of ordinary shares in issue ('000)	179,080	N/A	135,212	N/A
Effects of dilution ('000)	- *	N/A	- *	N/A
Adjusted number of ordinary shares in issue ('000)	179,080	N/A	135,212	N/A
Diluted (loss)/earnings per share (sen)	(0.12)	N/A	0.64	N/A

Notes:-

N/A – Not applicable as the assumed conversion from the ICPS would be anti dilutive.

** - ICPS has been fully converted during the financial period.*

30. Disclosure In Relation To Any Agreement, Arrangement, Joint Venture Or Collaboration For The Purpose Of Bidding For Or Securing A Project Or Contract

There were no any new agreement, arrangement, joint venture and major contracts entered by the Group during the quarter ended 31 December 2006.

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31. Authorisation

This interim financial report for the financial period ended 31 December 2006 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 13 February 2007 for release to the Bursa Securities.

By order of the Board
Mah Li Chen
Lee Wai Kim
Company Secretaries

Dated this 13 February 2007