

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

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

1. Basis of Preparation

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

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2007. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2007.

The accounting policies and methods of computation adopted in this quarter financial statement of the Group are consistent with those adopted for the annual financial statements of the Group for the financial year ended 31 December 2007.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2007.

With effect from 1 January 2008, the Group has adopted the following revised and amended Financial Reporting Standards (“FRS”) issued by the Malaysian Accounting Standards Board (“MASB”), which are relevant to its operation. These FRS became effective for financial periods beginning on or after 1 July 2007.

FRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates <i>Net Investment in a Foreign Operation</i>
FRS 139	Financial Instruments: Recognition and Measurement

The adoption of FRS 107, 112, 118, 134, 137 and amendment to FRS 121 do not have any significant financial impact on the results and the financial position of the group.

The Group has not adopted FRS 139 - Financial Instruments: Recognition and Measurement and the consequential amendments resulting from FRS 139 as the effective date is deferred to a date to be announced by the MASB. FRS 139 establishes the principles for the recognition and measurement of financial assets and financial liabilities including circumstances under which hedge accounting is permitted. By virtue of the exemption provided under paragraph 103AB of FRS 139, the impact of applying FRS 139 on its financial statements upon initial application of the standard as required by paragraph 30(b) of FRS 108 is not disclosed.

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3. Status of Audit Qualifications

The auditors' report on the financial statements for the financial year ended 31 December 2007 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 2008.

5. Seasonal or Cyclical Factors

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

6. Changes in Estimates

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

7. Debt and Equity Securities

There were no issuances, cancellations, repurchases or resale of debt and equity securities during the current quarter ended 31 December 2008.

8. Dividends Paid

There were no dividends paid during the quarter under review.

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

	Current Year Quarter Ended 31 Dec 2008 RM'000	Corresponding Quarter Ended 31 Dec 2007 RM'000	Current Year To Date 31 Dec 2008 RM'000	Corresponding Period Ended 31 Dec 2007 RM'000
SEGMENT REVENUE				
Malaysia	99,777	90,225	459,211	396,718
Singapore	844	3,274	6,194	12,382
Bangladesh	87,715	40,965	232,368	175,148
Others	2,095	3,005	10,618	3,005
	190,431	137,469	708,391	587,253
Inter-segment sales	(1,059)	(531)	(19,924)	(676)
TOTAL	189,372	136,938	688,467	586,577
SEGMENT RESULTS				
Malaysia	2,122	724	1,217	2,525
Singapore	(1,281)	164	(1,608)	47
Bangladesh	279	(153)	415	811
Others	99	20,377	206	20,056
	1,219	21,112	230	23,439

10. Revaluation of Property and Equipment

The valuations of property and equipment have been brought forward without amendment from the financial year ended 31 December 2007.

11. Contingent Liabilities and Contingent Assets

The Company had given corporate guarantees amounting to approximately RM27 million to secure banking facilities granted to its subsidiaries, Compugates Sdn. Bhd. and Compugates Marketing Sdn. Bhd.

There were no contingent assets as of the end of the current quarter.

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12. Significant Related Party Transactions

The recurrent related party transactions (“RRPT”) involved the sales of prepaid cards, purchases of prepaid cards, skin care products and commission paid. The RRPT had been entered into in the ordinary course of business and have been established under arm’s length basis and normal commercial terms not to the detriment of the minority shareholders.

Transaction parties	Nature of transaction	Current Year Quarter Ended 31 Dec 2008 RM'000	Corresponding Quarter Ended 31 Dec 2007 RM'000	Current Year To Date 31 Dec 2008 RM'000	Corresponding Period Ended 31 Dec 2007 RM'000
1 Beausoft Sdn. Bhd.	Sales of prepaid cards	-	4,600	2,089	15,416
2 Southall Sdn. Bhd.	Sales of prepaid cards	659	5,939	6,502	22,234
3 Beausoft Sdn. Bhd.	Purchases of skin care products	(1,839)*	-	-	-
	Deposit paid	-	-	5,000 #	-
4 Southall Sdn. Bhd.	Purchases of prepaid cards	184	-	184	-
5 Integra Communication Ltd	Commission Paid	558	-	1,411	-
6 Deens Telecom Ltd	Commission Paid				
		<u>537</u>	<u>-</u>	<u>1,305</u>	<u>-</u>

* Stock return during current quarter.

Deposit paid for purchase of skin care products.

13. Effect of Changes in the Composition of the Group

There were no material changes in the composition of the Group during the financial year ended 31 December 2008 including business combinations, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations except as disclosed in note 14.

14. Significant Subsequent Events

Subsequent to the current quarter ended 31 December 2008, the board of directors has intended to cease operations of Compugates (S) Pte Ltd, a subsidiary of 99.99% owned by Compugates Sdn Bhd (a wholly-owned subsidiary of Compugates Holdings Berhad), by 31 March 2009.

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15. Capital Commitment

The Group has no capital commitment as of 31 December 2008.

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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 a revenue of approximately RM189.3 million for the quarter ended 31 December 2008, which was approximately RM52.4 million higher as compared to the preceding corresponding quarter ended 31 December 2007 of approximately RM136.9 million. The higher revenue was mainly due to higher revenue contribution from Bangladesh subsidiary by approximately RM46.7 million.

The Group recorded a gross profit of approximately RM2.7 million for the current quarter which was about RM1.8 million lower as compared to the preceding corresponding quarter of approximately RM4.5 million. This was mainly due to stiff competition in the market which has resulted in a lower selling price in order to maintain the market share.

During the current quarter, the Group recorded a profit before taxation (“PBT”) of approximately RM1.1 million as compared to the preceding corresponding quarter PBT of approximately RM22.0 million. The lower PBT was mainly due to reduction in other income by about RM19.0 million and impairment of goodwill of RM1.1 million which was resulted from the intended closing down of the Singapore subsidiary.

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 a revenue of approximately RM189.3 million for the quarter ended 31 December 2008, which was approximately RM5.9 million higher than the previous quarter ended 30 September 2008 of approximately RM183.4 million. The higher revenue was mainly due to higher revenue contribution from Bangladesh subsidiary by approximately RM28.1 million. However, this was set off with a lower revenue of approximately RM19.0 million from Malaysia subsidiaries.

The Group recorded a PBT of approximately RM1.1 million for the quarter ended 31 December 2008 which has improved by RM0.5 million from previous quarter PBT of approximately RM0.6 million. This was mainly due to reduction in operating expenses.

18. Current Year Prospect

The Board is of the view that, barring unforeseen circumstances, the Group's business prospects will remain challenging given the competitive market. At the same time, the Board will continuously explore other business activities that will add value to the Group.

19. Profit Forecast or Profit Guarantee

The disclosure requirements for explanatory notes for the variance of actual profit and forecast profit and for the shortfall in profit guarantee are not applicable.

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20. Income Tax Expense

	Current Year Quarter Ended 31 Dec 2008 RM'000	Corresponding Quarter Ended 31 Dec 2007 RM'000	Current Year To Date 31 Dec 2008 RM'000	Corresponding Period Ended 31 Dec 2007 RM'000
Current taxation	(88)	873	1,394	2,363

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

21. Unquoted Investments and/or Properties

There were no purchases or disposals of unquoted investments and/or properties in the quarter ended 31 December 2008.

22. Quoted Investments

There were no purchases or disposals of quoted investments in the financial period ended 31 December 2008.

23. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

24. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 31 Dec 2008 RM'000
Short term borrowings – secured	
- banker's acceptance	2,074
- hire purchase	82
	<u>2,156</u>
Long term borrowing – secured	
- hire purchase	86
	<u>86</u>

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25. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments entered into by the Group as at the date of this announcement.

26. 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.

27. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 31 December 2008.

28. Earnings per Share

The earnings per share is calculated by dividing the Group's profit attributable to equity holders of the parent for the financial period over the number of ordinary shares in issue during the financial period as follows:-.

	Current Year Quarter Ended 31 Dec 2008	Corresponding Quarter Ended 31 Dec 2007	Current Year To Date 31 Dec 2008	Corresponding Period Ended 31 Dec 2007
Profit / (loss) attributable to equity holders of parent (RM'000)	941	11,000	(241)	12,943
Number of ordinary shares in issue ('000) - RM0.10 each	2,134,289	2,134,289	2,134,289	2,134,289
Basic earnings / (loss) per share (sen)	0.04	0.51	(0.01)	0.61

The diluted earnings per share was not applicable as there were no dilute potential ordinary shares outstanding at the balance sheet date.

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29. Authorisation

This interim financial report for the financial period ended 31 December 2008 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 23 February 2009 for release to the Bursa Securities.

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

Dated : 23 February 2009