

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

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

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 the 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 Group for the financial period ended 31 December 2005.

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 FRSs mentioned above does not have 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 March 2006.

5. 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.

6. Changes in Estimates

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

7. Debt and Equity Securities

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

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)

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

	Malaysia RM'000	Singapore RM'000	Total RM'000
REVENUE			
External sales	107,321	4,401	111,722
Inter-segment sales	(36)	(11)	(47)
TOTAL	107,285	4,390	111,675
RESULT			
Profit before taxation	528	84	612
Taxation			(179)
Profit after taxation			433

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. Unquoted Investments and/or Properties

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

12. Quoted Investments

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

13. 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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14. 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	7,504
2	Southall Sdn Bhd	Sales of prepaid cards	268
3	Southall Sdn Bhd	Purchases of prepaid cards	768

15. 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 March 2006 except that on 20 January 2006, the Company incorporated a wholly-owned subsidiary, Compugates International Sdn. Bhd. (“CISB”) 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.

16. Status Of Corporate Proposals

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

17. 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.

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18. Review of Performance

The Group registered a turnover of approximately RM111.7 million for the quarter ended 31 March 2006, which was better than the previous quarter ended 31 December 2005 of approximately RM60.8 million.

The Group achieved a profit before taxation ("PBT") of approximately RM612,000 for the quarter ended 31 March 2006. The lower PBT achieved in this quarter as compared to the previous quarter was due to lower trade margin, rebates and sales incentives received from telcos and suppliers.

19. 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 turnover of approximately RM111.7 million for the quarter ended 31 March 2006, which was 83.7% higher than the previous quarter ended 31 December 2005 of approximately RM60.8 million.

The Group achieved a PBT of approximately RM612,000 in the current quarter which was 49.2% lower than previous quarter mainly due to:-

- a) stiff competition in the market which resulted in a lower selling prices, in line with consumers' expectation and to maintain the Group's market share; and
- b) increase in operating expenses mainly due to the establishment of a new Customer Care Centre, details as explained in Note 20 below.

20. Current Year Prospect

The Board is of the view that, barring unforeseen circumstances, the Group's business prospects for the next quarter will 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 with the successful implementation of the following:-

- a) The Group aims to tap into new overseas market through a newly incorporated subsidiary, CISB;
- b) The Group opened its first Customer Care Centre in Aman Suria, Damansara to add the vital service and support component to its range of services. The Group also increased its marketing activities through various promotions undertaken with its principals, distributors and consumers.

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21. 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 ("PAT") of approximately RM18.34 million for the financial year ending 31 December 2006.

Management expects to achieve its 2006's forecast for the full financial year.

22. Taxation

	Current Year Quarter Ended 31 March 2006 RM'000	Current Year To Date 31 March 2006 RM'000
Current taxation	179	179

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.

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23. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 31 March 2006 RM'000
Short term borrowings – secured	
- bankers' acceptances	456
- hire purchase	87
	<hr/> 543 <hr/>
Long term borrowing – secured	
- hire purchase	<hr/> 294 <hr/>

24. 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.

25. 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.

26. Dividend

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

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27. Earnings per Share

a) Basic

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

	Current Year Quarter Ended 31 March 2006	Current Year To Date 31 March 2006
Profit after taxation (RM'000)	433	433
Number of ordinary shares in issue ('000)	120,429	120,429
Basic earnings per share (sen)	0.36	0.36

b) Diluted

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

	Current Year Quarter Ended 31 March 2006	Current Year To Date 31 March 2006
Profit after taxation (RM'000)	433	433
Number of ordinary shares in issue ('000)	120,429	120,429
Effects of dilution ('000)	93,000	93,000
Adjusted number of ordinary shares in issue ('000)	213,429	213,429
Diluted earnings per share (sen)	0.20	0.20

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28. Capital Commitment

As of 31 March 2006, the Group has the following capital expenditure in respect of purchase of properties:

	31 March 2006 RM'000
Approved and contracted for	213

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

Dated this 31 May 2006