

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2007**

**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 2006. 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 2006.

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 year ended 31 December 2006.

**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 2006.

The following Financial Reporting Standards (“FRS”) have been issued and are effective for financial periods beginning on or after 1 October 2006 and will be effective for the Group’s financial statements for the financial period commencing 1 January 2007:-

FRS 117	Leases
FRS 124	Related Party Disclosures

The Group anticipates that the adoption of FRS 124 will not have any material effects to the Group and relevant disclosures have been made in Note 12 on significant related party transactions. FRS 117 is not applicable as it is not relevant to the Group.

FRS 6 - Exploration for and Evaluation of Mineral Resources has been issued and is effective for financial periods beginning on or after 1 January 2007. This standard is not relevant to the Group’s operations.

Amendment to FRS 119<sub>2004</sub> – Employee Benefits Actuarial Gains and Losses, Group Plans and Disclosures has been issued and is effective for financial periods beginning on or after 1 January 2007. The Group will apply this amendment for the Group’s financial statements for the financial year ending 31 December 2007.

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**2. Changes in Accounting Policies (Cont'd)**

The following FRSs have been issued and are effective for financial periods beginning on or after 1 July 2007 and will be effective for the Group's financial statements for the financial period commencing 1 January 2008:-

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>

Framework for the Preparation and Presentation of Financial Statements has been issued and is effective immediately. This Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. It is not an MASB approved accounting standard and hence, does not define standards for any particular measurement or disclosure issue. The Group will apply this Framework from the financial year ending 31 December 2007 onwards.

The following IC Interpretations have been issued and are effective for financial periods beginning on or after 1 July 2007:-

IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 <sub>2004</sub> Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

The above IC Interpretations are not applicable as they are not relevant to the Group.

FRS 139 - Financial Instruments: Recognition and Measurement has been issued and the effective date has yet to be determined by the MASB. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group and the Company will apply this standard when it becomes effective.

**3. Status of Audit Qualifications**

The auditors' report on the financial statements for the financial year ended 31 December 2006 was not subject to any qualification.

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**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 2007.

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

**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 2007.

**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)**

	<b>Current Year Quarter Ended 31 Dec 2007 RM'000 (Unaudited)</b>	<b>Corresponding Quarter Ended 31 Dec 2006 RM'000 (Unaudited)</b>	<b>Current Year To Date 31 Dec 2007 RM'000 (Unaudited)</b>	<b>Corresponding Period Ended 31 Dec 2006 RM'000 (Unaudited)</b>
<b>SEGMENT REVENUE</b>				
Malaysia	90,225	91,780	396,718	415,993
Singapore	3,274	6,953	12,382	25,024
Bangladesh	40,965	-	175,148	-
Others	3,005	-	3,005	-
	137,469	98,733	587,253	441,017
Inter-segment sales	(531)	(161)	(676)	(373)
<b>TOTAL</b>	<b>136,938</b>	<b>98,572</b>	<b>586,577</b>	<b>440,664</b>
<b>SEGMENT RESULTS</b>				
Malaysia	724	(238)	2,525	652
Singapore	164	20	47	219
Bangladesh	(153)	-	811	-
Others	20,377	-	20,053	-
	21,112	(218)	23,436	871

**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 2006.

**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 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 2007 RM'000 (Unaudited)	Corresponding Quarter Ended 31 Dec 2006 RM'000 (Unaudited)	Current Year To Date 31 Dec 2007 RM'000 (Unaudited)	Corresponding Period Ended 31 Dec 2006 RM'000 (Unaudited)
1 Beausoft Sdn. Bhd.	Sales of prepaid cards	4,600	3,303	15,416	27,104
2 Southall Sdn. Bhd.	Sales of prepaid cards	5,939	-	22,234	274
3 Southall Sdn. Bhd.	Purchases of prepaid cards	-	-	-	775

**13. Effect of Changes in the Composition of the Group**

Save as disclosed below, there were no changes in the composition of the Group during the financial period ended 31 December 2007:-

Compugates International Limited (“CIL”) (a subsidiary of Compugates International Sdn Bhd), had on 29 November 2007 incorporated a new subsidiary, namely Compugates International Limited in Cambodia (“CIL Cambodia”). CIL Cambodia has an authorised share capital of Riels 120,000,000 comprising of 30,000 shares of Riels 4,000 each with paid-up share capital of Riels 120,000,000 comprising 30,000 shares of Riels 4,000 each.

CIL Cambodia is acting as agents by way of commission for the distribution of telecommunication products and management agent of franchises.

**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.

**15. Capital Commitment**

The Group has no capital commitment as of 31 December 2007.

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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 RM136.9 million for the quarter ended 31 December 2007, which was higher by approximately RM38.3 million as compared to the preceding corresponding quarter ended 31 December 2006 of approximately RM98.6 million. The higher revenue was partly due to the contribution from the subsidiary in Bangladesh, which commenced its business operations in the current year.

The Group recorded a gross profit of approximately RM4.5 million in the current quarter which was higher by approximately RM5.0 million as compared to the preceding corresponding quarter. This was partly due to the contribution from the Bangladesh subsidiary as well as the improved selling prices of some of the Group's products in the current quarter.

During the current quarter, the Group recorded a profit before taxation ("PBT") of approximately RM22.0 million as compared to the preceding corresponding quarter of approximately RM0.1 million mainly contributed by other subsidiary's other income of RM18.3 million.

**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 RM136.9 million for the quarter ended 31 December 2007, which was 8% higher than the previous quarter ended 30 September 2007 of approximately RM126.9 million. The higher revenue was mainly due to the higher sales contribution from the Bangladesh subsidiary.

The Group achieved a PBT of approximately RM22.0 million in the current quarter which was higher than the previous quarter of approximately RM0.3 million mainly due to other income generated by other subsidiary.

**18. Current Year Prospect**

The Board is of the view that, barring unforeseen circumstances, the Group's business prospects will remain challenging.

**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 2007 RM'000 (Unaudited)	Corresponding Quarter Ended 31 Dec 2006 RM'000 (Unaudited)	Current Year To Date 31 Dec 2007 RM'000 (Unaudited)	Corresponding Period Ended 31 Dec 2006 RM'000 (Unaudited)
Current taxation	<u>873</u>	<u>328</u>	<u>2,363</u>	<u>1,095</u>

The Group's effective tax rate is lower than the statutory tax rate as there are income not subject to tax.

**21. Unquoted Investments and/or Properties**

There were no purchases or disposals of unquoted investments and/or properties in the quarter ended 31 December 2007.

**22. Quoted Investments**

There were no purchases or disposals of quoted investments in the quarter ended 31 December 2007.

**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 23 November 2007 RM'000	Intended Timeframe For Utilisation	Deviation RM'000	%	Explanations
Repayment of bank borrowings	6,500	6,500	Within one year from the date of completion of the Restricted Issue	-	-	Bank borrowings fully repaid.
Working capital	18,500	18,500		-	-	Fully utilised.
	<u>25,000</u>	<u>25,000</u>		-	-	

**25. Borrowings and Debt Securities**

The Group's borrowings are as follows:

	As at 31 December 2007 RM'000
Short term borrowing – secured - hire purchase	<u>157</u>
Long term borrowing – secured - hire purchase	<u>78</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 2007.

**29. Earnings per Share**

**a) Basic**

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 weighted average number of ordinary shares in issue during the financial period as follows:-

	<b>Current Year Quarter Ended 31 Dec 2007 (Unaudited)</b>	<b>Corresponding Quarter Ended 31 Dec 2006 (Unaudited)</b>	<b>Current Year To Date 31 Dec 2007 (Unaudited)</b>	<b>Corresponding Period Ended 31 Dec 2006 (Unaudited)</b>
Profit attributable to equity holders of parent (RM'000)	11,000	(218)	12,941	871
Weighted average number of ordinary shares in issue ('000)				
- RM0.10 each	2,134,289	-	2,134,289	-
- RM1.00 each	-	179,080	-	135,212
Basic earnings per share (sen)	0.51	(0.12)	0.61	0.64

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**29. Earnings per Share (Cont'd)**

**b) Diluted**

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

	<b>Current Year Quarter Ended 31 Dec 2007 (Unaudited)</b>	<b>Corresponding Quarter Ended 31 Dec 2006 (Unaudited)</b>	<b>Current Year To Date 31 Dec 2007 (Unaudited)</b>	<b>Corresponding Period Ended 31 Dec 2006 (Unaudited)</b>
Profit attributable to equity holders of parent (RM'000)	11,000	(218)	12,941	871
Weighted average number of ordinary shares in issue ('000)				
- RM0.10 each	2,134,289	-	2,134,289	-
- RM1.00 each	-	179,800	-	135,212
Effects of dilution ('000)	- *	-	- *	-
Adjusted number of ordinary shares in issue ('000)	2,134,289	179,800	2,134,289	135,212
Diluted earnings per share (sen)	0.51	(0.12)	0.61	0.64

Notes:-

\* - ICPS has been fully converted during the previous financial year.

**30. Authorisation**

This interim financial report for the financial period ended 31 December 2007 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 22 February 2008 for release to the Bursa Securities.

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

Dated : 22 February 2008