

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2010**

**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 2009. 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 2009.

**2. Changes in Accounting Policies**

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 2009 except for the adoption of the following new and revised Financial Reporting Standards (“FRSs”), Amendments to FRSs and IC Interpretations and Technical Releases (“TR”):

FRS 4 Insurance Contracts  
FRS 7 Financial Instruments: Disclosures  
FRS 8 Operating Segments  
Revised FRS 101 (2009) Presentation of Financial Statements  
Revised FRS 123 (2009) Borrowing Costs  
Revised FRS 139 (2010) Financial Instruments: Recognition and Measurement  
Amendments to FRS 1 and FRS 127: Cost of an Investment in a Subsidiary,  
Jointly Controlled Entity or Associate  
Amendments to FRS 2: Vesting Conditions and Cancellations  
Amendments to FRS 7, FRS 139 and IC Interpretation 9  
Amendments to FRS 132: Classification of Rights Issues and the Transitional  
Provision in Relation to Compound Instruments  
IC Interpretation 9 Reassessment of Embedded Derivatives  
IC Interpretation 10 Interim Financial Reporting and Impairment  
IC Interpretation 11: FRS 2 – Group and Treasury Share Transactions  
IC Interpretation 13 Customer Loyalty Programmes  
IC Interpretation 14: FRS 119 – The Limit on a Defined Benefit Asset, Minimum  
Funding Requirements and their Interaction  
Annual Improvements to FRSs (2009)  
TR i-3 Presentation of Financial Statements of Islamic Financial Institutions

The adoption of the above FRSs, Amendments to FRSs, IC Interpretations and TR did not have any material impact on the financial performance and financial position of the Group other than as stated below:

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

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

**FRS 7: Financial Instruments: Disclosures**

Prior to the adoption of FRS 7, the disclosures for financial instruments were based on the requirements of the original FRS 132: Financial Instruments: Disclosures and Presentation. This standard requires disclosure on the nature and extent of risks arising from financial instrument which includes qualitative and quantitative disclosure. The Group applied this standard prospectively in accordance with the transitional provision. This standard only affects the form and content of the disclosure in the Group's financial statements.

**FRS 8: Operating Segments**

FRS 8 replaces FRS 114<sub>2004</sub> Segment Reporting and requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes that are regularly reviewed by the Group's chief operating decision maker. The Group presents its segment information based on its geographical segments, which is also the basis of presenting its internal management reports. The basis of measurement of operating results, segment assets and segment liabilities are the same as the basis of measurement for external reporting.

**Revised FRS 101 (2009) Presentation of Financial Statements**

The revised FRS 101 requires Statement of Changes in Equity includes only transaction with owners, and all non-owner changes (i.e. other comprehensive income) are presented in a separate statement. This standard also introduces Statement of Comprehensive Income which presents all items of income and expense recognised in profit or loss and all other items of income and expensed recognised directly in equity, either in one single statement or two linked statements. The Group has applied this standard retrospectively and elected to present in one single statement. The adoption of this standard only impacted the form and content of the presentation of the Group's financial statements.

**Annual Improvements to FRSs (2009) – FRS 117: Leases**

FRS 117 clarifies on the classification of leases of land and buildings. The resulting effect of this standard was the reclassification of leasehold land to property, plant and equipment or investment property rather than being separately classified under prepaid land lease payments on the condensed consolidated statement of financial position, as disclosed below. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment. The reclassification does not have any impact on the financial performance and earning per share of the Group.

The following comparatives have been reclassified upon adoption of the amendments to FRS 117:

	<b>As Restated RM'000</b>	<b>As Previously Stated RM'000</b>
<b>Condensed Statement of Financial Position</b>		
<b>Non-current assets</b>		
Property and equipment	16,836	11,365
Investment property	5,290	-
Prepaid land lease payments	-	10,761

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

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

**FRS 139: Financial Instruments: Recognition and Measurement**

FRS 139 prescribes the principles for recognising, derecognising and measuring financial asset, financial liabilities, including all derivatives and certain embedded derivatives. The Group has applied this standard prospectively on 1 January 2010 in accordance with the transitional provision. The effects arising from the adoption of this standard has been accounted for by adjusting the opening balance of retained earnings as at 1 January 2010. The comparative figures have not been restated.

Prior to 1 January 2010, the Group classified its investment in quoted securities which were held for non-trading purposes as non-current quoted investments. Such investments were carried at cost less allowance for permanent diminution in value. Upon adoption of FRS 139, these investments were designated at 1 January 2010 as available-for-sale investments and accordingly are stated at their fair values as at that date at RM8,548,000. As at 1 January 2010, an impairment loss of RM3,025,000 was also recognised for available-for-sale investments as an adjustment to the opening balance of retained earnings.

The following are the effects arising from the changes in the accounting policies as at 1 January 2010 upon the first application of FRS 139:

	<b>As Previously Stated RM'000</b>	<b>Effect of FRS 139 RM'000</b>	<b>As Restated RM'000</b>
<b>Condensed Statement of Financial Position</b>			
<b>Non-current assets</b>			
Quoted investments	12,033	(12,033)	-
Available-for-sale investments	-	8,548	8,548
<b>Equity</b>			
Fair value reserve	-	(460)	(460)
Accumulated losses	(107,352)	(3,025)	(110,377)

The Group has not applied in advance the following new and revised FRSs, Amendments to FRSs and IC Interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the current financial year:

<b>FRSs/IC Interpretations</b>	<b>Effective date</b>
Revised FRS 1 (2010) First-time Adoption of Financial Reporting Standards	1 July 2010
Revised FRS 3 (2010) Business Combinations	1 July 2010
Revised FRS 127 (2010) Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 2: Scope of FRS 2 and Revised FRS 3 (2010)	1 July 2010
Amendments to FRS 5: Plan to Sell the Controlling Interest in a Subsidiary	1 July 2010
Amendments to FRS 138: Consequential Amendments Arising from Revised FRS 3 (2010)	1 July 2010

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

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

**FRS 139: Financial Instruments: Recognition and Measurement (cont'd)**

<b>FRSs/IC Interpretations</b>	<b>Effective date</b>
IC Interpretation 12 Service Concession Arrangements	1 July 2010
IC Interpretation 15 Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to IC Interpretation 9: Scope of IC Interpretation 9 and Revised FRS 3 (2010)	1 July 2010

**3. Status of Audit Qualifications**

The auditors' report on the financial statements for the financial year ended 31 December 2009 was not subject to any qualification.

**4. Items of Unusual Nature and Amount**

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the current quarter under review.

**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 were no changes in the estimates of amounts reported in the prior financial years that have material effect in the current quarter under review.

**7. Debt and Equity Securities**

There were no issuances, cancellations, repurchases or resale of debt and equity securities during the current quarter under review.

**8. Dividends Paid**

There were no dividends paid during the quarter under review.

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

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

	<b>Current Year Quarter Ended 31 Mar 2010 RM'000</b>	<b>Corresponding Quarter Ended 31 Mar 2009 RM'000</b>	<b>Current Year To Date 31 Mar 2010 RM'000</b>	<b>Corresponding Period Ended 31 Mar 2009 RM'000</b>
<b>SEGMENT REVENUE</b>				
Malaysia	35,380	103,520	35,380	103,520
Singapore	-	452	-	452
Bangladesh	124,003	101,072	124,003	101,072
The British Virgin Islands	529	-	529	-
Cambodia	3,223	699	3,223	699
Indonesia	1,912	1,547	1,912	1,547
	<hr/>			
	165,047	207,290	165,047	207,290
Inter-segment sales	(7,099)	(480)	(7,099)	(480)
	<hr/>			
<b>TOTAL</b>	<b>157,948</b>	<b>206,810</b>	<b>157,948</b>	<b>206,810</b>
<hr/>				
<b>SEGMENT RESULTS</b>				
Malaysia	(4,230)	443	(4,230)	443
Singapore	-	(319)	-	(319)
Bangladesh	184	361	184	361
The British Virgin Islands	(19)	(374)	(19)	(374)
Cambodia	(23)	(59)	(23)	(59)
Indonesia	46	(19)	46	(19)
	<hr/>			
	(4,042)	33	(4,042)	33
	<hr/>			

**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 2009.

**11. Contingent Liabilities and Contingent Assets**

The Company had given corporate guarantees amounting to approximately RM47 million to the bank and supplier to secure banking facilities and credit term granted to its subsidiaries as of 31 March 2010.

There were no contingent assets as of 31 March 2010.

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

**12. Significant Related Party Transactions**

The recurrent related party transactions (“RRPT”) involved the sales of prepaid cards and IT product & accessory, 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 Mar 2010 RM'000	Corresponding Quarter Ended 31 Mar 2009 RM'000	Current Year To Date 31 Mar 2010 RM'000	Corresponding Period Ended 31 Mar 2009 RM'000
1 Southall Sdn. Bhd.	Sales of prepaid cards	-	548	-	548
	Sales of IT product & accessory	2	5	2	5
2 Southall Sdn. Bhd.	Purchases of IT products	1	-	1	-
3 Integra Communication Ltd	Commission Paid	357	99	357	99
4 Deens Telecom Ltd	Commission Paid	312	99	312	99

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

Save as disclosed below, there were no material changes in the composition of the Group during the current quarter under review:-

Compugates Marketing Sdn. Bhd. (“CMSB”) a subsidiary of Compugates Holdings Berhad (“CHB”) had on 15 March 2010 disposed off two (2) ordinary shares of RM1.00 each, representing 2% of the total issued and paid up share capital of Compugates Sabah Sdn. Bhd. (“CSSB”). With the aforesaid disposal, CMSB’s shareholding in CSSB was reduced from 51% to 49%. However, on 19 May 2010 CMSB has re-acquired 2% of the total issued and paid-up capital of CSSB, resulting in CMSB’s shareholding in CSSB increased from 49% to 51%.

**14. Significant Subsequent Events**

There were no significant events subsequent to the end of the current quarter up to the date of this report that have not been reflected in the financial statements for the current quarter under review.

**15. Capital Commitment**

The Group has no capital commitment as of 31 March 2010.

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

**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 RM157.9 million for the quarter ended 31 March 2010, which was approximately RM48.9 million lower as compared to the preceding corresponding quarter ended 31 March 2009 of approximately RM206.8 million. The lower revenue was mainly due to lower revenue contribution from Malaysian subsidiaries by approximately RM68.1 million resulted from the termination of distributorship by Celcom, which was partially offset by higher revenue contribution from Bangladesh subsidiary.

During the current quarter, the Group recorded a loss before taxation (“LBT”) of approximately RM3.8 million as compared to the preceding year corresponding quarter profit before taxation (“PBT”) of approximately RM0.7 million. The LBT was mainly due to lower revenue and higher administrative expenses provided by the Malaysian subsidiaries.

**17. Comment on Material Changes in the Results for the Quarter Reported on as Compared With The Immediate Preceding Quarter**

The Group registered revenue of approximately RM157.9 million for the quarter ended 31 March 2010, which was approximately RM14.4 million higher than the previous quarter ended 31 December 2009 of approximately RM143.5 million. The higher revenue was mainly due to higher revenue contribution from Bangladesh subsidiary by approximately RM14.2 million.

The Group recorded a LBT of approximately RM3.8 million for the quarter ended 31 March 2010 as compared to the preceding quarter LBT of approximately RM94.4 million. This was mainly due to impairment loss of goodwill on consolidation recorded in the preceding quarter.

**18. Current Year Prospect**

The Board is of the view that, barring any 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.

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

**20. Income Tax Expense**

	Current Year Quarter Ended 31 Mar 2010 RM'000	Corresponding Quarter Ended 31 Mar 2009 RM'000	Current Year To Date 31 Mar 2010 RM'000	Corresponding Period Ended 31 Mar 2009 RM'000
Current tax expense: '- for the quarter	285	622	285	622
Deferred taxation '- Deferred tax liability	(31)	-	(31)	-
	<u>254</u>	<u>622</u>	<u>254</u>	<u>622</u>

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 March 2010.

**22. Quoted Securities**

Save as disclosed below, there were no purchases or disposals of quoted securities in the quarter ended 31 March 2010:-

a) Total purchase and disposal of quoted securities by the Group were as follows:-

	Current Year Quarter Ended 31 March 2010 RM'000	Corresponding Quarter Ended 31 March 2009 RM'000	Current Year To Date 31 March 2010 RM'000	Corresponding Period Ended 31 March 2009 RM'000
Purchase of quoted securities	615	-	615	-
Proceeds from disposal of quoted securities	411	-	411	-
Gain on disposal of quoted securities	21	-	21	-



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

**22. Quoted Securities (cont'd)**

b) Quoted securities at end of the quarter were as follows:-

	<b>As at 31 March 2010 RM'000</b>
At carrying amount	9,468
At market value	9,468

**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:

	<b>As at 31 March 2010 RM'000</b>	<b>As at 31 December 2009 RM'000</b>
Short term borrowings – secured - hire purchase (denominated in Ringgit Malaysia)	65	86

**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.

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

**27. Dividend**

The Board of Directors does not recommend any dividend for the quarter ended 31 March 2010.

**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:-.

	<b>Current Year Quarter Ended 31 Mar 2010</b>	<b>Corresponding Quarter Ended 31 Mar 2009</b>	<b>Current Year To Date 31 Mar 2010</b>	<b>Corresponding Period Ended 31 Mar 2009</b>
(Loss) / Profit attributable to equity holders of parent (RM'000)	(4,152)	31	(4,152)	31
Number of ordinary shares in issue ('000) - RM0.10 each	2,134,289	2,134,289	2,134,289	2,134,289
Basic (loss) / earnings per share (sen)	(0.19)	#	(0.19)	#

# - Amount less than 0.01 sen

The diluted earnings per share was not applicable as there were no potential ordinary shares outstanding which are dilutive in nature at the balance sheet date.

**29. Authorisation**

This interim financial report for the financial period ended 31 March 2010 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 24 May 2010 for release to the Bursa Securities.

By order of the Board  
**Mah Li Chen**  
**Chew Mei Ling**  
**Cynthia Gloria Louis**  
 Company Secretaries

Dated : 24 May 2010