

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2011

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 2010. 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 2010.

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 2010 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 1 First-time Adoption of Financial Reporting Standards
FRS 3 Business Combinations (Revised)
FRS 127 Consolidated and Separate Financial Statements (Revised)
Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters (Amendment to FRS 1)
Additional Exemptions for First-time Adopters (Amendments to FRS 1)
Improving Disclosures about Financial Instruments (Amendments to FRS 7)
Amendments to FRS 2 Share-based Payment
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 132 Financial Instruments: Presentation
Amendments to FRS 138 Intangible Assets
Amendments to FRSs contained in the document entitled “Improvements to FRSs (2010)”
IC Interpretation 4: Determining whether an Arrangement contains a Lease
IC Interpretation 12: Service Concession Arrangements
IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17: Distributions of Non-cash Assets to Owners
IC Interpretation 18: Transfers of Assets from Customers
Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
TR 1-4 Shariah Compliant Sale Contracts

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2. Changes in Accounting Policies (cont'd)

The adoption of the above FRSs, Amendments to FRSs, IC Interpretations and TR does not have any significant impact on the financial position and performance of the Group except for the revised FRS 3 and FRS 127 as described below.

FRS 3, Business Combinations (Revised) and FRS 127, Consolidated and Separate Financial Statements (Revised)

The revised FRS 3 introduces a number of significant changes to the accounting for business combinations with greater use of fair value. These changes include recognising all acquisition-related costs as expense, measuring any pre-existing interest at fair value and allowing measurement of non-controlling interest (previously known as minority interest) at either fair value or at its proportionate share of the acquiree's net identifiable assets. The revised FRS 127 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The revised standard also requires all losses attributable to the minority shareholders to be absorbed by minority shareholders instead of by the parent. The Group applied the changes of revised FRS 3 and FRS 127 prospectively and therefore there is no financial impact on the financial statements of the Group for the current financial year but may impact the accounting for future transactions or arrangements.

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

FRSs/IC Interpretations	Effective date
FRS 124 Related Party Disclosures (Revised)	1 January 2012
IC Interpretation 15: Arrangements for the Construction of Real Estate	1 January 2012
IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)	1 July 2011

The adoption of the above FRSs, Amendments to FRSs, IC Interpretations and TR is not expected to have any significant impact on the financial position and performance of the Group.

3. Status of Audit Qualifications

The auditors' report on the financial statements for the financial year ended 31 December 2010 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.

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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.

6. Changes in Estimates

There were no changes in the estimates of amounts reported in the prior financial years during 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.

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

	Current Year Quarter Ended 31 Mar 2011 RM'000	Corresponding Quarter Ended 31 Mar 2010 RM'000	Current Year To Date 31 Mar 2011 RM'000	Corresponding Period Ended 31 Mar 2010 RM'000
SEGMENT REVENUE				
Malaysia	37,832	35,380	37,832	35,380
Bangladesh	109,301	124,003	109,301	124,003
The British Virgin Islands	75	529	75	529
Cambodia	2,077	3,223	2,077	3,223
Indonesia	1,523	1,912	1,523	1,912
	150,808	165,047	150,808	165,047
Inter-segment sales	(80)	(7,099)	(80)	(7,099)
TOTAL	150,728	157,948	150,728	157,948
SEGMENT RESULTS				
Malaysia	73	(4,230)	73	(4,230)
Bangladesh	348	184	348	184
The British Virgin Islands	(193)	(19)	(193)	(19)
Cambodia	50	(23)	50	(23)
Indonesia	25	46	25	46
	303	(4,042)	303	(4,042)

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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 year ended 31 December 2010.

11. Changes in Contingent Liabilities and Contingent Assets

There were no changes in the contingent liabilities and assets of the Group since the last audited date of the statement of financial position.

12. Significant Related Party Transactions

The recurrent related party transactions (“RRPT”) involved the sales of IT product & accessories, purchases of IT 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	Corresponding	Current Year	Corresponding
		Quarter Ended 31 Mar 2011 RM’000	Quarter Ended 31 Mar 2010 RM’000	To Date 31 Mar 2011 RM’000	Period Ended 31 Mar 2010 RM’000
1 Southall Sdn Bhd	Sales of IT products & accessories	1	2	1	2
2 Southall Sdn Bhd	Purchases of IT products	4	1	4	1
3 Integra Communication Ltd	Commission paid	-	357	-	357
4 Deens Telecom Ltd	Commission paid	-	312	-	312

13. Effect of Changes in the Composition of the Group

There were no changes in the composition of the Group during the current quarter under review.

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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 2011.

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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 RM150.7 million for the quarter ended 31 March 2011, which was approximately RM7.2 million lower as compared to the preceding corresponding quarter ended 31 March 2009 of approximately RM157.9 million. The lower revenue was mainly due to lower revenue contribution from Bangladesh subsidiary.

During the current quarter, the Group recorded a profit before taxation (“PBT”) of approximately RM0.9 million as compared to the preceding year corresponding quarter loss before taxation (“LBT”) of approximately RM3.8 million. The PBT was mainly due to higher gross profit margin and lower administrative expenses during the current quarter.

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 RM150.7 million for the quarter ended 31 March 2011, which was approximately RM9.7 million lower than the previous quarter ended 31 December 2010 of approximately RM160.4million. The lower revenue was mainly due to lower revenue contribution from Bangladesh subsidiary of approximately RM16.1 million.

The Group recorded a PBT of approximately RM0.9 million for the quarter ended 31 March 2011 compared to the preceding quarter LBT of approximately RM7.4 million. This was mainly due to impairment loss on receivables and higher administrative expenses incurred by certain Malaysian subsidiaries 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.

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20. Income Tax Expense

	Current Year Quarter Ended 31 Mar 2011 RM'000	Corresponding Quarter Ended 31 Mar 2010 RM'000	Current Year To Date 31 Mar 2011 RM'000	Corresponding Period Ended 31 Mar 2010 RM'000
Current tax expense:				
- for the quarter	583	285	583	285
Deferred taxation				
- Deferred tax liability	-	(31)	-	(31)
	<u>583</u>	<u>254</u>	<u>583</u>	<u>254</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 2011.

22. Quoted Securities

Save as disclosed below, there were no purchases or disposals of quoted securities in the quarter ended 31 March 2011:-

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

	Current Year Quarter Ended 31 Mar 2011 RM'000	Corresponding Quarter Ended 31 Mar 2010 RM'000	Current Year To Date 31 Mar 2011 RM'000	Corresponding Period Ended 31 Mar 2010 RM'000
Purchase of quoted securities	-	615	-	615
Proceeds from disposal of quoted securities	-	411	-	411
Gain on disposal of quoted securities	-	21	-	21

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22. Quoted Securities (Cont'd)

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

	As at 31 March 2011 RM'000
At carrying amount	9,096
At market value	<u>9,096</u>

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 Mar 2011 RM'000	As at 31 Dec 2010 RM'000
Short term borrowings – secured - banker's acceptance	<u>9,539</u>	<u>6,348</u>

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.

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26. Realised and Unrealised Profits/(Losses) Disclosure

	As at 31 Mar 2011 RM'000	As at 31 Dec 2010 RM'000	As at 31 Mar 2010 RM'000
Total accumulated losses of Compugates Holdings Berhad and subsidiaries:			
Realised	(142,556)	(142,864)	Not applicable
Unrealised	92	89	
	<u>(142,464)</u>	<u>(142,775)</u>	
Less: Consolidation adjustments	20,608	20,486	
Total accumulated losses	<u>(121,856)</u>	<u>(122,289)</u>	

Comparative figures were not required in the first financial year of complying with the Realised and Unrealised Profits/(Losses) Disclosure.

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.

28. Dividend

The Board of Directors does not recommend any dividend for the quarter ended 31 March 2011.

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29. 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 Mar 2011	Corresponding Quarter Ended 31 Mar 2010	Current Year To Date 31 Mar 2011	Corresponding Period Ended 31 Mar 2010
Profit /(Loss) attributable to equity holders of parent (RM'000)	433	(4,152)	433	(4,152)
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)	0.02	(0.19)	0.02	(0.19)

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

30. Authorisation

This interim financial report for the financial period ended 31 March 2011 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 20 May 2011 for release to the Bursa Securities.

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

Dated : 20 May 2011