



Dreamgate Corporation Bhd (603831-K)

(Incorporated in Malaysia)

Interim Unaudited Financial Statements
30 June 2004



Dreamgate Corporation Bhd (603831-K)

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CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	INDIVIDUAL QUARTER ENDED CURRENT QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CUMULATIVE QUARTER ENDED CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
		30 JUNE 2004 RM'000	30 JUNE 2003 RM'000	30 JUNE 2004 RM'000	30 JUNE 2003 RM'000
Revenue		26,779	-	57,690	-
Cost of sales		(17,403)	-	(39,671)	-
		9,376	-	18,019	-
Other operating charges		(240)	-	(101)	-
Selling and distribution costs		(685)	-	(863)	-
Administrative expenses		(1,949)	-	(3,796)	-
Depreciation		(1,793)	-	(2,934)	-
Profit from operations		4,709	-	10,325	-
Finance costs		(87)	-	(149)	-
Share of loss of an associated corporation		(67)	-	(116)	-
Profit before taxation		4,555	-	10,060	-
Taxation	22	(103)	-	(530)	-
Profit after taxation		4,452	-	9,530	-
Translation adjustment		(2)	-	(2)	-
Net profit attributable to members of the company		4,450	-	9,528	-
Basic earnings per share (sen)	30	1.59	-	3.40	-

Comparative figures for the preceding year are not available as Dreamgate Corporation Bhd was incorporated on 16 January 2003 and the subsidiary companies were only acquired on 23 September 2003.

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the period ended 31 December 2003 and the accompanying explanatory notes attached to the interim financial statements; in accordance to the MASB 26, Para 21.



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CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 JUNE 2004 RM'000	31 DEC 2003 RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	42,380	20,809
Development expenditure		216	-
Investment in associated corporations		694	95
Investments		4	4
Long term receivables (secured)		676	-
		<u>43,970</u>	<u>20,908</u>
CURRENT ASSETS			
Inventories		4,788	14,568
Receivables		27,753	16,211
Amount owing by an associated corporation		1,395	-
Deposits with licensed banks		17,139	3,515
Cash and bank balances		15,857	6,639
		<u>66,932</u>	<u>40,933</u>
CURRENT LIABILITIES			
Payables		29,107	24,001
Borrowings	26	3,139	4,212
Taxation		170	131
		<u>32,416</u>	<u>28,344</u>
NET CURRENT ASSETS		34,516	12,589
		<u>78,486</u>	<u>33,497</u>
FINANCED BY:			
Share capital		28,000	20,557
Share premium		28,026	-
Reserve on consolidation		8,110	8,110
Retained profits		14,078	4,550
		<u>78,214</u>	<u>33,217</u>
Borrowings	26	54	62
Deferred taxation		218	218
		<u>78,486</u>	<u>33,497</u>
Net tangible assets per share		sen <u>28</u>	sen <u>16</u>

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the period ended 31 December 2003 and the accompanying explanatory notes attached to the interim financial statements; in accordance to the MASB 26, Para 21.



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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RM'000	Non-Distributable Share Premium RM'000	Reserve on consolidation RM'000	Distributable Retained profits RM'000	Total RM'000
At 23 September 2003	- *	-	-	-	- *
Issuance during the financial period	20,557	-	-	-	20,557
Acquisition of subsidiary companies	-	-	8,110	-	8,110
Net gain not recognised in income statement	-	-	8,110	-	8,110
Net profit for the financial period	-	-	-	4,550	4,550
At 31 December 2003	20,557	-	8,110	4,550	33,217
Issuance of shares	7,443	29,771	-	-	37,214
Utilisation of listing expenses	-	(1,745)	-	-	(1,745)
Net profit for the financial period	-	-	-	9,528	9,528
At 30 June 2004	28,000	28,026	8,110	14,078	78,214

* Subscribers' shares was RM2.00 comprising 20 ordinary shares at RM0.10 each

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the period ended 31 December 2003 and the accompanying explanatory notes attached to the interim financial statements; in accordance to the MASB 26, Para 21.



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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	CUMULATIVE QUARTER ENDED CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	30 JUNE 2004 RM'000	30 JUNE 2003 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	10,060	-
Adjustments for:		
Depreciation	2,934	-
Gain on disposal of property, plant and equipment	(47)	-
Share of loss of an associated corporation	116	-
Interest expense	100	-
Interest income	(365)	-
Operating profit before working capital changes	12,798	-
Advances to long term receivables	(676)	-
Net changes in current assets	(3,157)	-
Net changes in current liabilities	5,106	-
Additions to development expenditure (Note 1)	(212)	-
Interest paid	(100)	-
Tax paid	(491)	-
Net cash flow from operating activities	13,268	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(24,772)	-
Proceeds from disposal of property, plant and equipment	310	-
Acquisition of an associated corporation	(715)	-
Interest received	365	-
Net cash flow from investing activities	(24,812)	-



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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	CUMULATIVE PERIOD ENDED CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	30 JUNE 2004 RM'000	30 JUNE 2003 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bankers' acceptance	(1,212)	-
Repayment of term loan	(8)	-
Proceeds from issuance of shares	37,214	-
Listing expenses	(1,745)	-
Additional deposits pledged to licensed banks	(46)	-
Net cash flow from financing activities	<u>34,203</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	22,659	-
EFFECTS OF EXCHANGE RATE CHANGES	(2)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	5,077	-
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD *	<u>27,734</u>	<u>-</u>
* Cash and cash equivalents at end of the financial period comprise the following:		
Cash and bank balances	15,857	-
Deposits with licensed banks	15,000	-
Less: Bank Overdrafts (included within borrowings in Note 26)	<u>(3,123)</u>	<u>-</u>
	<u>27,734</u>	<u>-</u>

Note 1: Included in development expenditure is the capitalization of depreciation amounting to RM3,789 as at 30 June 2004.

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the period ended 31 December 2003 and the accompanying explanatory notes attached to the interim financial statements; in accordance to the MASB 26, Para 21.



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**PART A - EXPLANATORY NOTES PERSUANT TO MALAYSIAN ACCOUNTING
STANDARDS BOARD (MASB) NO. 26**

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MASB 26 “Interim Financial Reporting” and Appendix 7A of the Listing Requirements of the Bursa Malaysia Securities Berhad (Bursa Securities) for the MESDAQ Market.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the period ended 31 December 2003.

The accounting policies and methods of computation adopted by the Group in this interim financial statements are consistent with those adopted in the audited financial statements for the period ended 31 December 2003 except for the adoption of MASB 4, Research and Development Costs.

The Company was incorporated as a public limited company on 16 January 2003 and the subsidiary companies were only acquired on 23 September 2003, hence, no comparative figures are presented.

2. Basis of Consolidation

The Group’s policy is to adopt the acquisition method of accounting as the basis of consolidation. Under the acquisition method of accounting, the results of subsidiaries acquired are to be included in the consolidated income statement from the effective date of acquisition.

The excess of the fair value of the net tangible assets of subsidiary companies at the effective date of acquisition over the purchase consideration is included in the consolidated balance sheet as reserve on consolidation.

3. Associated corporations

Investments in associated corporations are accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associated corporations. Under the equity method of accounting, the Group's share of profits less losses of associated corporations during the period is included in the consolidated income statement. The Group's interest in associated corporations is carried in the consolidated balance sheet at cost plus the Group's share of post-acquisition retained profits or accumulated losses and other reserves as well as goodwill on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated corporation reaches zero, unless the Group has incurred obligations or made payments on behalf of the associated corporation.



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3. Associated corporations (continued)

Unrealised gains on transactions between the Group and the associated corporations are eliminated to the extent of the Group's interest in the associated corporations. Unrealised losses are eliminated unless cost cannot be recovered.

4. Auditors' Report

The auditors' report of the financial statements for the period ended 31 December 2003 was not subjected to any qualification.

5. Significant Event

During the quarter under review, there were no other significant events that have not been reflected in the financial statements since the last interim financial statements.

6. Seasonal or Cyclical Factors

The overall business of the Group was not affected by any significant seasonal factors. However, the sales of machines, to some extent, are subject to seasonal fluctuation.

7. Unusual items

During the quarter under review, there were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group.

8. Changes in Estimates

There were no changes in the nature and amount of estimates reported that will have a material effect in the current quarter.

9. Changes in Debts and Equity Securities

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellation, shares held as treasury shares for the current quarter under review.

10. Dividend Paid

No dividend was paid during the financial period to date.



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11. Segmental Information

Segment information is presented in respect of the Group's business segments:

	1.4.2004 to 30.6.2004 RM'000	1.1.2004 to 30.6.2004 RM'000
Segment Revenue		
Sales and marketing	20,642	46,393
Technical Support and Management	6,086	11,201
Others	455	560
	<u>27,183</u>	<u>58,154</u>
Eliminations	<u>(404)</u>	<u>(464)</u>
Group revenue	<u>26,779</u>	<u>57,690</u>
Segment Results		
Sales and marketing	2,266	5,570
Technical Support and Management	3,511	6,476
Others	(232)	(331)
Unallocated	(836)	(1,390)
	<u>(836)</u>	<u>(1,390)</u>
Profit from operations	<u>4,709</u>	<u>10,325</u>

12. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment during the current quarter under review.

13. Subsequent Events

There were no material events subsequent to the end of the current quarter under review.



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14. Changes in the Composition of the Group

Save as disclosed in the last interim financial statements, there were no changes in the composition of the Group for the current quarter under review.

15. Contingent Liabilities

As at 19 August 2004 (being a date not earlier than 7 days from the date of this announcement), there were no changes in contingent liabilities or contingent assets since the last annual balance sheet as at 31 December 2003 except for the contingent liabilities in respect of corporate guarantee given to a finance company for a leasing facility granted to RGB Games Sdn. Bhd. by RGB Sdn. Bhd.. The leasing facility has been fully settled during the current quarter under review.

16. Capital Commitment

The amount of capital commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 30 June 2004 is as follow:

	RM'000
Approved but not contracted for:	<u>26,000</u>

17. Significant Related Party Transactions

	1.4.2004 to 30.6.2004 RM'000	1.1.2004 to 30.6.2004 RM'000
Sales of gaming and amusement machines, spare parts and accessories to:		
- Denver System Sdn Bhd	26	26
- Standard RGB Pte Ltd	159	859
- Dreamgate (Malaysia) Sdn Bhd	235	287
- Suneka Sdn Bhd	14	33
- Euro Computer Engineering & Parts Sdn Bhd	-	19
Purchase of gaming and amusement machines from:		
- Dreamgate (Malaysia) Sdn Bhd	160	160
- Standard RGB Pte Ltd	-	36
- Chuah Amusement Sales & Services	-	41



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17. Significant Related Party Transactions (Continued)

	1.4.2004 to 30.6.2004 RM'000	1.1.2004 to 30.6.2004 RM'000
Purchase of property, plant and equipment from Standard RGB Pte Ltd	55	340
Purchase of spare part and services from Standard RGB Pte Ltd	40	67
Repair and maintenance services provided to:		
- Denver System Sdn. Bhd.	22	59
- Euro Computer Engineering & Parts Sdn. Bhd.	11	22
- Dreamgate (Malaysia) Sdn. Bhd.	17	37
Renting of premises to:		
- Denver System Sdn. Bhd.	14	28
- Euro Computer Engineering & Parts Sdn. Bhd.	<u>17</u>	<u>34</u>

The Directors are of the opinion that the related party transactions described above have been entered into the normal course of business on an arm's length basis and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

Certain Directors of the Group and their family members have significant controlling financial interests in the above mentioned related parties.



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B. EXPLANATORY NOTES PURSUANT TO APPENDIX 7A OF THE LISTING REQUIREMENTS OF BURSA SECURITIES

18. Performance Review

	1.4.2004 to 30.6.2004 RM'000	1.1.2004 to 31.3.2004 RM'000	% + / (-)
Revenue			
Sales and marketing	20,642	25,751	(19.8)
Technical Support and Management	6,086	5,115	19.0
Others	<u>51</u>	<u>45</u>	13.3
Group revenue	<u>26,779</u>	<u>30,911</u>	(13.4)
Profit before taxation			
Sales and marketing	2,266	3,304	(31.4)
Technical Support and Management	3,511	2,963	18.5
Others	(232)	(97)	>100.0
Unallocated expenses	<u>(990)</u>	<u>(665)</u>	48.9
Group profit before taxation	<u>4,555</u>	<u>5,505</u>	(17.3)

Note: As comparative figures for the preceding year are not available, previous quarter's results are used for review of performance purpose.

For the current quarter under review, the Group posted total revenue of RM26.8 million as compared to RM30.9 million in the previous quarter, marking a decrease in revenue by 13.4%.

The revenue from Sales & Marketing division was lower during this current quarter as a result of seasonal factors. On the other hand, the revenue from Technical Support & Management division increased by 19% mainly attributed to the placement of additional machines at existing and new locations.

Included in the unallocated expenses is an unrealised foreign exchange loss of approximately RM400,000 mainly due to the weakening of the Australian dollar against the US dollar.

The Group registered a profit before taxation (PBT) of RM4.6 million in the current quarter as compared to RM5.5 million in the preceding quarter. The decrease in PBT is due to lower revenue generated as well as the change in product mix and unrealised foreign exchange loss.



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19. Comparison with previous quarter's results

	CURRENT QUARTER	PREVIOUS QUARTER
	RM'000	RM'000
Turnover	26,779	30,911
Profit before taxation	<u>4,555</u>	<u>5,505</u>

Please refer to Note 18 on the review of performance with comparison to previous quarter's results.

20. Commentary on Prospect

The Group expects overall performance to further improve in the current financial year ending 31 December 2004 as compared to period ended 31 December 2003.

21. Profit Forecast

No profit forecast was announced hence there was no comparison between actual results and forecast.

22. Taxation

The taxation charge for the current quarter under review includes the following:

	INDIVIDUAL QUARTER ENDED 30 JUNE 2004	INDIVIDUAL QUARTER ENDED 30 JUNE 2003	CUMULATIVE QUARTER ENDED 30 JUNE 2004	CUMULATIVE QUARTER ENDED 30 JUNE 2003
	RM'000	RM'000	RM'000	RM'000
Income Tax				
Current Period	103	-	530	-
Deferred Tax				
Current Period	-	-	-	-
Overprovision in prior Year	-	-	-	-
	<u>103</u>	<u>-</u>	<u>530</u>	<u>-</u>

The taxation of one of the subsidiary companies is fixed at RM20,000 per annum under the Labuan Offshore Business Activity Act, 1990 Section 7(1).



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23. Profit on sale of Investments and/or Properties

There was no disposal of investment or properties during the current quarter under review.

24. Purchase and Disposal of Quoted Securities

There was no purchase or disposal of quoted securities during the quarter under review.

25. Status of Corporate Proposals

Save as disclosed below, there were no corporate proposals announced but not completed as at the date of this announcement:

▪ **Status of utilisation of listing proceeds**

	As approved by the Securities Commission & Bursa Securities RM'000	Approved to be utilised in 2004 RM'000	Utilised as at the date of report RM'000	Balance to be utilised by end of 2004 RM'000
Purchase of plant and machinery	4,000	1,160	143	1,017
Research & development	5,000	704	212	492
Overseas expansion	15,000	13,000	13,000	-
Regional Trade Mark Registration	1,000	500	-	500
Advertising, promotion and branding	3,000	1,000	391	609
Working Capital	6,214	500	500	-
Estimated listing expenses	<u>3,000</u>	<u>3,000</u>	<u>1,745</u>	<u>1,255</u>
	<u>37,214</u>	<u>19,864</u>	<u>15,991</u>	<u>3,873</u>

26. Borrowings

Save as disclosed below, there are no other borrowings in the Group:

	RM'000
<u>Secured</u>	
Bank overdrafts	3,123
Term loan-short term	<u>16</u>
	<u>3,139</u>



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26. Borrowings (continued)

	RM'000
Term loan-long term	<u>54</u>
Total borrowings	<u>3,193</u>

27. Off Balance Sheet Financial Instruments

The Group does not have any financial instrument with off balance sheet risk as at the date of this report.

28. Material Litigation

The Group does not have any material litigation, which in the opinion of the Directors, would have a material adverse effect on the financial results of the Group.

29. Dividend Payable

No dividend has been declared during the financial period to date.

30. Basic Earnings Per Share

The basic earnings per share for the current period under review is calculated by dividing the Group's net profit for the financial period of RM4.5 million over the weighted average number of ordinary shares in issue of 280,000,000.

31. Authorisation For Issue

On 26 August 2004, the Board of Directors authorised the issue of these interim financial statements.

By Order of the Board
Dreamgate Corporation Bhd. (603831-K)

Datuk Chuah Kim Seah
Managing Director
26 August 2004