



*Dreamgate Corporation Bhd* (603831-K)

(Incorporated in Malaysia)

Interim Unaudited Financial Statements  
31 December 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
		31 DEC 2004 RM'000	31 DEC 2003 RM'000	31 DEC 2004 RM'000	31 DEC 2003 RM'000
<b>Revenue</b>		38,872	35,477	115,347	35,477
<b>Cost of sales</b>		(26,804)	(27,311)	(77,197)	(27,311)
		12,068	8,166	38,150	8,166
Other operating income		1,401	345	1,475	345
Selling and distribution costs		(1,140)	(517)	(2,543)	(517)
Administrative expenses		(3,830)	(2,251)	(10,447)	(2,251)
Depreciation		(2,663)	(928)	(7,781)	(928)
<b>Profit from operations</b>		5,836	4,815	18,854	4,815
Finance costs		44	(119)	(304)	(119)
Share of loss of an associated corporation		(108)	-	(101)	-
<b>Profit before taxation</b>		5,772	4,696	18,449	4,696
Taxation - Company & subsidiaries	22	(110)	(146)	(202)	(146)
- Associated corporation		(9)	-	(9)	-
<b>Profit after taxation</b>		5,653	4,550	18,238	4,550
<b>Translation adjustment</b>		(1)	-	(3)	-
<b>Net profit attributable to members of the company</b>		5,652	4,550	18,235	4,550
<b>Basic earnings per share (sen)</b>	30	2.02	7.7	6.51	7.7

Comparative figures for the preceding year cover the period from 23 September 2003 (date of acquisition of subsidiary companies) to 31 December 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	31 DEC 2004 RM'000	31 DEC 2003 RM'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	69,317	20,809
Development expenditure		389	-
Investment in associated corporations		700	95
Investments		4	4
Long term receivables (secured)		676	-
		71,086	20,908
<b>CURRENT ASSETS</b>			
Inventories		14,533	14,568
Receivables		43,686	16,211
Amount owing by an associated corporation		2,794	-
Tax recoverable		673	-
Deposits with licensed banks		11,575	3,515
Cash and bank balances		14,161	6,639
		87,422	40,933
<b>CURRENT LIABILITIES</b>			
Payables		45,561	24,001
Borrowings	26	17,223	4,212
Tax payable		21	131
		62,805	28,344
<b>NET CURRENT ASSETS</b>			
		24,617	12,589
		95,703	33,497
<b>FINANCED BY:</b>			
Share capital		28,000	20,557
Share premium		28,018	-
Reserve on consolidation		8,110	8,110
Retained profits		22,785	4,550
		86,913	33,217
Borrowings	26	8,537	62
Deferred taxation		253	218
		95,703	33,497
Net tangible assets per share (sen)		31	16

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**

	<b>Share capital RM'000</b>	<b>Non-Distributable Share Premium RM'000</b>	<b>Reserve on consolidation RM'000</b>	<b>Distributable Retained profits RM'000</b>	<b>Total RM'000</b>
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	-	(1,753)	-	-	(1,753)
Net profit for the financial year	-	-	-	18,235	18,235
At 31 December 2004	28,000	28,018	8,110	22,785	86,913

\* 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**

	<b>CUMULATIVE QUARTER ENDED CURRENT YEAR TO DATE</b>	<b>PRECEDING YEAR CORRESPONDING PERIOD</b>
	<b>31 DEC 2004 RM'000</b>	<b>31 DEC 2003 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	18,449	4,696
Adjustments for:		
Depreciation	7,781	928
Gain on disposal of property, plant and equipment	(127)	-
Property, plant and equipment written off	4	-
Share of loss of an associated corporation	101	-
Interest expense	252	88
Interest income	<u>(675)</u>	<u>(50)</u>
Operating profit before working capital changes	25,785	5,662
Advances to long term receivables	(676)	-
Net changes in current assets	(30,234)	6,508
Net changes in current liabilities	21,560	2,684
Additions to development expenditure (Note 1)	(376)	-
Interest paid	(252)	(88)
Tax paid	<u>(950)</u>	<u>(271)</u>
<b>Net cash flow from operating activities</b>	<u>14,857</u>	<u>14,495</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(56,873)	(6,366)
Proceeds from disposal of property, plant and equipment	694	4
Acquisition of an associated corporation	(715)	-
Acquisition of subsidiary companies	-	(2,803)



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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**

	<b>CUMULATIVE PERIOD ENDED CURRENT YEAR TO DATE</b>	<b>PRECEDING YEAR CORRESPONDING PERIOD</b>
	<b>31 DEC 2004 RM'000</b>	<b>31 DEC 2003 RM'000</b>
Interest received	675	50
<b>Net cash flow from investing activities</b>	<u>(56,219)</u>	<u>(9,115)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net drawdown/(repayment) of bankers' acceptance	6,296	(298)
Net drawdown/(repayment) of term loan	14,995	(4)
Proceeds from issuance of shares	37,214	-
Listing expenses	(1,753)	-
Additional deposits pledged to licensed banks	<u>(3,482)</u>	<u>(1)</u>
<b>Net cash flow from financing activities</b>	<u>53,270</u>	<u>(303)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	11,908	5,077
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>	(3)	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR/PERIOD</b>	5,077	-
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR/PERIOD</b> *	<u>16,982</u>	<u>5,077</u>
* Cash and cash equivalents at end of the financial year/period comprise the following:		
Cash and bank balances	14,161	6,639
Deposits with licensed banks	6,000	1,422
Less: Bank Overdrafts (included within borrowings in Note 26 )	<u>(3,179)</u>	<u>(2,984)</u>
	<u>16,982</u>	<u>5,077</u>

Note 1: Included in development expenditure is the capitalization of depreciation amounting to RM13,364 as at 31 December 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, comparative figures are for the period from 23 September 2003 to 31 December 2003.

**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.



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**10. Dividend Paid**

No dividend was paid during the financial year to date.

**11. Segmental Information**

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

	<b>1.10.2004 to 31.12.2004 RM'000</b>	<b>1.1.2004 to 31.12.2004 RM'000</b>
<b>Segment Revenue</b>		
Sales and marketing	30,905	89,048
Technical Support and Management	7,932	26,132
Others	439	1,199
	<u>39,276</u>	<u>116,379</u>
Eliminations	<u>(404)</u>	<u>(1,032)</u>
Group revenue	<u><u>38,872</u></u>	<u><u>115,347</u></u>
<b>Segment Results</b>		
Sales and marketing	2,627	8,539
Technical Support and Management	3,318	12,880
Others	(363)	(1,000)
Unallocated	254	(1,565)
	<u>5,836</u>	<u>(1,565)</u>
Profit from operations	<u><u>5,836</u></u>	<u><u>18,854</u></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 15 February 2005 (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 interim financial statements.

**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 31 December 2004 is as follow:

	<b>RM'000</b>
Approved but not contracted for:	<u>17,000</u>

**17. Significant Related Party Transactions**

	<b>1.10.2004 to 31.12.2004 RM'000</b>	<b>1.1.2004 to 31.12.2004 RM'000</b>
Sales of gaming and amusement machines, spare parts and accessories to:		
- Denver System Sdn Bhd	21	80
- Dreamgate (Malaysia) Sdn Bhd	305	786
- Euro Computer Engineering & Parts Sdn Bhd	8	27
- Manju Sdn. Bhd.	12	12
- Roxy Leisure Sdn Bhd	18	18
- Sigma Gaming Technology Pte Ltd	1,592	1,592
- Standard RGB Pte Ltd	640	2,071
- Suneka Sdn Bhd	5	38
Purchase of gaming and amusement machines and accessories from:		
- Standard RGB Pte Ltd	480	516
- Chuah Amusement Sales & Services	-	41
- Denver System Sdn Bhd	15	15



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**17. Significant Related Party Transactions (Continued)**

	<b>1.10.2004 to 31.12.2004</b>	<b>1.1.2004 to 31.12.2004</b>
	<b>RM'000</b>	<b>RM'000</b>
Purchase of property, plant and equipment from Standard RGB Pte Ltd	341	798
Purchase of spare part and services from Standard RGB Pte Ltd	301	421
Repair and maintenance services provided to:		
- Amity Engineering Sdn. Bhd	17	17
- Denver System Sdn. Bhd.	24	102
- Dreamgate (Malaysia) Sdn. Bhd.	18	71
- Euro Computer Engineering & Parts Sdn. Bhd.	9	44
- Manju Sdn. Bhd.	26	26
- Suneka Sdn. Bhd.	22	22
Renting of premises to:		
- Denver System Sdn. Bhd.	8	44
- Dreamgate (Malaysia) Sdn. Bhd.	8	30
- Great World Inc.	8	30
- Harvard Management Consultants Sdn. Bhd.	3	9
- Euro Computer Engineering & Parts Sdn. Bhd.	<u>9</u>	<u>55</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**

	<b>1.10.2004 to 31.12.2004 RM'000</b>	<b>23.9.2003 to 31.12.2003 RM'000</b>	<b>% +/( -)</b>
<b>Revenue</b>			
Sales and marketing	30,905	30,870	0.1
Technical Support and Management	7,932	4,562	73.9
Others	<u>35</u>	<u>45</u>	(22.2)
Group revenue	<u>38,872</u>	<u>35,477</u>	9.6
<b>Profit before taxation</b>			
Sales and marketing	2,627	2,534	3.7
Technical Support and Management	3,318	2,353	41.0
Others	(363)	(72)	>100.0
Unallocated expenses	<u>190</u>	<u>(119)</u>	>100.0
Group profit before taxation	<u>5,772</u>	<u>4,696</u>	22.9

The Group's revenue for the reporting quarter was RM38.9 million. Compared to the corresponding quarter last year, it was an increase of RM3.4 million or 9.6%. Profit before taxation was RM5.8 million for the quarter, an increase of 22.9% over the corresponding quarter last year.

The performance of the Technical Support and Management division in existing locations and placement of additional machines in existing and new markets contributed to the overall improvement in the results.



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**19. Comparison with previous quarter's results**

	<b>CURRENT QUARTER</b>	<b>PREVIOUS QUARTER</b>	<b>% + /(-)</b>
	<b>RM'000</b>	<b>RM'000</b>	
Revenue	38,872	18,785	>100.0
Profit before taxation	<u>5,772</u>	<u>2,617</u>	>100.0

The revenue and profit before taxation improved significantly compared to the immediate preceding quarter. The significant growth was attributed to the increase in demand for gaming machines for the year end festive season and better performance of the Technical Support and Management division.

**20. Commentary on Prospect**

Barring unforeseen circumstances, the Group expects to see continuing expansion of the global gaming industry in the financial year 2005 and hence continued growth of the Group.

**21. Profit Forecast**

No profit forecast was announced.

**22. Taxation**

	<b>INDIVIDUAL QUARTER ENDED</b>		<b>CUMULATIVE QUARTER ENDED</b>	
	<b>31 DEC 2004</b>	<b>31 DEC 2003</b>	<b>31 DEC 2004</b>	<b>31 DEC 2003</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Income Tax				
Current Period	76	198	168	198
Overprovision in prior Periods	(1)	-	(1)	-
Deferred Tax				
Current Period	31	12	31	12
Under/(Over)provision in prior Periods	4	(64)	4	(64)
	<u>110</u>	<u>146</u>	<u>202</u>	<u>146</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 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 carried forward to 2005 RM'000
Purchase of plant and machinery	4,000	1,160	211	949
Research & development	5,000	704	432	272
Overseas expansion	15,000	13,000	13,000	-
Regional Trade Mark Registration	1,000	500	-	500
Advertising, promotion and branding	3,000	1,000	1,261	*(261)
Working Capital	6,214	500	500	-
Estimated listing expenses	<u>3,000</u>	<u>3,000</u>	<u>1,753</u>	<u>1,247</u>
	<u>37,214</u>	<u>19,864</u>	<u>17,157</u>	<u>2,707</u>

\* - Excess utilization has been adjusted from the Estimated listing expenses.

**26. Borrowings**

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

	RM'000
<u>Secured</u>	
Bank overdrafts	3,179
Banker's acceptance	7,508
Term loan-short term	<u>6,536</u>
	<u>17,223</u>



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**26. Borrowings (continued)**

	<b>RM'000</b>
Term loan-long term	<u>8,537</u>
Total borrowings	<u><u>25,760</u></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 impact on the financial results of the Group.

**29. Dividend Proposed or Declared**

The Board has proposed a first and final dividend of 1sen per ordinary share of 10sen each, less 28% tax for the year ended 31 December 2004 (31 December 2003: nil) for the approval by shareholders. Pursuant to Income Tax (Exemption) (No 10) Order 2000, this dividend is tax exempt in the hands of the shareholder. The date of payment of the recommended final dividend shall be determined by the Directors and announced at a later date.

**30. Basic Earnings Per Share**

The basic earnings per share of 6.51sen for the current period under review is calculated by dividing the Group's net profit for the financial period of RM5.7 million over the weighted average number of ordinary shares in issue of 280,000,000. For the preceding period from 23 September 2003 to 31 December 2003, the basic earnings per share of 7.7sen is calculated by dividing the Group's net profit for the financial period of RM4.55 million over the weighted average number of ordinary shares in issue of 58,734,871.

**31. Authorisation For Issue**

On 22 February 2005, the Board of Directors authorised the issue of these interim financial statements.





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

Datuk Chuah Kim Seah  
Managing Director  
22 February 2005