



Dreamgate Corporation Bhd (603831-K)

(Incorporated in Malaysia)

Interim Unaudited Financial Statements
31 December 2005



Dreamgate Corporation Bhd (603831-K)

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Dreamgate Corporation Bhd (603831-K)

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 2005 RM'000	31 DEC 2004 RM'000	31 DEC 2005 RM'000	31 DEC 2004 RM'000
Revenue		47,902	38,872	154,099	115,347
Cost of sales		(31,428)	(30,027)	(105,821)	(86,158)
- Depreciation		(6,057)	(2,492)	(18,366)	(7,204)
- Others		(25,371)	(27,535)	(87,455)	(78,954)
Gross profit		16,474	8,845	48,278	29,189
Other operating income		1,350	2,058	1,830	2,131
Selling and marketing expenses		(1,739)	(1,486)	(4,488)	(3,816)
Administrative expenses		(5,229)	(2,545)	(13,754)	(7,209)
Depreciation		(298)	(171)	(938)	(576)
Other operating expenses		(537)	(657)	(538)	(657)
Profit from operations		10,021	6,044	30,390	19,062
Finance costs		(821)	(164)	(2,135)	(512)
Share of loss of an associated corporation		(251)	(108)	(42)	(101)
Profit before taxation		8,949	5,772	28,213	18,449
Taxation - Company & subsidiaries	22	(17)	(110)	(80)	(202)
- Associated corporation		(44)	(9)	(44)	(9)
Profit after taxation		8,888	5,653	28,089	18,238
Basic earnings per share (sen)	30	3.17	2.02	10.03	6.50
Diluted earnings per share (sen)	30	3.16	N/A	10.02	N/A

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2004 and the accompanying explanatory notes attached to the interim financial statements.



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CONDENSED CONSOLIDATED BALANCE SHEET

	Note	31 DEC 2005 RM'000	31 DEC 2004 RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	127,845	69,317
Development expenditure		503	390
Investment in associated corporations		914	701
Investments		4	4
Long term receivables (secured)		676	676
		<u>129,942</u>	<u>71,088</u>
CURRENT ASSETS			
Inventories		15,119	14,533
Receivables		79,759	44,282
Amount owing by an associated corporation		2,772	2,794
Tax recoverable		997	673
Deposits with licensed banks		8,637	11,575
Cash and bank balances		8,872	13,564
		<u>116,156</u>	<u>87,421</u>
CURRENT LIABILITIES			
Payables		72,258	45,561
Borrowings	26	19,405	17,224
Tax payable		40	21
		<u>91,703</u>	<u>62,806</u>
NET CURRENT ASSETS			
		<u>24,453</u>	<u>24,615</u>
		<u>154,395</u>	<u>95,703</u>
CAPITAL AND RESERVES			
Share capital		28,000	28,000
Reserve on consolidation		8,110	8,110
Share premium		28,018	28,018
Translation reserve		217	(3)
Retained profits		48,171	22,788
Shareholders' equity		<u>112,516</u>	<u>86,913</u>
NON-CURRENT LIABILITIES			
Borrowings	26	41,584	8,537
Deferred taxation		295	253
		<u>154,395</u>	<u>95,703</u>
Net assets per share (sen)		<u>40</u>	<u>31</u>

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2004 and the accompanying explanatory notes attached to the interim financial statements.



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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Non-Distributable			Distributable		
	Note	Share capital RM'000	Reserve on consolidation RM'000	Share Premium RM'000	Translation Reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2004		20,557	8,110	-	-	4,550	33,217
Issuance of shares		7,443	-	29,771	-	-	37,214
Expenses on issuance of shares		-	-	(1,753)	-	-	(1,753)
Exchange differences on translation of the financial statements of a foreign entity		-	-	-	(3)	-	(3)
Net loss not recognized in income statements		-	-	-	(3)	-	(3)
Net profit for the financial period		-	-	-	-	18,238	18,238
At 31 December 2004		<u>28,000</u>	<u>8,110</u>	<u>28,018</u>	<u>(3)</u>	<u>22,788</u>	<u>86,913</u>
At 1 January 2005		28,000	8,110	28,018	(3)	22,788	86,913
Exchange differences on translation of the financial statements of a foreign entity		-	-	-	220	-	220
Net profit not recognized in income statements		-	-	-	220	-	220
Net profit for the financial Period		-	-	-	-	28,089	28,089
Dividends	10	-	-	-	-	(2,706)	(2,706)
At 31 December 2005		<u>28,000</u>	<u>8,110</u>	<u>28,018</u>	<u>217</u>	<u>48,171</u>	<u>112,516</u>

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2004 and the accompanying explanatory notes attached to the interim financial statements.



Dreamgate Corporation Bhd (603831-K)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	CURRENT YEAR TO DATE	PRECEDING YEAR
	31 DEC 2005 RM'000	31 DEC 2004 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	28,213	18,449
Adjustments for:		
Amortisation of development expenditure	71	-
Bad debts recovered	-	(2)
Depreciation	19,304	7,781
Goodwill written off	254	-
Gain on disposal of property, plant and equipment	(29)	(127)
Gain on disposal of an other investment	(1)	-
Provision for doubtful debts	302	5
Provision for impairment loss for property, plant and equipment	207	-
Property, plant and equipment written off	6	4
Share of loss of an associated corporation	42	101
Interest expense	1,937	252
Interest income	<u>(429)</u>	<u>(675)</u>
Operating profit before working capital changes	49,877	25,788
Advances to long term receivables	-	(676)
Net changes in receivables, amount owing by an associated corporation and inventories	(35,991)	(30,724)
Net changes in payables	25,976	21,572
Interest paid	(1,937)	(264)
Tax paid	<u>(345)</u>	<u>(950)</u>
Net cash flow from operating activities	<u>37,580</u>	<u>14,746</u>



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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	CURRENT YEAR TO DATE	PRECEDING YEAR
	31 DEC 2005 RM'000	31 DEC 2004 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(78,232)	(56,873)
Proceeds from disposal of property, plant and equipment	234	694
Investment in an other investment	(1,000)	-
Proceeds from disposal of an other investment	1,001	-
Additions to development expenditure (Note 1)	(168)	(376)
Acquisition of an associated corporation	-	(715)
Acquisition of a subsidiary company	(60)	-
Interest received	337	564
Net cash flow from investing activities	(77,888)	(56,706)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayment)/drawdown of bankers' acceptance and offshore foreign currency loan	(2,658)	6,296
Net drawdown of term loan	38,567	14,995
Proceeds from issuance of shares	-	37,214
Repayment of hire purchase payable	(8)	-
Expenses on issuance of shares	-	(1,753)
Dividends paid	(2,706)	-
Additional deposits pledged to licensed banks	(3,437)	(107)
Net cash flow from financing activities	29,758	56,645



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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	CURRENT YEAR TO DATE	PRECEDING YEAR
	31 DEC 2005 RM'000	31 DEC 2004 RM'000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,550)	14,685
EFFECTS OF EXCHANGE RATE CHANGES	220	(3)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	19,759	5,077
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR *	<u>9,429</u>	<u>19,759</u>

* Cash and cash equivalents at end of the financial year
comprise the following:

Cash and bank balances	8,872	13,564
Deposits with licensed banks	3,000	9,375
Less: Bank Overdrafts	(2,443)	(3,180)
	<u>9,429</u>	<u>19,759</u>

Note 1: Included in development expenditure is the capitalization of depreciation amounting to RM16,173 as at 31 December 2005.

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2004 and the accompanying explanatory notes attached to the interim financial statements.



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**PART A - EXPLANATORY NOTES PERSUANT TO FINANCIAL REPORTING STANDARD
(FRS) NO. 134 (PREVIOUSLY KNOWN AS MASB NO. 26)**

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134 "Interim Financial Reporting" (formerly known as MASB 26) 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 year ended 31 December 2004.

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 year ended 31 December 2004.

2. Basis of Consolidation

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary company are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary company at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

Minority interest is measured at the minorities' share of post acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

3. Associated corporations

Associated corporations are those corporations in which the Group has a long term equity interest and where it exercises significant influence over the financial and operating policies.

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 year is included in the consolidated income statement. The Group's interest in associated corporations is carried in the consolidated balance



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3. Associated corporations (Continued)

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.

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 on the financial statements for the year ended 31 December 2004 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.

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

First and final dividend of 10% less 28% taxation, on 280,000,000 ordinary shares, less adjustment for tax credit under Section 108 of the Income Tax Act, 1967 in respect of the year ended 31 December 2004.

11. Segmental Information

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

	1.10.2005 to 31.12.2005	1.1.2005 to 31.12.2005
	RM'000	RM'000
Segment Revenue		
Sales and marketing	28,944	93,585
Technical Support and Management	19,339	60,826
Others	29	4,601
	<u>48,312</u>	<u>159,012</u>
Eliminations	<u>(410)</u>	<u>(4,913)</u>
Group revenue	<u><u>47,902</u></u>	<u><u>154,099</u></u>
Segment Results		
Sales and marketing	2,690	5,407
Technical Support and Management	7,978	28,144
Others	(260)	(1,058)
Unallocated	<u>(387)</u>	<u>(2,103)</u>
Profit from operations	<u><u>10,021</u></u>	<u><u>30,390</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

On 1 July 2005, the acquisition of a 60% equity interest in CDI Corporation Sdn Bhd was completed and the results of this subsidiary are included in the consolidated financial statements of the Group since the previous quarter under review. The goodwill arising on consolidation amounting to RM254,000 has been written off to the consolidated income statement during the current quarter under review.

15. Contingent Liabilities

As at 20 February 2006 (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 and the last audited financial statements for the year ended 31 December 2004.

16. Capital Commitment

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

	31 DEC 2005	31 DEC 2004
	RM'000	RM'000
Approved but not contracted for:	<u>36,000</u>	<u>17,000</u>

17. Significant Related Party Transactions

	1.10.2005 to	1.1.2005 to
	31.12.2005	31.12.2005
	RM'000	RM'000
Sales of gaming and amusement machines, spare parts and accessories to:		
- Amity Energy Sdn Bhd	15	26
- Dreamgate (Malaysia) Sdn Bhd	3	261
- Euro Computer Engineering & Parts Sdn Bhd	60	109



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17. Significant Related Party Transactions (Continued)

	1.10.2005 to 31.12.2005	1.1.2005 to 31.12.2005
	RM'000	RM'000
- Manju Sdn. Bhd.	104	125
- Sigma Gaming Technology Pte Ltd	-	124
- Standard RGB Pte Ltd	873	2,843
Purchase of gaming and amusement machines and accessories from:		
- Standard RGB Pte Ltd	35	238
- Chuah Amusement Sales & Services	-	18
- Dreamgate (Malaysia) Sdn Bhd	-	18
Repair and maintenance services provided to:		
- Denver System Sdn. Bhd.	20	86
- Dreamgate (Malaysia) Sdn. Bhd.	21	83
- Euro Computer Engineering & Parts Sdn. Bhd.	13	47
Purchase of spare part and services from Standard RGB Pte Ltd	422	1,210
Purchase of property, plant and equipment from Standard RGB Pte Ltd	164	374
Renting of premises to:		
- Denver System Sdn. Bhd.	-	16
- Dreamgate (Malaysia) Sdn. Bhd.	-	16
- Great World Inc.	-	16
- Harvard Management Consultants Sdn. Bhd.	-	6
- Euro Computer Engineering & Parts Sdn. Bhd.	-	18
- Standard RGB Pte Ltd	7	28

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

	1.10.2005 to 31.12.2005 RM'000	1.10.2004 to 31.12.2004 RM'000	% + / (-)
Revenue			
Sales and Marketing	28,504	30,905	(7.8)
Technical Support and Management	19,339	7,932	>100.0
Others	<u>59</u>	<u>35</u>	68.6
Group revenue	<u>47,902</u>	<u>38,872</u>	23.2
Profit before taxation			
Sales and Marketing	2,690	2,627	2.4
Technical Support and Management	7,978	3,318	>100.0
Others	(260)	(363)	28.4
Unallocated expenses	<u>(1,459)</u>	<u>190</u>	(>100.0)
Group profit before taxation	<u>8,949</u>	<u>5,772</u>	55.0

The Group recorded an increase in revenue of approximately RM9.0million for the current quarter or 23.2% due to the overall improvement in revenue of the Technical Support and Management division. The significant improvement in the performance of the Technical Support and Management division was due to additional machines installed at new and existing locations.

Profit before taxation was approximately RM8.9 million for the current quarter, which is an increase of 55% as compared to the corresponding quarter last year. The increase in machines installed at new and existing locations has resulted in a significant increase in depreciation as shown in the condensed consolidated income statement.

Included in unallocated expenses is interest expense amounting to approximately RM700,000 for the current quarter under review.



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19. Comparison with previous quarter's results

	CURRENT QUARTER	PREVIOUS QUARTER	% + / (-)
	RM'000	RM'000	
Revenue			
Sales and marketing	28,504	19,070	49.5
Technical Support and Management	19,339	17,285	11.9
Others	<u>59</u>	<u>-</u>	100.0
Group revenue	<u>47,902</u>	<u>36,355</u>	31.8
Profit before taxation			
Sales and Marketing	2,690	493	>100.0
Technical Support and Management	7,978	8,403	(5.1)
Others	(260)	(282)	7.8
Unallocated expenses	<u>(1,459)</u>	<u>(1,593)</u>	8.4
Group profit before taxation	<u>8,949</u>	<u>7,021</u>	27.5

Profit before taxation continued to increase due to the improved performance from the Sales and Marketing division whereas the lower profit before taxation of the Technical Support and Management division is due to the high initial setup cost of new outlets that commenced operations in the current quarter.

20. Commentary on Prospect

Barring unforeseen circumstances, the Group expects demand for the Group's products and services for the year 2006 to remain positive.

21. Profit Forecast

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



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22. Taxation

	INDIVIDUAL QUARTER ENDED		CUMULATIVE QUARTER ENDED	
	31 DEC 2005	31 DEC 2004	31 DEC 2005	31 DEC 2004
	RM'000	RM'000	RM'000	RM'000
Income Tax				
Current Period	25	76	40	168
Overprovision in prior Periods	(48)	(1)	-	(1)
Deferred Tax				
Current Period	35	31	35	31
Under/(Over)provision in prior Periods	5	4	5	4
	<u>17</u>	<u>110</u>	<u>80</u>	<u>202</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).

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. Corporate Proposals

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

(a) Status of utilisation of listing proceeds

	As approved by the Bursa Securities RM'000	Total Proceeds Utilised as at 31 Dec 2005 RM'000	Balance Proceeds Unutilised as at 31 Dec 2005 RM'000
Purchase of plant and machinery	4,000	393	3,607
Research & development	5,000	629	4,371
Overseas expansion	15,000	15,000	-



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25. Corporate Proposals (Continued)

	As approved by the Bursa Securities RM'000	Total Proceeds Utilized as at 31 Dec 2005 RM'000	Balance Proceeds Unutilized as at 31 Dec 2005 RM'000
Regional Trade Mark Registration	1,000	-	1,000
Advertising, promotion and branding	3,000	2,674	326
Working Capital	7,461	6,381	1,080
Estimated listing expenses	1,753	1,753	-
	<u>37,214</u>	<u>26,830</u>	<u>10,384</u>

(b) Employee Share Option Scheme (“ESOS”)

The Company had on 19 October 2005 granted 19,300,000 options under the ESOS to the eligible employees at an exercise price of RM1.06 per ordinary share for a period of five years to 18 October 2010 and 19,100,000 options were accepted. As at the end of the current quarter under review, the balance number of options outstanding is 18,800,000, as 300,000 options have lapsed due to resignation of employees.

26. Borrowings

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

	31 DEC 2005 RM'000	31 DEC 2004 RM'000
Short Term Borrowings:		
<u>Secured</u>		
Bank overdrafts	2,443	3,180
Banker's acceptance and Offshore Foreign Currency Loan	4,850	7,508
Term loan	12,095	6,536
Hire Purchase payable	17	-
	<u>19,405</u>	<u>17,224</u>



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26. Borrowings (Continued)

	31 DEC 2005	31 DEC 2004
	RM'000	RM'000
Long Term Borrowings:		
<u>Secured</u>		
Term loan	41,545	8,537
Hire Purchase payable	39	-
	<hr/>	<hr/>
	41,584	8,537
	<hr/>	<hr/>
Total borrowings	<u>60,989</u>	<u>25,761</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 1.5sen per ordinary share of 10sen each, less 28% tax for the year ended 31 December 2005 (31 December 2004: 1.0sen per ordinary share) for the approval by shareholders. This dividend is exempted from income tax under paragraph 2(b) of the Income Tax (Exemption) (No.16) Order 1991 and is exempted from income tax in Malaysia in the hands of the shareholders under paragraph 3(1) of the Income Tax (Exemption) (No. 10) Order 2000. The date of payment of the recommended final dividend shall be determined by the Directors and announced at a later date.



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30. Earnings Per Share

The earnings per share is calculated by dividing the Group's profit after taxation and minority interests by the weighted number of ordinary shares in the respective period as follows:

	INDIVIDUAL QUARTER ENDED		CUMULATIVE QUARTER ENDED	
	31 DEC 2005	31 DEC 2004	31 DEC 2005	31 DEC 2004
Net profit for the period (RM'000)	<u>8,888</u>	<u>5,653</u>	<u>28,089</u>	<u>18,238</u>
Weighted average number of ordinary shares ('000)				
Basic Earnings	<u>280,000</u>	<u>280,000</u>	<u>280,000</u>	<u>280,000</u>
Diluted Earnings				
Total before adjustment	280,000	N/A	280,000	N/A
Adjustment for assumed exercise of ESOS	<u>906</u>	<u>N/A</u>	<u>228</u>	<u>N/A</u>
Adjusted total	<u>280,906</u>	<u>N/A</u>	<u>280,228</u>	<u>N/A</u>

31. Authorisation For Issue

On 27 February 2006, 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
27 February 2006