



Dreamgate Corporation Bhd (603831-K)

(Incorporated in Malaysia)

Interim Unaudited Financial Statements
31 December 2006



Dreamgate Corporation Bhd (603831-K)

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Dreamgate Corporation Bhd (603831-K)

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 DECEMBER 2006**

	Note	3 MONTHS ENDED		12 MONTHS ENDED	
		31 DEC 2006 RM'000	31 DEC 2005 RM'000 (Restated)	31 DEC 2006 RM'000	31 DEC 2005 RM'000 (Restated)
Revenue	11	74,718	47,902	215,380	154,099
Cost of sales		(55,849)	(31,428)	(149,196)	(105,821)
- Depreciation		(7,038)	(6,057)	(29,827)	(18,366)
- Others		(48,811)	(25,371)	(119,369)	(87,455)
Gross profit		18,869	16,474	66,184	48,278
Other income		(1,641)	1,350	1,425	1,830
Administrative expenses		(6,068)	(5,824)	(22,383)	(14,989)
- Depreciation		(387)	(298)	(1,403)	(938)
- Others		(5,681)	(5,526)	(20,980)	(14,051)
Selling and marketing expenses		(604)	(1,739)	(4,570)	(4,488)
Other expenses		111	(537)	(2,997)	(538)
Finance costs		(1,562)	(821)	(5,050)	(2,135)
Share of results of associates		(23)	(251)	670	(42)
Profit before tax		9,082	8,652	33,279	27,916
Income tax expense	22	(1,749)	(61)	(1,809)	(124)
Profit for the period		7,333	8,591	31,470	27,792
Attributable to:					
Equity holders of the parent		7,333	8,591	31,470	27,792
Minority interest		-	-	-	-
Net profit attributable to members of the Company		7,333	8,591	31,470	27,792
Earnings per share attributable to equity holders of the parent:					
Basic, for profit for the period (sen)	30	2.60	3.07	11.19	9.93
Diluted, for profit for the period (sen)	30	2.57	3.06	11.00	9.92

The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.



Dreamgate Corporation Bhd (603831-K)

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	AS AT 31 DEC 2006 RM'000	AS AT 31 DEC 2005 RM'000 (Restated)
ASSETS	2		
Non-current assets			
Property, plant and equipment	12	136,383	127,845
Negative goodwill	2(a)	-	(8,110)
Development costs		899	503
Investments in associates		1,274	914
Other investment		4	4
Lease receivables		7,091	-
Other receivables		2,148	676
		<u>147,799</u>	<u>121,832</u>
Current assets			
Inventories		11,491	15,119
Receivables		98,746	80,756
Lease receivables		1,921	-
Due from an associate		2,376	2,772
Deposits with licensed banks		4,794	8,637
Cash and bank balances		16,782	8,872
		<u>136,110</u>	<u>116,156</u>
TOTAL ASSETS		<u>283,909</u>	<u>237,988</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	9	28,253	28,000
Share premium	9	30,582	28,018
Foreign exchange reserve		(6,419)	217
Equity compensation reserve		3,043	297
Retained earnings		83,226	47,874
Total equity		<u>138,685</u>	<u>104,406</u>
Non-current liabilities			
Borrowings	26	43,918	41,584
Deferred tax liabilities		715	295
		<u>44,633</u>	<u>41,879</u>
Current liabilities			
Borrowings	26	24,331	19,405
Payables		73,699	71,568
Tax payable		2,561	730
		<u>100,591</u>	<u>91,703</u>
Total liabilities		<u>145,224</u>	<u>133,582</u>
TOTAL EQUITY AND LIABILITIES		<u>283,909</u>	<u>237,988</u>
Net assets per share (sen)		<u>49</u>	<u>37</u>

The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.



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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	----- Attributable to Equity Holders of the Parent -----					Minority Interest RM'000	Total Equity RM'000	
		----- Non-Distributable -----		Distributable					
		Share Capital RM'000	Share Premium RM'000	Foreign Exchange Reserve RM'000	Equity Compensation Reserve RM'000	Retained Earnings RM'000			Total RM'000
At 1 January 2005		28,000	28,018	(3)	-	22,788	78,803	-	78,803
Foreign currency translation, representing net expense recognised directly in equity		-	-	220	-	-	220	-	220
Profit for the period		-	-	-	-	27,792	27,792	-	27,792
Dividends		-	-	-	-	(2,706)	(2,706)	-	(2,706)
Share-based payment under ESOS	2(b)	-	-	-	297	-	297	-	297
At 31 December 2005 (restated)		<u>28,000</u>	<u>28,018</u>	<u>217</u>	<u>297</u>	<u>47,874</u>	<u>104,406</u>	<u>-</u>	<u>104,406</u>
At 1 January 2006		28,000	28,018	217	297	47,874	104,406	-	104,406
Effects of adopting: FRS 3	2(a)	-	-	-	-	8,110	8,110	-	8,110
		<u>28,000</u>	<u>28,018</u>	<u>217</u>	<u>297</u>	<u>55,984</u>	<u>112,516</u>	<u>-</u>	<u>112,516</u>



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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	Attributable to Equity Holders of the Parent					Total RM'000	Minority Interest RM'000	Total Equity RM'000
		Non-Distributable			Distributable				
		Share Capital RM'000	Share Premium RM'000	Foreign Exchange Reserve RM'000	Equity Compensation Reserve RM'000	Retained Earnings RM'000			
Foreign currency translation, representing net expense recognised directly in equity		-	-	(6,636)	-	-	(6,636)	-	(6,636)
Profit for the period		-	-	-	-	31,470	31,470	-	31,470
Dividends	29	-	-	-	-	(4,228)	(4,228)	-	(4,228)
Total recognised income and expense for the period		-	-	(6,636)	-	27,242	20,606	-	20,606
Share-based payment under ESOS		-	-	-	2,853	-	2,853	-	2,853
Issue of ordinary shares pursuant to ESOS	9	253	2,564	-	(107)	-	2,710	-	2,710
At 31 December 2006		28,253	30,582	(6,419)	3,043	83,226	138,685	-	138,685

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.



Dreamgate Corporation Bhd (603831-K)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

	12 MONTHS ENDED	
	31 DEC 2006	31 DEC 2005
	RM'000	RM'000
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	33,279	27,916
Adjustments for:		
Amortisation of development costs	143	71
Bad debts recovered	(153)	-
Depreciation of property, plant and equipment	31,230	19,304
Goodwill written off	-	254
Gain on disposal of equipment	(49)	(29)
Gain on disposal of other investment	(1)	(1)
Provision for doubtful debts	-	302
Provision for impairment loss for property, plant and equipment	-	207
Provision for slow moving inventories	787	-
Equipment written off	921	6
Impairment loss on equipment written back	(192)	-
Share options granted under ESOS	2,853	297
Interest expense	4,343	1,937
Interest income	(360)	(429)
Share of results of associates	(670)	42
Operating profit before working capital changes	72,131	49,877
Net changes in long term receivables	(8,645)	-
Net changes in receivables, amount due from an associate and inventories	(16,848)	(36,151)
Net changes in payables	2,131	25,980
Interest paid	(4,343)	(1,941)
Taxes paid	(106)	(345)
Net cash flow from operating activities	44,320	37,420



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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006**

	12 MONTHS ENDED	
	31 DEC 2006	31 DEC 2005
	RM'000	RM'000
		(Restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(57,457)	(78,072)
Proceeds from disposal of equipment	8,754	234
Investment in other investment	(500)	(1,000)
Proceeds from disposal of other investment	501	1,001
Development costs incurred	(461)	(168)
Acquisition of a subsidiary	-	(60)
Interest received	360	337
Net cash flow from investing activities	(48,803)	(77,728)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net drawdown/(repayment) of bankers' acceptance and offshore foreign currency loan	1,250	(2,658)
Net drawdown of term loan	5,526	38,567
Proceeds from issuance of ordinary shares	2,710	-
Repayment of hire purchase payable	(17)	(8)
Dividends paid	(3,044)	(2,706)
Net cash flow from financing activities	6,425	33,195
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,942	(7,113)
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	1,624	220
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	15,066	21,959
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR *	18,632	15,066
* Cash and cash equivalents at end of the financial period comprise the following:		
Cash and bank balances	16,782	8,872
Deposits with licensed banks	4,794	8,637
Less: Bank Overdrafts	(2,944)	(2,443)
	18,632	15,066

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.



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**PART A - EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD
(FRS) NO. 134**

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared under the historical cost convention and in accordance with the requirements of FRS 134 “Interim Financial Reporting” and Appendix 9B (Rule 9.22(2)) 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 for the year ended 31 December 2005. These 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 year ended 31 December 2005.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of these standards does not have significant financial impact on the Group except for FRS 2, 3 and 101 which are as follows:



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2. Changes in Accounting Policies (Continued)

(a) FRS 3: Business Combinations

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as 'negative goodwill'), after reassessment, is now recognised immediately in profit or loss. Prior to 1 January 2006, negative goodwill was not amortised. In accordance with the transitional provisions of FRS 3, the negative goodwill as at 1 January 2006 of RM8,110,195 was derecognised with a corresponding increase in retained earnings.

(b) FRS 2: Share-based Payment

FRS 2 requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

The Company operates an equity-settled, share-based compensation plan for the employees of the Group, called the DCB Employee Share Options Scheme ("ESOS"). Prior to 1 January 2006, no compensation expense was recognised in the income statement for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognised in the income statement over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using the Binomial Option Pricing model. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to equity over the remaining vesting period.

Under the transitional provisions, FRS 2 must be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. The application is retrospective and accordingly, the comparative amounts as at 31 December 2005 are restated and the opening balance of retained earnings as at 1 January 2006 has been adjusted. The financial impact to the Group arising from this change in accounting policy is as follows:

	AS AT 1 JAN 2006 RM'000
Decrease in retained earnings	(297)
Decrease in minority interest	-
Increase in equity compensation reserve	<u>297</u>



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2. Changes in Accounting Policies (Continued)

	3 MONTHS ENDED		12 MONTHS ENDED	
	31 DEC 2006 RM'000	31 DEC 2005 RM'000	31 DEC 2006 RM'000	31 DEC 2005 RM'000
Decrease in profit for the period	(409)	(297)	(2,853)	(297)

The impact of the above on comparatives is disclosed on Note 3.

(c) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

3. Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

	Previously stated RM'000	Adjustment FRS 2 (Note 2(b)) RM'000	Restated RM'000
At 31 Dec 2005			
Retained earnings	48,171	(297)	47,874
Equity compensation reserve	-	297	297

4. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2005 was not qualified.



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5. Significant Event

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

6. Comments about Seasonal or Cyclical Factors

Technical support and management division is not affected by any significant seasonal factors. However, the sales and marketing division is to some extent, subject to seasonal fluctuation.

7. Unusual Items due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter under review except as disclosed in Note 2.

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 issuances, cancellations, repurchases, resale and repayments of debt and equity securities except for the following:

▪ **Employee Share Options Scheme (“ESOS”)**

Grant Date/ Expiry Date	Exercise Price RM	Number of Options Over Ordinary Shares of RM0.10 each			31 Dec 2006 ‘000
		1 Jan 2006 or Date of Grant ‘000	Exercised ‘000	Lapsed ‘000	
19 Oct 2005/ 18 Oct 2010	1.06	18,800	(2,411)	(930)	15,459
7 July 2006/ 18 Oct 2010	1.28	4,080	(117)	(769)	3,194
29 July 2006/ 18 Oct 2010	1.25	2,470	(4)	-	2,466



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10. Dividend Paid

On 18 August 2006, a first and final dividend of 1.5sen per share less 28% taxation, on 281,865,000 ordinary shares, less adjustment for tax credit under Section 108 of the Income Tax Act, 1967 was paid to the eligible shareholders based on the record of depositors on 28 July 2006, in respect of the year ended 31 December 2005.

The dividend is paid out of income received by the Company which 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.

11. Segmental Information

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

	3 MONTHS ENDED		12 MONTHS ENDED	
	31 DEC 2006	31 DEC 2005	31 DEC 2006	31 DEC 2005
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Sales and marketing	50,496	28,504	121,299	93,145
Technical support and Management	23,161	19,489	90,079	61,361
Others	1,669	(121)	4,928	1,028
	<u>75,326</u>	<u>47,872</u>	<u>216,306</u>	<u>155,534</u>
Eliminations	(608)	30	(926)	(1,435)
Revenue	<u>74,718</u>	<u>47,902</u>	<u>215,380</u>	<u>154,099</u>
Segment Results				
Sales and marketing	6,471	2,386	9,348	5,104
Technical support and Management	8,041	7,760	36,352	27,815
Others	(37)	(466)	(117)	(185)
Unallocated	(3,808)	44	(7,924)	(2,641)
Profit from operations	<u>10,667</u>	<u>9,724</u>	<u>37,659</u>	<u>30,093</u>

"Others" consists of revenue from manufacturing activities and inter-segment transactions.

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.



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13. Subsequent Events

There were no material events subsequent to the end of the current quarter under review except for the following:

▪ **Incorporation of RGB (Cambodia) Ltd**

On 26 January 2007, the wholly-owned subsidiary of the Company, RGB Ltd incorporated a wholly-owned subsidiary company in Cambodia, known as RGB (Cambodia) Ltd.. The initial issued and paid-up share capital of RGB (Cambodia) Ltd. is 20,000,000 Riels (equivalent to USD5,128.21).

RGB (Cambodia) Ltd will be principally involved in the technical support and management of gaming machines and equipment.

The Board of Directors of DCB, after taking into consideration of the rationale of the incorporation, is of the opinion that it is in the best interest of the Company.

14. Changes in the Composition of the Group

There were no changes in the composition of the Group since the last quarterly report for the financial period ended 30 September 2006.

15. Changes in Contingent Liabilities and Contingent Assets

As at 20 February 2007 (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 audited financial statements as at 31 December 2005.

16. Capital Commitments

The amount of capital commitment not provided for in the interim financial statements is as follows:

	AS AT 31 DEC 2006	AS AT 31 DEC 2005
	RM'000	RM'000
Approved but not contracted for:		
Machines and equipment	50,900	36,000
Property	8,500	-
Investment in companies holding club/casino license	29,300	-
	<u>88,700</u>	<u>36,000</u>



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17. Significant Related Party Transactions

	1.10.2006 to 31.12.2006	1.1.2006 to 31.12.2006
	RM'000	RM'000
Sales of gaming and amusement machines, spare parts and accessories to:		
- Denver System Sdn. Bhd.	8	40
- Dreamgate (Malaysia) Sdn Bhd	4	13
- Manju Sdn. Bhd.	3	47
- Standard RGB Pte Ltd	911	5,155
- Suneka Sdn Bhd	3	45
Purchase of gaming and amusement machines and accessories from:		
- Dreamgate (Malaysia) Sdn. Bhd.	-	184
- Standard RGB Pte Ltd	389	10,217
Repair and maintenance services provided to:		
- Amity Energy Sdn Bhd	8	11
- Denver System Sdn. Bhd.	21	80
- Dreamgate (Malaysia) Sdn. Bhd.	20	82
- Euro Computer Engineering & Parts Sdn. Bhd.	12	43
- Manju Sdn. Bhd.	18	24
- Suneka Sdn Bhd	16	24
Purchase of spare part and services from Standard RGB Pte Ltd	-	675
Purchase of equipment from Standard RGB Pte Ltd	288	3,260
Renting of premises from Dreamgate (Malaysia) Sdn. Bhd.	75	75
Renting of premises to Standard RGB Pte Ltd	<u>6</u>	<u>27</u>

The abovementioned corporations are regarded as related parties of the Group as certain directors of the Company, Datuk Chuah Kim Seah, JP and/or Chuah Kim Chiew and family members of Datuk Chuah Kim Seah, JP and Chuah Kim Chiew have substantial interest in these corporations.

The directors are of the opinion that the related party transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.



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B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B (RULE 9.22(2)) OF THE LISTING REQUIREMENTS OF BURSA SECURITIES

18. Performance Review

	3 MONTHS ENDED			12 MONTHS ENDED		
	31 DEC	31 DEC	%	31 DEC	31 DEC	%
	2006	2005		2006	2005	
	RM'000	RM'000	+ / (-)	RM'000	RM'000	+ / (-)
Revenue						
Sales and marketing	50,496	28,504	77.2	121,299	93,145	30.2
Technical support and Management	22,643	19,339	17.1	89,513	60,826	47.2
Others	1,579	59	2,576.3	4,568	128	3,468.8
Total	74,718	47,902	56.0	215,380	154,099	39.8
Profit before tax						
Sales and marketing	6,471	2,386	171.2	9,348	5,104	83.2
Technical support and Management	8,041	7,760	3.6	36,352	27,815	30.7
Others	(37)	(466)	92.1	(117)	(185)	36.8
Unallocated	(5,393)	(1,028)	(424.6)	(12,304)	(4,818)	(155.4)
- Finance cost	1,562	821	90.3	5,050	2,135	136.5
- Foreign exchange loss/(gain)	1,728	(1,016)		1,887	(1,108)	
- Share options under ESOS	125	74	68.9	868	74	1,073.0
- Share of results of associates	23	251	(90.8)	(670)	42	
- Others	1,955	898	117.7	5,169	3,675	40.7
Total	9,082	8,652	5.0	33,279	27,916	19.2

The increase in revenue for the current quarter is due to strong demand for gaming machines and the opening of new outlets under Technical support and management division. Revenue for the year ended 31 December 2006 increased by 39.8% due to increase in number of machines sold and increase in number of machines placed under Technical support and management division.

Profit before tax was approximately RM9.1 million for the current quarter, which is higher by approximately 5.0% as compared to the corresponding quarter last year due to the better margin for products sold during the current quarter while earnings from Technical support and management division continue to be affected by short term increase in fixed cost of new outlets not matched by income. For the year ended 31 December 2006, although profit contribution from the two major divisions increased by 83.2% and 30.7%, overall profit before tax of the Group only increased by 19.2% due to foreign exchange loss arising from the strengthening of the Malaysian Ringgit against the US Dollar.



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19. Comparison with previous quarter's results

	CURRENT QUARTER	PREVIOUS QUARTER	% + / (-)
	RM'000	RM'000	
Revenue			
Sales and marketing	50,496	28,748	75.7
Technical support and Management	22,643	22,032	2.8
Others	<u>1,579</u>	<u>17</u>	9,188.2
Revenue	<u>74,718</u>	<u>50,797</u>	47.1
Profit before tax			
Sales and marketing	6,471	1,802	259.1
Technical support and Management	8,041	7,832	2.7
Others	(37)	(606)	93.9
Unallocated expenses	(5,393)	(1,581)	241.1
- Finance cost	1,562	1,053	48.3
- Foreign exchange loss/(gain)	1,728	(622)	
- Share options under ESOS	125	474	(73.6)
- Share of results of associates	23	(511)	
- Others	1,955	1,187	64.7
Profit before tax	<u>9,082</u>	<u>7,447</u>	22.0

Revenue from the Sales and marketing division increased substantially as compared to the previous quarter due to strong demand from machines to cater for the festive season. Profit before taxation for the Sales and marketing division also improved due to better product margin in current quarter. The slight improvement in revenue from Technical and support management is due to resumption of operation of one outlet in Cambodia and the opening of new outlets. The overall profit only increased by approximately 22% despite the improved margin in the Sales and marketing division due to foreign exchange loss arising from the strengthening of the Malaysian Ringgit against the US Dollar and increase in finance cost.

20. Commentary on Prospect

The Group is currently negotiating with certain suppliers for new distribution rights which should widen the group's product range for Sales and marketing division.



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20. Commentary on Prospect (Continued)

It continues to be aggressive in seeking new technical support and management contracts and is expected to supply machines to new concessions in the region.

Based on the foregoing, a stable Malaysian Ringgit, and barring unforeseen circumstances, the Group expects the performance for year 2007 to be better than the previous financial year.

21. Profit Forecast

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

22. Income Tax Expense

	3 MONTHS ENDED		12 MONTHS ENDED	
	31 DEC 2006	31 DEC 2005	31 DEC 2006	31 DEC 2005
	RM'000	RM'000	RM'000	RM'000
Income Tax				
Current Period	1,331	69	1,391	84
Overprovision in prior Periods	(1)	(48)	(1)	-
Deferred Tax				
Current Period	419	35	419	35
Underprovision in prior Periods	-	5	-	5
	<u>1,749</u>	<u>61</u>	<u>1,809</u>	<u>124</u>

Domestic income tax is calculated at the Malaysian statutory rate of 28% (2005: 28%) of the estimated assessable profit for the period. Taxation for other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

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.



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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

Purpose	Proposed Utilisation RM'000	Actual Utilisation As at 31 Dec 2006 RM'000	Expected Utilisation by 12 Jan 2009 (*) RM'000
(i) Purchase of plant and machinery	4,000	467	3,533
(ii) Research & development	5,000	2,220	2,780
(iii) Overseas expansion	15,000	15,000	-
(iv) Regional Trade Mark registration	1,000	-	1,000
(v) Advertising, promotion and branding	3,000	3,000	-
(vi) Working capital	7,461	7,461	-
(vii) Estimated listing expenses	1,753	1,753	-
Total	37,214	29,901	7,313

* - The Securities Commission ("SC") has approved for the extension of time for the utilisation of proceeds (i.e. for items (i), (ii) and (iv)) for another two (2) years from 13 January 2007 to 12 January 2009, vide its letter dated 16 February 2007.

(b) Employee Share Option Scheme ("ESOS")

Grant Date/ Expiry Date	Exercise Price RM	Number of Options Over Ordinary Shares of RM0.10 each			
		1 Oct 2006 '000	Exercised '000	Lapsed '000	31 Dec 2006 '000
19 Oct 2005/ 18 Oct 2010	1.06	16,261	(527)	(275)	15,459
7 July 2006/ 18 Oct 2010	1.28	3,575	(17)	(364)	3,194
29 July 2006/ 18 Oct 2010	1.25	2,466	-	-	2,466



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26. Borrowings

	AS AT 31 DEC 2006 RM'000	AS AT 31 DEC 2005 RM'000
Long Term Borrowings:		
<u>Secured</u>		
Term loans	43,896	41,545
Hire Purchase payable	22	39
	43,918	41,584
Short Term Borrowings:		
<u>Secured</u>		
Bank overdrafts	2,944	2,443
Bankers' acceptances	6,100	4,850
Term loans	15,270	12,095
Hire purchase payable	17	17
	24,331	19,405
Total borrowings	<u>68,249</u>	<u>60,989</u>
Borrowings denominated in foreign currency:		
	USD'000	RM'000 Equivalent
Total borrowings	<u>11,626</u>	<u>41,063</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 1.7sen per share less 27% tax for the year ended 31 December 2006 (31 December 2005: 1.5sen per share less 28%) 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

(a) Basic

Basic earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

	3 MONTHS ENDED		12 MONTHS ENDED	
	31 DEC 2006	31 DEC 2005	31 DEC 2006	31 DEC 2005
Profit attributable to ordinary equity holders of the parent (RM'000)	<u>7,333</u>	<u>8,591</u>	<u>31,470</u>	<u>27,792</u>
Weighted average number of ordinary shares in issue ('000)	<u>282,296</u>	<u>280,000</u>	<u>281,210</u>	<u>280,000</u>
Basic earnings per share (sen)	<u>2.60</u>	<u>3.07</u>	<u>11.19</u>	<u>9.93</u>

(b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period have been adjusted for the dilutive effects of share options granted to employees.

	3 MONTHS ENDED		12 MONTHS ENDED	
	31 DEC 2006	31 DEC 2005	31 DEC 2006	31 DEC 2005
Profit attributable to ordinary equity holders of the parent (RM'000)	<u>7,333</u>	<u>8,591</u>	<u>31,470</u>	<u>27,792</u>
Weighted average number of ordinary shares in issue ('000)	282,296	280,000	281,210	280,000
Effect of dilution of share options	<u>3,247</u>	<u>906</u>	<u>4,888</u>	<u>228</u>
Adjusted weighted average number of ordinary shares in issue and issuable	<u>285,543</u>	<u>280,906</u>	<u>286,098</u>	<u>280,228</u>
Diluted earnings per share (sen)	<u>2.57</u>	<u>3.06</u>	<u>11.00</u>	<u>9.92</u>



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31. Authorisation For Issue

On 27 February 2007, 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, JP
Managing Director
27 February 2007