



Dreamgate Corporation Bhd (603831-K)

(Incorporated in Malaysia)

Interim Unaudited Financial Statements
31 December 2008



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 DEC 2008**

	Note	3 MONTHS ENDED		12 MONTHS ENDED	
		31 DEC 2008 RM'000	31 DEC 2007 RM'000 (Restated)	31 DEC 2008 RM'000	31 DEC 2007 RM'000 (Restated)
Revenue	11	46,821	80,362	227,809	276,307
Cost of sales		(33,656)	(56,022)	(147,538)	(186,126)
- Depreciation		(15,205)	(12,180)	(56,255)	(39,239)
- Others		(18,451)	(43,842)	(91,283)	(146,887)
Gross profit		13,165	24,340	80,271	90,181
Other income		235	67	674	1,628
Administrative expenses		(17,692)	(8,805)	(56,468)	(38,698)
- Depreciation		(986)	(515)	(3,568)	(1,770)
- Others		(16,706)	(8,290)	(52,900)	(36,928)
Selling and marketing expenses		(751)	(1,186)	(4,893)	(4,978)
Other expenses, net		(13,967)	(1,432)	(12,973)	(956)
Operating (loss) / profit		(19,010)	12,984	6,611	47,177
Finance costs		(2,703)	(1,590)	(9,555)	(6,945)
Share of profit/(loss) of jointly controlled entities		44	106	(206)	106
Share of (loss)/profit of associates		(1,411)	109	(144)	75
(Loss)/Profit before tax		(23,080)	11,609	(3,294)	40,413
Income tax expense	22	(456)	(124)	(319)	(978)
(Loss)/Profit for the period		(23,536)	11,485	(3,613)	39,435
Attributable to:					
Equity holders of the Company		(22,773)	11,467	(2,874)	39,422
Minority interests		(763)	18	(739)	13
		(23,536)	11,485	(3,613)	39,435
Earnings per share attributable to equity holders of the Company:					
Basic, for (loss)/profit for the period (sen)	29	(2.61)	1.32	(0.33)	4.56
Diluted, for (loss)/profit for the period (sen)	29	(2.61)	1.29	(0.33)	4.47



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CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	AS AT 31 DEC 2008 RM'000	AS AT 31 DEC 2007 RM'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	12	236,600	203,608
Prepaid land lease payments		1,401	1,422
Investments in jointly controlled entities		1,187	1,593
Investments in associates		1,599	4,635
Other investment		4	4
Development costs		1,119	1,749
Long term lease receivables		2,957	4,804
Other receivables		1,059	715
Gaming licenses		625	331
Goodwill		272	-
		246,823	218,861
Current assets			
Inventories		11,562	7,446
Trade Receivables		88,796	103,256
Short term lease receivables		1,921	1,921
Other Receivables, Deposits and Prepayments		15,940	20,213
Tax Recoverable		876	490
Due from jointly controlled entities		358	247
Due from associates		7,663	8,361
Deposits with licensed banks		5,074	7,937
Cash and bank balances		31,062	35,000
		163,252	184,871
TOTAL ASSETS		410,075	403,732
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	9	87,205	87,165
Share premium		827	651
Foreign exchange translation reserve		(5,208)	(13,745)
Share option reserve		3,242	2,998
Retained earnings		92,326	99,996
		178,392	177,065
Minority interests		4,918	51
Total equity		183,310	177,116
Non-current liabilities			
Borrowings	26	24,641	41,448
Deferred tax liabilities		794	634
		25,435	42,082
Current liabilities			
Borrowings	26	127,992	99,382
Trade payables		46,584	69,209
Other payables		13,630	14,612
Due to jointly controlled entities		957	586
Due to an associated company		9	-
Due to other shareholders		11,384	-
Tax payable		774	745
		201,330	184,534
Total liabilities		226,765	226,616
TOTAL EQUITY AND LIABILITIES		410,075	403,732
Net assets per share (sen)		20	20



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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007**

-----| **Attributable to Equity Holders of the Parent** |-----
-----| **Non-Distributable** |-----| **Distributable**

	Share Capital	Share Premium	Foreign Exchange Translation Reserve	Share Option Reserve	Retained Earnings	Total	Minority Interests	Total Equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2007	28,255	30,594	(6,419)	3,043	83,226	138,699	-	138,699
Foreign currency translation, representing net expenses recognised directly in equity	-	-	(7,326)	-	-	(7,326)	-	(7,326)
Profit for the year	-	-	-	-	39,422	39,422	13	39,435
Dividend	-	-	-	-	(3,590)	(3,590)	-	(3,590)
Total recognised income and expense for the year	-	-	(7,326)	-	35,832	28,506	13	28,519
Issue of ordinary shares pursuant to ESOS	919	8,986	-	(1,114)	-	8,791	-	8,791
Share options granted under ESOS	-	-	-	1,069	-	1,069	33	1,102
Bonus issues	57,991	(38,929)	-	-	(19,062)	-	-	-
Subscription of ordinary shares by minority interests in a subsidiary	-	-	-	-	-	-	5	5
At 31 December 2007 (Restated)	87,165	651	(13,745)	2,998	99,996	177,065	51	177,116



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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

	----- 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 Translation Reserve RM'000	Share Option Reserve RM'000	Retained Earnings RM'000			
At 1 January 2008								
As previously stated	87,165	651	(13,730)	2,998	98,875	175,959	51	176,010
Prior year adjustment	-	-	(15)	-	1,121	1,106	-	1,106
At 1 January 2008 (Restated)	87,165	651	(13,745)	2,998	99,996	177,065	51	177,116
Foreign currency translation, representing net expenses recognised directly in equity	-	-	8,537	-	-	8,537	212	8,749
Loss for the year	-	-	-	-	(2,874)	(2,874)	(687)	(3,561)
Dividend	-	-	-	-	(4,796)	(4,796)	-	(4,796)
Total recognised income and expense for the year	-	-	8,537	-	(7,670)	867	(475)	392
Issue of ordinary shares pursuant to ESOS	40	176	-	(64)	-	152	-	152
Share options granted under ESOS	-	-	-	308	-	308	4	312
Bonus issues	-	-	-	-	-	-	-	-
Subscription of ordinary shares by minority interests in a subsidiary	-	-	-	-	-	-	5,338	5,338
At 31 December 2008	87,205	827	(5,208)	3,242	92,326	178,392	4,918	183,310



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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	12 MONTHS ENDED	
	31 DEC	31 DEC
	2008	2007
	RM'000	RM'000
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	(3,294)	40,413
Adjustments for:		
Amortisation of development costs	631	288
Amortisation of prepaid land lease payments	20	20
Bad debts written off	213	-
Depreciation	59,824	41,009
Property, plant and equipment written off	948	611
Impairment loss on property, plant and equipment	13,985	287
Impairment of intangible assets	2,063	-
Bad debts recovered	-	(44)
Deposits written off	2,900	-
Loss on disposal of equipment	1	11
Provision for doubtful debts	1,898	5,092
Reversal of provision for doubtful debts	(661)	-
Non-trade receivables written off	1,376	-
Reversal of impairment of property, plant and equipment	(149)	-
Write down of inventories	994	1,605
Share options granted under ESOS	312	1,102
Share of loss/(profit) of jointly controlled entities	206	(106)
Share of loss/(profit) of associates	144	(75)
Interest expense	9,141	6,621
Interest income	(518)	(1,422)
Operating profit before working capital changes	90,034	95,412
Net changes in receivables, amount due from associates, jointly controlled entities and inventories	21,275	(30,149)
Net changes in payables, amount due to a jointly controlled entity, associate company and other shareholders	(17,277)	10,663
Interest paid	(4,312)	(5,727)
Taxes paid	(515)	(3,002)
Net cash flow from operating activities	89,205	67,197



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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008**

	12 MONTHS ENDED	
	31 DEC 2008 RM'000	31 DEC 2007 RM'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(98,965)	(121,642)
Prepayment of land lease	-	(715)
Proceeds from disposal of property, plant and equipment	997	2,711
Net cash from acquisition of subsidiary companies	(358)	-
Acquisition of gaming licenses	(1,225)	(336)
Investment in associates	-	(3,398)
Acquisition of jointly controlled entities	(59)	(1,490)
Expenditure on development costs	87	(954)
Interest received	518	1,422
Net cash flow from investing activities	(99,005)	(124,402)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net drawdown/ (repayment) of onshore foreign currency loan and bankers' acceptance	12,989	(6,100)
Net (repayment)/drawdown of term loan and commercial papers	(6,106)	78,792
Net repayment of hire purchase	(188)	(48)
Dividends paid	(4,796)	(3,591)
Proceeds from subscription of ordinary shares by minority interests	5,338	5
Proceeds from issuance of ordinary shares	152	8,792
Net cash flow from financing activities	7,389	77,850
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,411)	20,645
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	(4,491)	1,752
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	41,029	18,632
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	34,127	41,029
* Cash and cash equivalents at end of the financial period comprise the following:		
Cash and bank balances	31,062	35,000
Deposits with licensed banks	5,074	7,937
Less: Bank Overdrafts	(2,009)	(1,908)
	34,127	41,029



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**PART A - EXPLANATORY NOTES PERSUANT 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 paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007. 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 2007.

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 2007 except for the adoption of the following new and revised FRS and Interpretations effective for financial periods beginning on or after 1 January 2008.

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates – Net Investments in a Foreign Operation
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members’ Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environment Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS129 ²⁰⁰⁴ Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

At the date of authorization of these financial statements, the Group has not yet applied FRS 139 Financial Instruments: Recognition and Measurement, which is effective from 1 January 2010.

The Group is exempted from disclosing the possible impact, if any, upon the initial application of FRS 139 in the Unaudited Interim Financial Statements of the Group for the year ended 31 December 2008.



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2. Changes in Accounting Policies (Contd.)

The adoption of the abovementioned FRSs does not result in significant financial impact on the financial statements of the Group.

3. Restatement of prior period comparatives

In the previous financial year, certain subsidiaries and associates of the Group had acquired gaming licenses, which meet the recognition criteria as intangible assets under FRS 138, Intangible Assets. However, these amounts were not capitalised and were instead expensed off to the income statement in the prior year. Accordingly, the comparative figures have been restated to reflect the recognition of the intangible assets by these subsidiaries and associates as follows:

	Previously stated RM'000	Increase / (Decrease) RM'000	Restated Total RM'000
Effects on balance sheet for the financial year ended 31 December 2007			
Investments in associates	3,860	775	4,635
Gaming licenses	-	331	331
Foreign currency translation reserve	(13,730)	(15)	(13,745)
Retained earnings	98,875	1,121	99,996
Effects on income statement for the financial quarter ended 31 December 2007			
Administrative expenses	(8,626)	336	(8,290)
Share of (loss)/profit of associates	(676)	785	109
Profit before tax	10,488	1,121	11,609
Profit for the year	10,364	1,121	11,485
Effects on income statement for the financial year ended 31 December 2007			
Administrative expenses	(37,264)	336	(36,928)
Share of (loss)/profit of associates	(710)	785	75
Profit before tax	39,292	1,121	40,413
Profit for the year	38,314	1,121	39,435



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4. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2007 was not qualified.

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

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

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

Other than as disclosed in Note 18, there were no items affecting assets, liabilities, equity, net income, or cash flows during the interim period.

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	Adjusted Exercise Price RM	Number of Options Over Ordinary Shares of RM0.10 each			
		Balance 1 Jan 2008 '000	Exercised '000	Lapsed '000	Balance 31 Dec 2008 '000
19 Oct 2005	0.35	24,311	276	440	23,595
7 July 2006	0.43	5,698	110	981	4,607
29 July 2006	0.42	4,700	-	521	4,179
29 June 2007	0.48	2,085	17	145	1,923
		<u>36,794</u>	<u>403</u>	<u>2,087</u>	<u>34,304</u>

All the above options expire on 18 Oct 2010.



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9. Changes in Debts and Equity Securities (Contd.)

• **Share Capital**

	Number of Ordinary Shares ('000) of RM0.10 each	
	2008	2007
As at 1 January	871,647	282,545
Ordinary shares issued pursuant to ESOS	403	9,196
Bonus Issue	-	579,906
As at 31 December	<u>872,050</u>	<u>871,647</u>

10. Dividend

No dividend has been recommended by the Directors or paid for the financial year ended 31 December 2008.



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11. Segmental Information

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

	3 MONTHS ENDED		12 MONTHS ENDED	
	31 DEC	31 DEC	31 DEC	31 DEC
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
		(Restated)		(Restated)
Segment Revenue				
Sales and Marketing	12,077	47,045	80,238	152,859
Technical Support and Management	25,768	32,424	128,804	119,214
Leisure and Entertainment (1)	3,536	-	12,026	-
Others (2)	5,530	1,107	7,171	4,718
	<u>46,911</u>	<u>80,576</u>	<u>228,239</u>	<u>276,791</u>
Eliminations	(90)	(214)	(430)	(484)
Revenue	<u>46,821</u>	<u>80,362</u>	<u>227,809</u>	<u>276,307</u>
Segment Results				
Sales and Marketing	13	7,683	1,519	15,770
Technical Support and Management (3)	(11,616)	9,495	16,492	41,785
Leisure and Entertainment (4)	(8,341)	(150)	(7,547)	(995)
Others	996	(453)	(795)	(954)
	<u>(18,948)</u>	<u>16,575</u>	<u>9,669</u>	<u>55,606</u>
Unallocated Expenses/Income	(62)	(3,591)	(3,058)	(8,429)
- Foreign exchange (gain)/ loss	(2,283)	959	(3,868)	45
- Non-trade receivables written off	1,376	-	1,376	-
- Other expenses	969	2,632	5,550	8,384
Operating (loss)/profit	<u>(19,010)</u>	<u>12,984</u>	<u>6,611</u>	<u>47,177</u>

Note

- (1) "Leisure and Entertainment" consist of revenue from companies involved in gaming and leisure activities.
- (2) "Others" consist of revenue from manufacturing activities, research & development activities and inter-segment transaction.
- (3) Operating (loss) / profit of Technical Support and Management is stated after deducting the following expenses :-

(I) Expenses on closure of clubs/outlets due to poor performance and regulatory changes in December 2008.

- Impairment loss on property plant and equipment	1,808	284	1,808	284
- Provision for doubtful debts	1,812	15	1,803	3,116
- Write-off of renovation costs and assets of poor performing clubs	2,836	-	2,836	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	1,797	-	1,797	-



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11. Segmental Information (Continued)

(II) Additional expenses following the new directive from Cambodia government in February 2009 as mentioned in Note 13.

- Impairment loss on property plant and equipment	1,158	-	1,158	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	3,887	-	3,887	-

(4) Operating loss of Leisure and Entertainment is stated after deducting the following expenses due to new directive from Cambodia government in February 2009:-

- Impairment of gaming licenses	2,063	-	2,063	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	5,398	-	5,398	-

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 subsequent events at the date of this report except for the directive by the Cambodian government for all slot clubs in Cambodia to cease operations with effect from 26th February 2009. Following a review of the situation in Cambodia, the directors have concluded that the closure is permanent and have reflected the impact of the closure in these financial statements. However, this directive does not affect our concession operations in casinos in Cambodia.

14. Changes in the Composition of the Group

There were no material changes in the Composition of the Group.

15. Changes in Contingent Liabilities and Contingent Assets

There were no material changes in contingent liabilities and assets in the reporting quarter.



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16. Capital Commitments

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

	AS AT 31 DEC 2008 RM'000
Property, plant and equipment	59,400
Share of capital commitments of jointly controlled entities	300
	<u>59,700</u>

17. Significant Related Party Transactions

	1.10.2008 to 31.12.2008 RM'000	1.1.2008 to 31.12.2008 RM'000
Sales of gaming and amusement machines, spare parts and accessories to:		
- Suneka Sdn. Bhd.	42	43
- Dreamgate (M) Sdn. Bhd.	-	67
- Elegant Class Sdn. Bhd.	11	14
- Standard RGB Pte Ltd	-	2
- Euro Computer Engineering & Parts Sdn Bhd	11	71
- Fort-Garden Marketing Sdn Bhd	-	14
Purchase of gaming and amusement machines and accessories from:		
- Denver System Sdn. Bhd.	-	31
- Dreamgate (M) Sdn. Bhd.	-	224
Purchase of spare parts and services from:		
- Standard RGB Pte Ltd	64	107
Repair and maintenance services provided to:		
- Denver System Sdn. Bhd.	-	39
- Dreamgate (Malaysia) Sdn. Bhd.	-	37
- Euro Computer Engineering & Parts Sdn. Bhd.	-	22
- Standard RGB Pte Ltd	-	62
Renting of premises from Dreamgate (Malaysia) Sdn Bhd	45	180

The abovementioned corporations are regarded as related parties of the Group as certain directors of the Group and/ or their family members 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 PARAGRAPH 9.22 OF THE LISTING REQUIREMENTS OF BURSA SECURITIES

18. Performance Review

	3 MONTHS ENDED			12 MONTHS ENDED		
	31 DEC 2008 RM'000	31 DEC 2007 RM'000	% + / (-)	31 DEC 2008 RM'000	31 DEC 2007 RM'000	% + / (-)
Revenue		(Restated)			(Restated)	
Sales and Marketing	12,077	46,921	-74%	80,168	152,735	-48%
Technical Support and Management	25,768	32,424	-21%	128,804	119,214	+8%
Leisure and Entertainment (1)	3,536	-	+100%	12,026	-	+100%
Others (2)	5,440	1,017	+435%	6,811	4,358	+56%
Total	46,821	80,362	-42%	227,809	276,307	-18%
(Loss)/Profit before tax						
Sales and Marketing	13	7,683	-100%	1,519	15,770	-90%
Technical Support and Management (3)	(11,616)	9,495	-222%	16,492	41,785	-61%
Leisure and Entertainment (4)	(8,341)	(150)	+5461%	(7,547)	(995)	+658%
Others (5)	(371)	(238)	+56%	(1,145)	(773)	+48%
	(20,315)	16,790	-221%	9,319	55,787	-83%
Unallocated Expenses/Income	(2,765)	(5,181)	-47%	(12,613)	(15,374)	-18%
- Finance cost	2,703	1,590	+70%	9,555	6,945	+38%
- Foreign exchange (gain)/ loss	(2,283)	959	-338%	(3,868)	45	-8696%
- Non-trade receivables written off	1,376	-	+100%	1,376	-	+100%
- Other expenses	969	2,632	-63%	5,550	8,384	-34%
(Loss)/Profit before tax	(23,080)	11,609	-299%	(3,294)	40,413	-108%

Note

- (1) "Leisure and Entertainment" consist of revenue from companies involved in gaming and leisure activities.
- (2) "Others" consist of revenue from manufacturing activities, research & development activities and inter-segment transaction.



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18. Performance Review (Continued)

(3) (Loss) / profit before tax of Technical Support and Management is stated after deducting the following expenses :-

(I) Expenses on closure of clubs/outlets due to poor performance and regulatory changes in December 2008.

- Impairment loss on property plant and equipment	1,808	284	1,808	284
- Provision for doubtful debts	1,812	15	1,803	3,116
- Write-off of renovation costs and assets of poor performing clubs	2,836	-	2,836	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	1,797	-	1,797	-

(II) Additional expenses following the new directive from Cambodia government in February 2009 as mentioned in Note 13.

- Impairment loss on property plant and equipment	1,158	-	1,158	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	3,887	-	3,887	-

(4) Loss before tax of leisure and entertainment is stated after deducting the following expenses due to new directive from Cambodia government in February 2009 :-

- Impairment of gaming licenses	2,063	-	2,063	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	5,398	-	5,398	-

(5) Loss before tax of "Others" is stated after deducting the following expenses due to new directive from Cambodia government in February 2009 :-

Share of loss from associates				
- Impairment of gaming licenses	387	-	387	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	214	-	214	-



18. Performance Review (Continued)

i) Comparison with previous year's corresponding quarter

Compared with the previous year's corresponding quarter, the Group registered a decrease in total revenue of 42% to RM46.8 million and incurred a loss before tax of RM23.1 million.

The decrease in revenue and profit before tax of Sales and Marketing ("SSM") division by 74% and 100% respectively for quarter ended 31 December 2008 compared with to the previous years' corresponding quarter was due to casino operators deferring their capital expenditure on new and replacement gaming machines.

Revenue of Technical Support and Management ("TSM") division decreased by 21% for the quarter ended 31 December 2008 compared with the previous years' corresponding quarter due to lower patronage as a result of competition and the current economic crisis. TSM division made an operating profit of RM 1.7 million before impairment loss, provision for doubtful debts and the write off of renovation and assets of clubs/outlets which ceased operation during the period and subsequent to year end as mentioned in Note 13. However, after the costs and provision, the division ended up with a loss of RM 11.6 million.

At as 31 Dec 2008, 23 clubs/outlets in Phnom Penh and Siem Reap, Cambodia have ceased operation due to poor performance of certain clubs/outlets and in compliance with new regulatory policies. In compliance with the new directive as mentioned in Note 13, an additional 21 clubs/outlets in Phnom Penh and Siem Reap, Cambodia have ceased operation. This required provision for impairment on the value of assets affected.

The revenue of the Leisure and Entertainment division is solely contributed by Mekong Hotel and Club in Phnom Penh (owned by a subsidiary company). However, this division registered a loss of RM 8.3 million due to the provision of impairment of assets as well as pre-operating costs of a casino and clubs scheduled to be opened in 2009 in Cambodia and impairment loss on gaming license, impairment loss on assets and renovation of clubs yet to commence operation due to new directive given by Cambodia government.

Revenue and loss of "Others" division increased by 435% and 56% as compared to the previous year's corresponding quarter mainly due to contribution from manufacturing of electronic gaming machine for its house brand-RGBGames and OEM assembly of multi-terminal machines for a third party brand-Elaut. The demand for RGBGames machines during the quarter has registered a significant increase as a result of popularity of some games in certain markets and the Group's continuing efforts in promoting this house brand into the international market.



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18. Performance Review (Continued)

ii) Comparison with previous year

The decrease in revenue from SSM division by 48% for year ended 31 December 2008 as compared to preceding year is mainly due to deferment by casino operators of capital expenditure on new and replacement gaming machine and delay in opening of certain casinos as a result of current economic crisis and also machines overhang in Macau.

The summary of number of machines sold for 12 months ended 31 December 2008 and 2007 are as follows:-

Country	Number of machines sold	
	31 Dec 2008 (Unit)	31 Dec 2007 (Unit)
Cambodia	124	238
Macau	217	430
Malaysia	87	326
Philippines	550	1,218
Singapore	22	129
Vietnam	120	134
Others	25	-
Grand Total:	1,145	2,475

The profit before tax for SSM division fell by 90% due to lower sales and margins.

The revenue from TSM division increased by 8% for year ended 31 December 2008 as compared to preceding year due to placement of additional machines in TSM Outlets.

The summary of outlets in operations and the number of machines placed as at 31 December 2008 and 2007 are as follows:-

Country	Number of outlets as at			31 Dec 2008	
	31 Dec 2007	Addition	Closed		
Cambodia	49	11	(23)	37	#
Vietnam	3	-	-	3	
Laos	1	-	-	1	
Philippines	11	1	(1)	11	
Grand Total:	64	12	(24) *	52	

* 13 clubs/outlets closed due to poor performance and 11 clubs/outlets ceased operation due to new regulatory policies in December 2008

21 clubs/outlets closed due to new directive given by Cambodia government in February 2009



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18. Performance Review (Continued)

ii) Comparison with previous year (Continued)

Country	Number of machines placed as at			31 Dec 2008 (Unit)
	31 Dec 2007 (Unit)	Addition (Unit)	Closed (Unit)	
Cambodia	4,278	843	(1,522)	3,599 #
Vietnam	194	-	-	194
Laos	59	-	-	59
Philippines	1,124	169	(176)	1,117
Grand Total:	5,655	1,012	(1,698)	4,969

1,800 units of machine ceased operation due to new directive given by Cambodia government in February 2009

TSM division made an operating profit of RM 30 million before impairment loss, provision for doubtful debts and write off of renovation costs and assets due to the above mentioned closure of clubs/outlets amounting in total to RM 13.3 million. The lower profit margin as compared to preceding year is due to higher operating costs and competition.

The Leisure & Entertainments' revenue was mainly contributed from Mekong Hotel & Club. The loss before tax of Leisure & Entertainment increased by 658% for the year ended 31 December 2008 as compared to preceding year due to above mentioned closure of clubs/outlets following the directive announced by Cambodia government on 26 February 2009.

The loss before tax for year ended 31 December 2008 was also affected by the increase in finance cost.



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19. Comparison with previous quarter's results

	CURRENT QUARTER RM'000	PREVIOUS QUARTER RM'000	% + / (-)
Revenue			
Sales and Marketing	12,077	13,299	-9%
Technical Support and Management	25,768	33,739	-24%
Leisure and Entertainment (1)	3,536	5,203	-32%
Others (2)	5,440	422	+1189%
	46,821	52,663	-11%
(Loss)/Profit before taxation			
Sales and Marketing	13	125	-90%
Technical Support and Management (3)	(11,616)	7,633	-252%
Leisure and Entertainment (4)	(8,341)	876	-1052%
Others (5)	(371)	(1,517)	-76%
	(20,315)	7,117	-385%
Unallocated Expenses/Income	(2,765)	(876)	+216%
- Finance cost	2,703	2,257	+20%
- Foreign exchange (gain)/loss	(2,283)	(3,525)	-35%
- Non-trade receivables written off	1,376	-	+100%
- Other expenses	969	2,144	-55%
	(23,080)	6,241	-470%

Note

- (1) "Leisure and Entertainment" consist of revenue from companies involved in gaming and leisure activities.
- (2) "Others" consist of revenue from manufacturing activities, research & development activities and inter-segment transaction.
- (3) (Loss) / profit before taxation of Technical Support and Management is stated after deducting the following expenses :-

- (I) Expenses on closure of clubs/outlets due to poor performance and regulatory changes in December 2008.

- Impairment loss on property plant and equipment	1,808	-
- Provision for doubtful debts	1,812	70
- Write-off of renovation costs and assets of poor performing clubs	2,836	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	1,797	-



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19. Comparison with previous quarter's results (Continued)

(II) Additional expenses following the new directive from Cambodia government as mentioned in Note 13.

- Impairment loss on property plant and equipment	1,158	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	3,887	-

(4) (Loss) / profit before taxation of leisure and entertainment is stated after deducting the following expenses due to new directive from Cambodia government in February 2009 :-

- Impairment of gaming licenses	2,063	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	5,398	-

(5) Loss before taxation of "Others" is stated after deducting the following expenses due to new directive from Cambodia government in February 2009 :-

Share of loss from associates		
- Impairment of gaming licenses	387	-
- Write-off of renovation costs and assets of clubs ceased operation due to regulatory changes	214	-

The decrease in profit before taxation for the SSM division was due to the sales of products with lower margin during this period.

The decrease in revenue and profit before tax for the TSM division was due to the decline in performance of certain outlets in Cambodia caused by the following:

- I. The territorial dispute between Thailand and Cambodia which caused the reduction of visitors to casinos on the Thai/Cambodian border
- II. Temporary closure of certain airports in Thailand which affected tourist arrivals to Cambodia
- III. Overall economic crisis which affected the disposable income of players
- IV. Costs of closure of non-performing outlets as well as those affected by regulatory changes
- V. Costs of closure of clubs affected by the new directive in February 2009

The decrease in revenue and profit before tax for the Leisure and Entertainment division was due to above mentioned factors.

The substantial increase in revenue for "Others" segment was mainly due to the increase in sales of RGBGames machines and Elaut multi-terminal machines.



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20. Commentary on Prospects

The Group views the global economic crisis and the recently introduced regulatory policies in Cambodia which resulted in closure of certain outlets as a good opportunity to consolidate its operations and thereby, improve profitability.

We believe that the current and new operators of casinos in this region are likely to change their pattern of investment in gaming machines and equipments to leasing of gaming machines and equipments instead of outright purchase. However, the SSM division is likely to improve marginally on its 2008's performance through strategically focusing on marketing of its house brand-RBGGames and OEM machines.

The change of pattern by the casinos to leasing of gaming machines gives rise to opportunities for TSM division to expand its operations to casinos in those countries where we do not have a presence and therefore allow us to spread our country risk. We expect to operate up to 7000 units of machines by end of year 2009 with additional machines to be located in Philippines and Macau. The machines affected by the closure of outlets will be utilized by new casinos / outlets in Macau, Philippines and Cambodia.

The Group takes the conservative view that TSM division is expected to achieve positive result in spite of the prevailing economic crisis.

The Leisure and Entertainment division will open its new casino in Cambodia in 2009 and is likely to contribute to the earnings of the Group.

The Group has also taken steps to implement various cost cutting measures to address this economic crisis.

21. Profit Forecast

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

22. Income Tax Expense

	3 MONTHS ENDED		12 MONTHS ENDED	
	31 DEC 2008	31 DEC 2007	31 DEC 2008	31 DEC 2007
	RM'000	RM'000	RM'000	RM'000
Income Tax				
- Current period	290	(196)	445	461
- Under/(Over) provided in prior year	6	400	(286)	597
Deferred Tax				
- Current period	208	320	208	320
- Relating to changes in Tax rates	(31)	-	(31)	-
- Over provided in prior year	(17)	(400)	(17)	(400)
	<u>456</u>	<u>124</u>	<u>319</u>	<u>978</u>



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22. Income Tax Expense (Continued)

Domestic income tax is calculated at the Malaysian statutory rate of 26% (2007: 27%) of the estimated assessable profit for the period. Taxation for other jurisdictions is 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.

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 utilization of listing proceeds

Purpose	Revised Proposed Utilisation as approved by SC RM'000	Actual Utilisation as at 31 DEC 2008 RM'000	Expected Utilisation by 12 JAN 2011 RM'000
Purchase of plant and machinery	3,415	3,415	-
Research & development	5,915	5,363	552
Overseas expansion	15,000	15,000	-
Regional Trade Mark registration	670	172	498
Advertising, promotion and branding	3,000	3,000	-
Working capital	7,461	7,461	-
Estimated listing expenses	1,753	1,753	-
Total	37,214	36,164	1,050



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25. Corporate Proposals (Continued)

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

Number of Options Over
Ordinary Shares of RM0.10 each

Grant Date	Adjusted Exercise Price RM	Balance 1 Oct 2008 '000	Exercised '000	Lapsed '000	Balance 31 Dec 2008 '000
19 Oct 2005	0.35	23,595	-	-	23,595
7 July 2006	0.43	5,177	-	570	4,607
29 July 2006	0.42	4,520	-	341	4,179
29 June 2007	0.48	1,963	-	40	1,923
		<u>35,255</u>	-	<u>951</u>	<u>34,304</u>

All the above options expire on 18 October 2010.

(c) Issuance of Commercial Paper (“CP”) and/ or Medium Term Notes (“MTN”) with an aggregate nominal value of RM200 million (“CP/ MTN” Programme)

As at 31 December 2008, the Company has outstanding CPs of RM95 million with tenure of 1 - 3 months.



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26. Borrowings

	AS AT 31 DEC 2008 RM'000	AS AT 31 DEC 2007 RM'000
Short Term Borrowings:		
<u>Secured</u>		
Bank overdrafts	2,009	1,908
Bankers' acceptances	12,989	-
Term loans	18,690	18,151
Hire purchase payable	63	56
<u>Unsecured</u>		
Commercial Papers	94,241	79,267
	127,992	99,382
Long Term Borrowings:		
<u>Secured</u>		
Term loans	24,641	41,434
Hire Purchase payable	-	14
	24,641	41,448
Total borrowings	<u>152,633</u>	<u>140,830</u>

Borrowings denominated in foreign currency as at 31 December 2008:

	USD'000	RM'000
Borrowings (USD'000)	<u>9,218</u>	<u>32,036</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.



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29. Earnings Per Share

(a) Basic

Basic earnings per share amounts are calculated by dividing the (loss) / 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	31 DEC	31 DEC	31 DEC
	2008	2007	2008	2007
		(Restated)		(Restated)
(Loss)/Profit attributable to ordinary equity holders of the Company (RM'000)	<u>(22,773)</u>	<u>11,467</u>	<u>(2,874)</u>	<u>39,422</u>
Weighted average number of ordinary shares in issue ('000)	<u>872,050</u>	<u>870,936</u>	<u>872,026</u>	<u>864,334</u>
Basic earnings per share (sen)	<u>(2.61)</u>	<u>1.32</u>	<u>(0.33)</u>	<u>4.56</u>

(b) Diluted

For the purpose of calculating diluted earnings per share, the (loss) / 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 employee

	3 MONTHS ENDED		12 MONTHS ENDED	
	31 DEC	31 DEC	31 DEC	31 DEC
	2008	2007	2008	2007
		(Restated)		(Restated)
(Loss)/Profit attributable to ordinary equity holders of the Company (RM'000)	<u>(22,773)</u>	<u>11,467</u>	<u>(2,874)</u>	<u>39,422</u>
Weighted average number of ordinary shares in issue ('000)	<u>872,050</u>	<u>870,936</u>	<u>872,026</u>	<u>864,334</u>
Effect of dilution of share options	<u>-</u>	<u>14,798</u>	<u>-</u>	<u>18,029</u>
Adjusted weighted average number of ordinary shares in issue and issuable	<u>872,050</u>	<u>885,734</u>	<u>872,026</u>	<u>882,363</u>
Diluted earnings per share (sen)	<u>(2.61)</u>	<u>1.29</u>	<u>(0.33)</u>	<u>4.47</u>



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30. Authorisation For Issue

On 31 March 2009, 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
31 March 2009