

## 14. INDEPENDENT BUSINESS AND MARKET RESEARCH REPORT

*(Prepared for the inclusion in this Prospectus)*



**VITAL FACTOR CONSULTING**  
Creating Winning Business Solutions

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15 December 2003

The Board of Directors  
Dreamgate Corporation Bhd  
51-21-A Menara BHL Bank  
Jalan Sultan Ahmad Shah  
10050 Pulau Pinang

Dear Sirs

### **Assessment of the Gaming Machines and Equipment Industry**

The following is an Independent Assessment of the Gaming Machines and Equipment Industry in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of Dreamgate Corporation Bhd (herein, together with its subsidiaries will be referred to as Dreamgate Group) in relation to its listing on the MESDAQ market.

#### **1. BACKGROUND**

- The main business activities of Dreamgate Group are as follows:
  - Sales and Marketing of Gaming and Amusement Machines and Equipment;
  - Manufacturing of Gaming and Amusement Machines and Equipment;
  - Refurbishment of Gaming and Amusement Machines and Equipment;
  - Technical Support and Maintenance of Gaming and Amusement Machines and Equipment;
  - Technical Support and Management of the Operations of Gaming and Amusement Machines and Equipment;
  - Sales and Marketing of Security Surveillance Products and Services.

#### **2. INDUSTRY STRUCTURE**

- The Gaming and Betting Industry, which falls under the umbrella of the Recreation, Culture and Sports Industry, is segmented into three sectors:
  - Gaming Operations;
  - Gaming Machines and Equipment;
  - Gaming Supporting Services.
- In turn, these three sub-sectors provide products and services to five segments of the market as follows:
  - Casinos (land-based and cruise ship)
  - Clubs, Societies and Associations;
  - Resorts and Hotels (not permissible in Malaysia);
  - Gaming Machine Outlets (not permissible in Malaysia)
  - On-line Gaming (not permissible in Malaysia).
- Gaming Machines, also known as slot machines, are any devices designed for the purpose of playing game of chance or mixed chance and skill whereby money, tokens or gaming credits are inserted or transferred into the machine as wagers, and as a result of making a bet on the device, winnings may become payable.

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- Gaming Machines and Equipment are segmented as follows:
  - Gaming Machines
    - Video Slots Machines
    - Reel Slots Machines
    - Multi-Player Machines
    - Others
  - Gaming Equipment
    - Table Games Equipment
    - Gaming Accessories
- Video slot machines are fully computerised, while reel slots are mainly mechanical and electronics. Multi-player machines enable more than one player to wager on a game.
- Other Gaming Machines include mechanical and electronic games, for example horse racing, which is based on the physical movements of replicas of small horses.
- Table Games are also designed for the purpose of playing a game of chance or mixed chance and skill, which is similar to Gaming Machines, but take place on purpose-built tables and involve croupiers to interact with players. Table Games are mainly conducted in Casinos. Some examples include:
  - Black Jack
  - Pai Kow
  - French Bolle
  - Big/Small (Tai Sai)
- Gaming Accessories support items and devices to aid in the process of playing Gaming Machines and Equipment, such as follows:
 

<ul style="list-style-type: none"> <li>- Dice</li> <li>- Chips</li> <li>- Card Shuffling Devices</li> <li>- Float Trays</li> <li>- Plaques and Jetons</li> <li>- Notes and coins counting machines</li> <li>- Chip sorting machines</li> <li>- Displays and signage</li> <li>- Layouts (materials with imprints to facilitate wagering and are placed on top of gaming tables).</li> </ul>	<ul style="list-style-type: none"> <li>- Playing Cards</li> <li>- Dealing Shoes</li> <li>- Chip Tray</li> <li>- Cash Boxes</li> <li>- Bill validators</li> <li>- Coin Dispensers</li> <li>- Tokens</li> <li>- Locks and Seals</li> </ul>
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**3 GOVERNMENT LEGISLATION****Licence to Deal in Gaming Machines**

- According to the Lotteries Act 1952 (Act 288) and Lotteries (Registration and Licensing of Gaming Machines) Regulation 1973, an organisation that deals in Gaming Machines must obtain a licence from the Ministry of Finance.
- Any person who carries on trade or business of dealing in Gaming Machines at more than one place of business or who, in carrying on such trade or business, stores any gaming machine at a place different from his place of business shall apply for a licence in respect of each place of business or storage.

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- There are conditions relating to the issuing of a licence. The licensee shall submit within two weeks of the 31<sup>st</sup> March, 30<sup>th</sup> June, 30<sup>th</sup> September and 31<sup>st</sup> December of each year the following:
  - number of gaming machines in possession on that date;
  - number of gaming machines sold during the quarter preceding that date;
  - registration numbers of all gaming machines sold and the names and addresses of purchasers.
- License to deal in Gaming Machines shall be valid for one year and may be renewed from time to time.
- When renewing such licence, conditions attached to the licence may be varied, or additional conditions imposed.  
*(Source: Lotteries Act 1952 (Act 288) and Lotteries (Registration and Licensing of Gaming Machines) Regulation 1973*

#### Repairs to Gaming Machines

- Repairs to Gaming Machines must be carried out at the specified premises where the Gaming Machines are to be kept, except with the prior written approval from the Secretary-General of the Treasury or any officer authorised by him/her. *(Source: Lotteries Act 1952 (Act 288) and Lotteries (Registration and Licensing of Gaming Machines) Regulation 1973).*

#### Possession of Gaming Machines

- All persons or organisations that possess Gaming Machines must either be licensed dealers, licensed operators or registered owners, and all Gaming Machines must be registered and kept in approved premises. *(Source: Lotteries Act 1952 (Act 288) and Lotteries (Registration and Licensing of Gaming Machines) Regulation 1973*

#### Licence to Operate Gaming Machines

- All persons or organisations that operate Gaming Machines must obtain licences provided by the Ministry of Finance, except companies licensed to promote and organise Gaming under section 27A of the Common Gaming Houses Ordinance, 1953.
- Registered owners of Gaming Machines that have permits to operate are not permitted to sell, assign, lease, mortgage or transfer in any manner whatsoever, any interest of any sort in any registered Gaming Machine or any permit to operate Gaming Machines except with the prior written permission of the Secretary-General of the Treasury or any officer authorised by him/her.  
*Source: Lotteries Act 1952 (Act 288) and Lotteries (Registration and Licensing of Gaming Machines) Regulation 1973*

## 4. BARRIERS TO ENTRY

- Barriers to entry into the Gaming Machines and Equipment Industry are **high**. This is mainly substantiated by ten organisations that deal in Gaming Machines and Equipment of which only three are highly active *(Source: Ministry of Finance)*

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- The major barriers to entry are as follows:
  - Government Licences;
  - Distribution Rights;
  - Technical Expertise.

#### **Government Licences**

- The Gaming Machines and Equipment Industry is highly regulated. Various licences are required including the following:
  - Licence to operate Gaming Machines;
  - Licence to deal in Gaming Machines;
  - Licence to store Gaming Machines.
- In terms of dealing (supply) in Gaming Machines, to-date the Government has issued ten licences. The Government does not envisage issuing any more licences, at least in the immediate and mid-term.
- Without Government issued licences, organisations cannot enter into the Gaming Machines and Equipment market.

#### **Distribution Rights**

- Currently there are no local manufacturers of Gaming Machines and Equipment, with the exception of a small number of Gaming Accessories.
- As such, organisations dealing in Gaming Machines and Equipment are dependent on overseas manufacturers for their distribution rights in Malaysia as well as overseas.
- Thus, without distribution rights, organisations within the Gaming Machines and Equipment Industry would find it highly difficult to sustain its business.
- In addition, buyers of Gaming Machines and Equipment also favour reputable manufacturers and brand names. This is because Gaming Machines and Equipment must pass stringent regulatory requirements, and each Gaming Machine and Equipment is directly involved in transacting a large amount of money. As such, stringent product quality is mandatory, and buyers, over time, would have formed opinions of various brands and manufacturers in the market.

#### **Technical Expertise**

- Technical expertise is required to provide technical support, troubleshooting, and maintenance to Gaming Machines and Equipment sold.
- Technical expertise for Gaming Machines and Equipment is specialised and involved a combination of electronics, mechanics, Information Technology software, hardware and communications.
- As such, technical expertise represents a barrier to entry to new entrants.

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#### 5. SUBSTITUTE PRODUCTS AND SERVICES

- On-line (through local area network, wide area network or the Internet) Gaming used with general-purpose personal computers, either stand-alone or configured as a system of linked Gaming Machines, is a substitute service to traditional Gaming Machines.
- On-line Gaming is currently not permitted in Malaysia. However, it is difficult to police such activities if the service provider is outside Malaysia.
- General-purpose personal computers without any network links could also serve as substitute products for Gaming Machines and Equipment. However, they have significantly less appealing features compared to purpose-built Gaming Machines.
- Even if general-purpose personal computers were to be modified, the end-result would be effectively similar to purpose-built Gaming Machines. In fact, newer generation of video-based Gaming Machines are all software driven and function similarly to general-purpose computers loaded with gaming software.
- Use of general-purpose personal computers for Gaming would fall under the Government regulations for licensing of Gaming Machines.

#### 6. SUPPLY AND SUPPLY DEPENDENCIES

- There is no local production of Gaming Machines and Equipment. Thus, imports of Gaming Machines and Equipment are used as an indication of the supply of products for the Gaming Industry.
- Between 1998 and 2002, import value of articles for **Funfair, Table or Parlour Games** (including Pintables, Billiards, Special Tables for Casino Games and Automatic Bowling Alley Equipment) increased at an average annual rate of 15.4% amounting to RM53.5 million in 2002.
- This category of products also include slot machines, amusement machines, playing cards, accessories, parts and components that are used in Gaming-related products.
- In 2002, Australia represented the largest source of imports, contributing 19.6% of total imports into Malaysia, followed by Japan, United States of America and China.
- Between 1998 and 2002, import value of **Pintables, Slot Machines** and the like grew at an average annual rate of 12.7% amounting to RM14.4 million and representing 3,832 units in 2002.

*(Source: Department of Statistics).*

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#### 7. DEMAND

- Between 1998 and 2002, export value of articles for **Funfair, Table or Parlour Games** (including pintables, billiards, special tables for casino games and automatic bowling equipment), increased at an average annual rate of 40.6% to reach RM196.5 million in 2002.
- Between 1998 and 2002, export value of **Pintables, Slot Machines** and the like grew at an average annual rate of 230.2% amounting to approximately RM22.0 million.
- Between 1998 and 2002, export quantity of **Playing Cards** grew at an average annual rate of 33.2% amounting to 10.1 million packs worth RM18.1 million.

#### 8. DEMAND DEPENDENCIES

- Demand for Gaming Machines and Equipment are ultimately dependent on consumers with a focus on recreational activities in general and Gaming in particular.
- The following factors will impact on end-user demand and expenditure on Gaming Products and Services:
  - General population growth;
  - Higher disposable income;
  - Increasing household expenditure
  - Increasing household expenditure on gaming activities.
- Between 1998 and 2002, the population in Malaysia grew at an average annual rate of 2.6% (Source: *Annual Report 2000 and 2002, Bank Negara Malaysia*).
- The mean monthly household income grew by an average annual rate of 5.2% between 1995 and 1999 reaching RM2,472 in 1999 (Source: *Eighth Malaysia Plan 2001-2005, Economic Planning Unit*).
- Between 1993/94 and 1998/99, the average monthly expenditure per household increased by an average annual rate of 7.0% amounting to RM1,631 per household.
- For 1998/999, household expenditure on Gaming Products and related activities (classified under Lotteries and Other Gambling under Recreation, Entertainment, Education and Cultural Services in the Household Surveys), amounted to an average monthly expenditure of RM10.26 (Source: *Report on Household Expenditure Survey 1998/99 Malaysia, Department of Statistics*) (Note: There were no information available under this category for 1993/94 to calculate growth rate)

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**9. PERFORMANCE OF END-USER MARKETS****Golf and Country Clubhouses**

- In Malaysia, some of the Golf and Country Clubhouses have been granted licenses to operate Gaming Machines. There are approximately 170 Golf and Country Clubhouses in Malaysia:

States	Number of Golf and Country Clubhouse	States	Number of Golf and Country Clubhouse
Selangor	38	Malacca	8
Johor	26	Sarawak	8
Pahang	19	Kuala Lumpur	6
Sabah	13	Penang	6
Negeri Sembilan	13	Terengganu	6
Kedah	13	Kelantan	1
Perak	11	Perlis	1

*Source: Property Market Report 2002, Valuation and Property Services Department, Ministry of Finance*

**Land-Based Casinos**

- Malaysia has only one licensed casino operator. It is a major user of Gaming Machines and Equipment. As such, its performance would have an impact on the Gaming Machines and Equipment Industry in Malaysia.

**Cruise Ships**

- Cruise ships that ply within the Asian region also buy Gaming Machines and Equipment from suppliers in Malaysia. As such, the performance of such cruise ships would have some impact on the Gaming Machines and Equipment Industry in Malaysia.

**Tourism Industry**

- Tourism has some impact on the overall Recreation sector including Gaming Machines and Equipment. This is by virtue of tourists' patronage to casino and cruise ships in Malaysia. In addition, some of the establishments who purchase Gaming Machines and Equipment from suppliers in Malaysia also operate within the tourism industry. As such, a robust tourism industry would indirectly benefit the Gaming Machine and Equipment Industry.
- Between 1998 and 2002, receipts from Tourism grew at an average annual rate of 31.7% amounting to RM25.8 billion in 2002.
- Between 1998 and 2002, Tourist Arrivals grew at an average annual rate of 24.4% amounting to 13.3 million persons in 2002. In 2002, Singapore represented 57% of Malaysia's total tourist arrivals.

*(Source: Malaysia Tourism Board)*

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#### 10. COMPETITIVE NATURE AND INTENSITY OF THE INDUSTRY

##### Nature of Competition

- Organisations within the Gaming Machine and Equipment Industry compete under **Oligopoly** conditions, which are characterised as follows:
  - Industry is dominated by three suppliers;
  - Barriers to entry are high and are based on licenses from the Government;
  - Organisations within the industry are interdependent where the action of one organisation would affect a competing organisation's well being.
- Competition is based on a number of factors, including:
  - Market strengths
  - Quality of products and services;
  - Cost competitiveness;
  - Customer service.
- Generally, competition among organisations in the Gaming Machine and Equipment Industry within Malaysia is **low**.
- This is primarily substantiated by the low number of organisations dealing in Gaming Machines and Equipment, and the high barrier to entry through Government licensing:
  - As at June 2003, there were ten organisations that are licensed by the Ministry of Finance to deal in Gaming Machines and Equipment;
  - Of the ten licensed organisations, only three are highly active, while business activities are low among the remaining seven organisations;
  - The Ministry of Finance does not envisage granting any more new licenses for dealing in Gaming Machines and Equipment.  
(Source: Ministry of Finance)

#### 11. KEY PLAYERS IN THE INDUSTRY

- As at June 2003, there were ten organisations that were licensed to deal in Gaming Machines and Equipment in Malaysia. (Source: Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd).

#### 12. INDUSTRY OUTLOOK

- The outlook for the Gaming Machine and Equipment Industry is **favourable** and is forecasted to grow by approximately **10%** per annum for the next five years.
- This prognosis is mainly supported by the following analyses and observations:

##### Growth in Gaming Machines and Equipment

- Between 1998 and 2002, import quantity of Pintables, Slot Machines and the like grew at an average annual rate of 72.5%. In 2002, import quantity of Pintables, Slot Machines and the like increased by 298% to reach 3,832 units.



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- Between 1998 and 2002, import value of Pintables, Slot Machines and the like grew at an average annual rate of 12.7%. In 2002, import value of Pintables, Slot Machines and the like decreased by 36.2%, which amounted to RM14.4 million.
- Between 1998 and 2002, import quantity of Other Games, Coin or Disc Operated (excluding bowling alley equipment) grew at an average annual rate of 30.5%. In 2002, import quantity of Other Games, Coin or Disc Operated (excluding bowling alley equipment) declined by 41.4% having amounted to 58,854 units.
- Between 1998 and 2002, import value of Other Games, Coin or Disc Operated (excluding bowling alley equipment) grew at an average annual rate of 15.2%. In 2002, import value of Other Games, Coin or Disc Operated (excluding bowling alley equipment) increased by 16.8%, which amounted to RM8.5 million (*This category includes amusement machines*).
- Between 1998 and 2002, import value of Playing Cards increased at an average annual rate of 50.7%. In 2002, import value of Playing Cards increased by 153.2%, which amounted to RM6.7 million.
- Between 1998 and 2002, import quantity of Playing Cards grew at an average annual rate of 73.8%. In 2002, import quantity of playing cards increased by 112.2% to 3.2 million packs.

*(Source: Department of Statistics)*

**Increasing Demand for Gaming Related Products and Services, and End-User Industries**

- Between 1993/94 and 1998/99, household expenditure on Recreation, Entertainment, Education and Cultural Services (including gaming activities), grew at an average annual rate of 7.8% (*Source: Report on Household Expenditure Survey 1993/94 and 1998/99 Malaysia, Department of Statistics*)
- Growth within the casino, clubs and cruise ship industries would also provide the basis for increasing demand for Gaming related products and services
- Between 1998 and 2002, receipts from Tourism grew at an average annual rate of 31.7%. In 2002, receipts from Tourism increased by 6.4%, which amounted to RM25.8 billion (*Source: Malaysia Tourism Board*).
- Between 1998 and 2002, Tourist Arrivals grew at an average annual rate of 24.4% (*Source: Malaysia Tourism Board*).

**Growth of Established Base**

- Growth within the Malaysian market will be derived from the following areas:
  - . replacement or upgrade of existing Gaming Machines;
  - . new sales to licensed establishments;
  - . sales of supporting application systems;
  - . outsourcing of technical services for Gaming Machines.

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- As at June 2003, the estimated installed base of Gaming Machines in Malaysia was **5,200 units** (Source: *Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd*). An average replacement rate of 20% would translate to approximately 1,000 units per year. In addition to replacing old machines, many operators replace machines so as to upgrade to better technologies as well as more contemporary games and themes.
- Although the Government regulates the number of Gaming Machines in Casino and Clubs, the Government could increase the number of Gaming Machines allowable in each licensed establishments.
- The management of Gaming Machines and Equipment, like any other businesses, benefits from Information Technology (IT) particularly for accounting, management and marketing purposes. As such, growth of the Gaming Machines and Equipment Industry is also derived from supporting IT application systems, such as accounting, player tracking, frequent player reward, and Gaming Machines performance analysis.
- The core activities of many of the licensed Clubs in Malaysia are not in the operation of Gaming Machines. As such, there are significant outsourcing opportunities where technical support is provided to enable Clubs to focus on their core competencies. Outsourcing would provide growth opportunities to the Gaming Machines and Equipment Industry.

**Regional Growth Opportunities**

- Liberalisation of the Gaming Industry in some of the Asian countries, for example Macau SAR, Cambodia, India, Singapore, Vietnam and Philippines would provide significant opportunities for organisations in Malaysia.
- This is because for organisations that have exclusive distribution rights for high demand brand name Gaming Machines and Equipment, they would be able to address growth within their geographical distribution area.
- Some of the Malaysian organisations have distribution rights to some Asian countries, and thus would be able to address growth opportunities in Asian countries.
- The number of Casinos for some of the Asian countries is as follows:

<b>COUNTRIES</b>	<b>ESTIMATED NUMBER OF CASINOS IN 2002</b>
Macau SAR	11
Philippines	15
Cambodia	16
South Korea	13
Laos	1

- In 2002, the Macau SAR government granted 3 concession agreements for the operation of Casinos to Societe de Jogos de Macau, Galaxy Casino Co. Ltd and Wynn Resort (Macao) Limited.

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- The state-run Philippine Amusement and Gaming Corporation is planning to develop "Manila Theme Park Entertainment City", a 62.74 hectare area comprising casinos, shopping complex, entertainment and leisure complex, educational and cultural complex, office and other developments.
- The increased in the number of Casinos within the Asian region would provide export opportunities for Malaysian organisations within the Gaming Machines and Equipment Industry.

## 13. THREATS AND RISKS ANALYSIS

Areas of threats and risks for organisations dealing in Gaming Machines and Equipment are as follows:

- **Revocation and Non-renewal of Licences**

The Gaming Machines and Equipment Industry is highly regulated where organisations supplying products must be licensed by the Ministry of Finance. As such, revocation or non-renewal of licences would serve as a threat to organisations within the Gaming Machines and Equipment Industry.

#### **Mitigation Factors**

Clauses for revocation and non-renewal are clearly spelled out in the relevant Acts and Regulations. As long as organisations within the Gaming Machines and Equipment comply with all requirements as well as exercise corporate citizenship, their licences would not be unreasonably revoked or not renewed. As such, the threat from revocation or non-renewal is mitigated.

- **Changes in Government Legislations and Policies**

The Gaming Machines and Equipment Industry is regulated by the Ministry of Finance and apply to both organisations that operate and deal in Gaming Machines and Equipment. Operators also have to abide by the Entertainment Regulations, which are primarily the jurisdiction of the State or Territory and Local Council.

As such, any changes in legislation and policies would have a direct impact on organisations within the Gaming Machines and Equipment Industry.

#### **Mitigation Factor**

The Gaming Machine and Equipment, as well as the Entertainment Industries are both like any other businesses and contribute positively to the economic well being of the nation. As such, any changes in regulations and policies would most likely take this into consideration and not harm the overall economic well being of the industries.

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- **Changes in Government Legislations in Overseas Markets**

In virtually all overseas markets, the Gaming Industry in general and Gaming Machines and Equipment Industry in particular are highly regulated. Any negative changes in Government Legislations and Policies in overseas markets could have implications on the success of Malaysian organisations in exporting their products and services.

#### **Mitigation Factor**

Recent trends, particularly in some Asian countries, is experiencing increased deregulations and liberalisation as opposed to tightening of regulations. These are evident in, among others, Macau SAR, Cambodia, India, Singapore, Vietnam and Philippines.

- **Imports from Asean Free Trade Area (AFTA) Member Countries and Low Cost Countries**

The implementation of AFTA would reduce import tariffs to 5% or less for Gaming Machines and Equipment with more than 40% local content from member countries of AFTA. Cheaper imports could increase the intensity of competition within the local Gaming Machines and Equipment industry. In addition, cheaper imports can also come from other countries, for example China. The admission of China into the World Trade Organisation has made it a major force as a manufacturer of low priced products.

#### **Mitigation Factors**

One of the key success factors for local suppliers is the ability to provide significant value-adding, such as technical support and maintenance, customisation and prompt customer care. Lower prices alone would not likely be sufficient to win market share.

In addition, reputation and established brand names are also important to buyers within the Gaming Machines and Equipment Industry because of the stringent regulations. As such, price alone is insufficient to make a major impact.

Any new Gaming Machines and Equipment that comes into the Malaysian market must be distributed through licensed organisations. In addition, currently there are no manufacturers in Malaysia. As such, lower priced imports could possibly benefit the industry.

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**14. AREAS OF GROWTH AND OPPORTUNITIES**

Areas of growth and opportunities for organisations dealing in Gaming Machines and Equipment are as follows:

- **Regional Expansion**

The market in Malaysia is limited to the current installed base from one casino, approximately 170 clubs, and cruise ships. The Government further regulates the number of Gaming Machines and Equipment within each of these premises. As such, significant business growth would need to come from overseas markets.

Recent deregulations and liberalisation within the region, especially Macau SAR, Cambodia, India, Singapore, Vietnam and Philippines would provide significant growth opportunities for local organisations.

Malaysia as an Asian country would have some cultural advantage and proximity to expand into these Asian countries.

- **New and Contemporary Gaming Software**

In addition to the prospects of winning, players of Gaming Machines are also provided with recreational value of intrinsic fun and appeal of the games offered. These could include, among others, type and format of games, animation, attractiveness of graphics with accompanying audio, contemporariness of games and themes, and format of payout table.

As such, the ability to develop and deliver new proprietary software regularly would provide growth opportunities for organisations within the Gaming Machines and Equipment Industry. Research and development on software plays an important role in creating new and appealing Gaming software.

- **Developing and Integrating Supporting Information Technology Applications**

Managing the operations of Gaming Machines and Equipment, like any other businesses, would need timely and critical information to assist in management and marketing. As such, developing and integrating supporting Information Technology (IT) systems would appeal significantly to operators of Gaming Machines and Equipment.

Supporting application systems include, among others, the following:

- Player monitoring and trending;
- Frequent player reward systems;
- Tracking Gaming Machine performances;
- Accounting for Gaming Machines and Equipment;
- Networking of Gaming Machines and Equipment to provide on-line real-time performance monitoring of Gaming Machines and Equipment.

- **Networking of Gaming Machines**

The success of Networked Jackpot System has meant that many Gaming premises are looking at networking their Gaming Machines as well as other innovative ways of networking with other premises to create even bigger payout.

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As such, there are significant growth opportunities to develop and implement Networked Jackpot Systems. In addition, if Network Jackpot Systems were integrated with Supporting Applications Systems, it would increase the size of the opportunity for organisations within the Gaming Machines and Equipment Industry.

- **Outsourcing of Technical Services of Gaming Machines and Equipment**

Many of the Recreational Clubs operate Gaming Machines as a peripheral activity. As such, outsourcing the technical support of Gaming Machines and Equipment would appeal to Clubs and at the same time provide opportunities for organisations within the Gaming Machines and Equipment Industry.

- **Assembly and Manufacturing**

Currently most of the Gaming Machines are fully imported. As such, there are significant opportunities to undertake assembly and manufacturing to replace some of the value of importing.

Assembly could comprise a combination of local non-essential parts and components while retaining proprietary software and hardware. Manufacturing could be undertaken for own brand as well as for third party brands.

Assembly and manufacturing provides significantly higher value adding compared to trading. As such, assembly and manufacturing provides significant opportunities for organisations within the Gaming Machines and Equipment Industry.

- **Refurbishment**

As Gaming Machines and Equipment becomes old and obsolete, there are opportunities to refurbish them in terms of incorporating new software, modifying hardware and improving external looks of Gaming Machines. Refurbishment represents significantly higher value-adding compared to trading, and thus would offer higher margin to organisations within the Gaming Machines and Equipment Industry.

- **Implementation of Asean Free Trade Area (AFTA)**

The implementation of AFTA would mean that exports of Gaming Machines and Equipment to member countries would be reduced to 5% or less for products with at least 40% local content. This has significant appeal to manufacturers in Malaysia as it would provide them with a cost advantage to export Gaming Machines and Equipment to members of AFTA.

An added opportunity includes manufacturing for third party global brands to take advantage of lower tariffs if manufactured in Malaysia. In addition, collaboration with global brand manufacturers would invariably transfer some of their expertise and technology to Malaysia.

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## 15. CRITICAL SUCCESS FACTORS

The critical success factors for organisations dealing in Gaming Machines and Equipment are as follows:

- **Having and Retaining Appropriate Licences**

The Gaming Machines and Equipment is a highly regulated industry where licences are limited and compliance stringently policed. An organisation without appropriate licences is not able to be involved in the Gaming Machines and Equipment Industry. As such, organisations must comply with licences requirements as well as practice good corporate citizenship to retain its various licences.

- **Export Markets**

The local market is restricted to one licensed casino and approximately 170 licensed clubs. The Government also controls the number of Gaming Machines in each licensed premises. As such, growth in the local market is highly dependent on the Government. For organisations within the Gaming Machines and Equipment Industry to grow significantly, it would need to expand overseas to sustain long-term growth.

- **Distribution Rights for Reputable Brands**

Gaming Machines and Equipment are sophisticated and precise. Sophisticated in terms of gaming software and precision in terms of accuracy of payout and quality of products in compliance to Government rules and buyers' requirements. As such, buyers of Gaming Machines and Equipment rely heavily on the reputation of the manufacturers and suppliers to ensure their interests are protected. This usually means buying from established and reputable manufacturers.

As Malaysia currently does not manufacture any Gaming Machines and Equipment (some exception of Gaming accessories) organisations in Malaysia rely on distribution rights from overseas manufacturers and suppliers. As such, having distribution rights to establish and reputable brands and manufacturers would be critical in ensuring business success, until such a time when Malaysia has its own manufacturers.

- **Technical Support Services**

Most operators of Gaming Machines and Equipment do not have in-house technical personnel to undertake regular maintenance, trouble shooting and repair works. This is because many operators do not have sufficient Gaming Machines and Equipment to justify in-house technical expertise. In addition, operators that use different brands of Gaming Machines and Equipment would need different spare parts and proprietary expertise to undertake technical support work. As such, Gaming Machines and Equipment suppliers that also provide technical support services would be highly preferred compared to others that solely sell Gaming Machines and Equipment.

Some exceptions to the above would apply to casinos and operation with a large number of Gaming Machines and Equipment. They would normally have in-house technical support. In such circumstances, some technical support is also relevant because of the different brands carried, requirements for corresponding proprietary expertise, and back-up support for high demand periods.

## 14. INDEPENDENT BUSINESS AND MARKET RESEARCH REPORT (Cont'd)



### VITAL FACTOR CONSULTING

Creating Winning Business Solutions

- **Value-Adding Services**

As all organisations supplying Gaming Machines and Equipment in Malaysia are currently representatives of overseas manufacturers and brands, one of the main differentiations is in the amount of value-adding provided. Examples of value-adding include the following:

- customisation of hardware and software;
- refurbishment;
- design and consultancy;
- developing networking systems;
- integration of Gaming Machines and Equipment with accounting and monitoring hardware and software;
- technical support services.

Value-adding as a differentiating advantage would significantly contribute to business sustenance, growth and success.

## 16. INSTALLED BASE OF GAMING MACHINES

- As at June 2003, the estimated installed base of Gaming Machines in Malaysia was **5,200 units** (Source: *Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd*).

## 17. MARKET POSITION

- As at June 2003, among the ten organisations dealing in Gaming Machines and Equipment, **Dreamgate Group is the market leader** in terms of number of units sold (Source: *Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd*).

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of the readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any companies.

Yours sincerely

Wooi Tan  
Managing Director  
Vital Factor Consulting Sdn Bhd



## 15. DIRECTORS' REPORT

*(Prepared for the inclusion in this Prospectus)*



*Dreamgate Corporation Berhad* (603831-K)

**Registered Office :**

51-21-A  
Menara BHL Bank  
Jalan Sultan Ahmad Shah  
10050 Penang

**16 DEC 2003**

The Shareholders of Dreamgate Corporation Bhd

Dear Sir/Madam

On behalf of the Board of Directors of Dreamgate Corporation Bhd ("DCB"), I report after due inquiry, that during the period from 30 June 2003 (being the date to which the last audited financial statements for the DCB Group have been made) to the date hereof (being a date not earlier than fourteen (14) days before the issuance of this Prospectus) :-

- (i) the business of the DCB Group has, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the DCB Group which have adversely affected the trading or the value of the assets of the Group;
- (iii) the current assets of the DCB Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) save as disclosed in this Prospectus, there are no contingent liabilities by reason of any guarantees or indemnities given by the DCB Group;
- (v) since the last audited financial statements of the DCB Group, the Directors are not aware of any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (vi) save as disclosed in this Prospectus, there have been no changes in the published reserves or any unusual factors affecting the profits of the DCB Group.

Yours faithfully

For and on behalf of the Board of Directors

**DREAMGATE CORPORATION BHD**

Datuk Chuah Kim Seah  
Managing Director