

## home business

# Casino slot machine operator hopes for better bet

**Sporting new identity as RGB, the company expects to do well in Macau and the Philippines**

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**KUALA LUMPUR:** After two years of huge losses, will former retail favourite Dreamgate Corporation Bhd regain its lustre?

Now sporting a new identity as RGB International Bhd, the casino slot machine operator, expects a better performance from its slot machine concessions, particularly in two key markets, the Philippines and Macau.

This follows a disastrous foray into Cambodia which dragged the group into huge losses over the past two years. At one point, Cambodia had reportedly contributed about half of the group's revenue.

The Cambodian government's directives in December 2008 and February 2009 in prohibiting sports betting and electronic gaming machines in entertainment clubs put paid to its operations there, resulting in an immediate loss of income from over 3,000 machines it had stationed in that country.

Its other venture in Cambodia,

a 40%-owned joint-venture casino Chateau De Bavet, is still incurring losses and the company says it is looking to dispose of the casino and negotiations are still ongoing.

RGB had subsequently said it would redeploy the over 3,000 slot machines to casino operators in Macau, the Philippines and Laos. It is learnt that to date, about 1,000 slot machines have yet to be redeployed.

In an email reply to *The Edge Financial Daily*, its group managing director Datuk Chuah Kim Seah said the group expected a better performance in the Philippines and Macau, where it currently had over 2,000 and 800 machines, respectively.

He said it also expected some growth from Laos and Vietnam where it had placed 150 machines in each country.

RGB was in the red for the last two consecutive financial years ended Dec 31, 2008 (FY08) and 2009 (FY09), with net losses of RM2.87 million and RM62.03 million, respectively. Revenue rose to RM227.81 million in FY09 from RM170.20 million in FY08.

It posted net profit of RM39.42 million on revenue of RM276 million in FY07. In its first quarter ended March 31, 2010 (1QFY10), the group incurred a net loss of RM17.73 million on revenue of RM31.22 million versus a net loss of RM2.21 million

and revenue RM35.58 million in 1QFY09.

"We did not have a very good FY08 and FY09, not only due to the weak economy that had not spared any business, but the Cambodia gaming regulatory change force-closed our slot clubs at Siem Reap and Phnom Penh that resulted in the immediate loss of income for our affected machines with high mobilisation costs and impairment charges especially in FY09.

"In 2009, we were busy relocating machines to the targeted sites. We hope to complete the whole mobilisation of machines by end of 2010," Chuah said, adding that RGB expected the bottomline to improve from last year. "We do envisage that the improvement would continue into FY2011," he added.

Chuah said 1QFY10 was contributed by the deferment of business plans for the Philippines due to the country's election, and due to higher depreciation costs and high promotional cost of its hotel and casino, Chateau at Bavet, in Cambodia.

The majority of sites in the Philippines had been contributing good income except for some new sites that would require a year to mature, he said.

"While we are busy taking steps to improve yield per machine, we will

also cease operations in non-performing sites when deemed necessary.

"We have appointed an experienced local executive to head the Philippine operation and tap on his expertise to improve our income, effective management operation with his gaming industry experience and tap on potentials for possible expansion," Chuah added.

RGB divides its operations into three lines of business — sales and marketing (SSM), technical support and management (TSM) and others that include casino operations, research and development, manufacturing of slot machines, and renting of property.

In its TSM line of business, RGB operates on a concession model for casinos that do not wish to shoulder the capital outlay for slot machines. RGB handles the maintenance and ownership of the machines while sharing the profits with the casino operator.

Under SSM, the company sells, markets and distributes internationally well-known electronic gaming machines. For FY09's revenue of RM170.20 million, TSM contributed 40%, SSM 52% and others 8%.

"In terms of distribution in revenue, going forward, we hope to achieve as follows — TSM 70%, SSM 20% and others 10%," said Chuah.

The company is in the process

### RGB's private placement completed

WITH reference to our article "Casino slot machine operator hopes for better bet", we would like to clarify that RGB International Bhd, formerly known as Dreamgate Corporation Bhd, had at the end of January this year completed its private placement of 191.84 million shares, raising a total of RM32.34 million.

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of raising funds of about RM32.34 million through a private placement of up to 191.84 million new shares representing about 20% of its current paid-up capital. The placement has been divided into four tranches and the issue prices have been set.

The funds will be used for planned capital expenditure of its existing business, repayment of loan taken for capital expenditure if any and working capital.

An industry observer, who monitors the counter, said he had expected the group's net loss margin to contract quarter-on-quarter if the company was on track to a turnaround. However, the group's loss margin had expanded rather than contracted in 1QFY10.

He said it would take three to six months for slot machines to begin generating steady cash flows and it would take at least about the same period of time to see if RGB was on the road to earnings recovery. The main drag on RGB's earnings was complications of its Cambodian operations, he added. RGB would need new ventures to produce growth and some of these had not taken off as expected, he said.

The question now is after a bad bet on Cambodia, is RGB now on a gradual path to recovery and strike it big elsewhere in the region?