

## INDUSTRY OVERVIEW

*Certain information and statistics set out in this section and elsewhere in this prospectus relating to the Macau and China economy and the industry in which we operate are derived from government agencies, including information obtained from the DSEC, the DICJ and the National Bureau of Statistics of China and various public database sources such as International Monetary Fund and the Macau Government Tourism Office. Except for the report prepared by Union Gaming, none of the reports cited in this prospectus was commissioned by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, agents, employees, advisors or representatives or any other persons or parties involved in the Global Offering.*

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### ASIAN GAMING MARKET OVERVIEW

Asia is the fastest-growing gaming market in the world and Macau has been the world's largest gaming destination in terms of gross gaming revenues since 2008. Malaysia, Singapore, South Korea, the Philippines, Vietnam and Cambodia are the other notable destinations of Asia's casino and gaming markets. In terms of gross gaming revenues in 2012, the size of the Macau market was approximately three times that of the Las Vegas Strip and Atlantic City markets combined. The success of Macau as a gaming and entertainment destination has led to the legalization, regulation and proliferation of gaming across the Asia Pacific region, and has initiated the development and construction of numerous casino-entertainment resorts, such as the opening of two integrated resorts in Singapore in early 2010, with a combined total investment of more than HK\$70 billion. In turn, the industry has supported each local economy within the broader pan-Asian region through enhanced tourism, job creation, tax revenues and the influx of domestic and foreign capital and other resources. The expansion of the gaming industry has also spurred investment and employment activities in ancillary industries, the most prominent of which are the retail, dining, entertainment, conference and convention sectors. The industry's growth and success are largely driven by gaming's particular appeal in Asian culture, the relatively low penetration in supply, an enormous population base, the world's fastest urbanization rate and the emergence of an affluent, middle-class population segment in Asia which has a proclivity towards leisure and entertainment.

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### MACAU GAMING MARKET OVERVIEW

Macau is a Special Administrative Region of the PRC located on the Pearl River Delta on the southern border of Guangdong Province, one of China's wealthiest and most urbanized provinces. It is approximately an hour away via high-speed ferry from Hong Kong, a tourism hub in Asia, and home to China's only approved casino gaming region. Macau attracts visitors from Guangdong Province, which had a population of approximately 105 million in 2011, and from the rest of China, Taiwan, Japan, South Korea, Thailand, Malaysia, Singapore, Indonesia, India and the Philippines, which are all within approximately five hours by flight from Macau and together with Hong Kong had a combined population of approximately 3.2 billion in 2012. In 2009, Macau was designated to be developed as the "most attractive tourism and leisure center in the world" by the PRC, according to the Planning Study on the Coordinated Development of the Greater Pearl River Delta Townships (October 2009).

Visitors to Macau from mainland China and Hong Kong accounted for 60.2% and 25.2%, respectively, of arrivals in 2012. Driven by the continued development and prosperity of mainland China, total visitors to Macau from China grew at a CAGR of 12.8% from 2003 to 2012. Macau's proximity to major population centers in Asia enhances its appeal as a popular gaming destination for foreign tourists. International visitation levels have experienced rapid growth from 2003 to 2012, with arrivals from (i) Japan increasing at a CAGR of 18.6%; (ii) the Philippines, Malaysia, Singapore and Thailand increasing at a CAGR of 26.8%; and (iii) India increasing at a CAGR of 35.5%. Macau's economy and gaming sector are expected to continue to benefit from the fast growing visitations driven by continued economic growth in China and other Asian countries.

Macau is the world's largest and fastest growing gaming market in terms of gross gaming revenues. It is currently the only location in Greater China to offer legalized casino gaming. The Macau market generated HK\$295.3 billion in gross gaming revenues in 2012, a 13.5% increase from 2011, and approximately four times the gross gaming revenue generated by the Las Vegas Strip in 2012. Gross gaming revenues have experienced a CAGR of 29.7% from 2007 to 2012 and an increase of more than three times from HK\$80.6 billion in 2007. Macau also provides various non-gaming amenities in the form of retail, hotel, conference and entertainment facilities, and is supported by various Macau Government infrastructure initiatives.

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The following table summarizes certain information about Macau and its gaming market from 2007 to 2012:

	2007	2008	2009	2010	2011	2012	2007–2012 CAGR
<b>Macau</b>							
Gross gaming revenues <sup>(1)</sup> (in millions of HK\$) . . . . .	80,604	105,604	115,892	182,857	260,065	295,281	29.7%
Gross win per table per day (HK\$) . . . . .	48,291	68,282	62,938	99,782	128,653	148,022	25.1%
Gross win per slot per day (HK\$) . . . . .	721	1,268	1,204	1,632	1,893	2,124	24.1%
VIP baccarat gross gaming revenues (in millions of HK\$) . . . . .	54,138	71,623	77,509	131,697	190,414	204,709	30.5%
Mass market value gross gaming revenues (in millions of HK\$) . . . . .	22,977	28,492	32,070	42,793	58,559	77,714	27.6%
Slot machine gross gaming revenues (in millions of HK\$) . . . . .	3,489	5,488	6,314	8,367	11,092	12,858	29.8%
Number of gaming tables <sup>(2)</sup> . . . . .	4,375	4,017	4,770	4,791	5,302	5,485	4.6%
Number of slots <sup>(2)</sup> . . . . .	13,267	11,856	14,363	14,050	16,056	16,585	4.6%
Total visitation (million) <sup>(3)</sup> . . . . .	27.0	22.9	21.8	25.0	28.0	28.1	0.8%

*Sources:* The DICJ and the DSEC

*Notes:*

- (1) Excluding revenues derived from non-casino related gaming activities such as horse racing, greyhound racing, Chinese lottery, instant lottery and sports lottery.
- (2) As at 31 December of each of the years presented.
- (3) The number of visitors to Macau in 2008 was revised by the DSEC and showed a significant drop compared to the previous non-revised number due to a methodological change. From 2008 onwards, visitor arrivals have excluded non-resident workers and students, but included arrivals at the Trans Border Industrial Park. The number of visitors to Macau in 2008 based on the DSEC's previous methodology was 30,185,740, an increase of 11.8% from 2007.

### DEVELOPMENT AND TREND OF THE MACAU GAMING MARKET

To improve the size, scope and quality of Macau's casinos and reinforce its position as a gaming center in the region, the Macau Government initiated a bidding process to grant three new gaming concessions in late 2001. In 2002, SJM was awarded the first concession, followed by Wynn Macau and Galaxy. A subsequent process allowed each concessionaire to grant one subconcession. There are now six companies licensed to operate casinos in Macau. The increase in the number of full-service casino resorts has not only contributed to a more than three fold increase in gross gaming revenues from 2007 through 2012, but has helped broaden Macau's appeal to a large audience by delivering a diverse range of non-gaming entertainment offerings which was previously limited. The developers of integrated resorts, which are able to attract new, premium-focused customers through not only premier gaming experience but also high-end retail, entertainment and leisure offerings, are expected to be the prime beneficiaries and experience significant growth during the evolution of the Macau gaming market.

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The Macau gaming market is geographically segregated into three regions, the Macau Peninsula, Taipa and Cotai. The Macau Peninsula spreads across 9.3 square kilometers and is geographically connected to Zhuhai, the PRC. The casino operations in Macau are primarily concentrated on the Macau Peninsula along the belt between the Macau Ferry Terminal and the Ponte Governador Nobre de Carvalho (also known as the Macau-Taipa Bridge). There have also been significant recent developments in Cotai, a 5.6 square kilometer area of reclaimed land located between the islands of Coloane and Taipa. Taipa is directly connected to the Macau Peninsula by three bridges.

With the Macau Government's support and the growing popularity of gaming, the number of casinos and hotels in Macau has increased over the past few years. According to the DICJ, as at 31 December 2012, Macau had a total of 35 casinos, 23 of which are located on the Macau Peninsula and 12 of which are located on Taipa and Cotai.

Historically, the total gross gaming revenue from VIP baccarat players represented more than two-thirds of total gross gaming revenues of gaming operators in Macau. Although gaming promoters have historically managed the majority of VIP player relationships, the new concessionaires and subconcessionaires have been increasingly successful in establishing direct relationships with VIP players.

The entry of international gaming operators, coupled with favorable regional economic trends, has led to strong growth in both the overall and rolling chip gaming markets. Macau's gross gaming revenues and VIP baccarat gross gaming revenues have increased dramatically from 2007 to 2012, growing at CAGRs of 29.7% and 30.5%, respectively. Beginning in late 2008, Macau began to experience the effects of the global economic slowdown of 2008 and the outbreak of H1N1 influenza in 2009. However, starting from the third quarter of 2009, the market witnessed a significant rebound in Macau's gross gaming revenues and achieved four consecutive months of record monthly gross gaming revenues from February to May 2011. The gaming industry in Macau continued to grow in 2012, with three new hotels opening in Cotai during the year and increased visitation from mainland China. Macau product offerings will also continue to develop as a result of capital investments in new casino resorts and enhancements in infrastructure.

### DRIVERS OF THE MACAU GAMING MARKET

The growth of the Macau gaming market has been facilitated by a number of drivers and initiatives, including favorable population demographics and economic growth across each of the Asian source markets, a diversified offering of gaming and non-gaming segments, and commitment by central and local governments to infrastructure developments and improvements. Details of these market drivers are set out as follows:

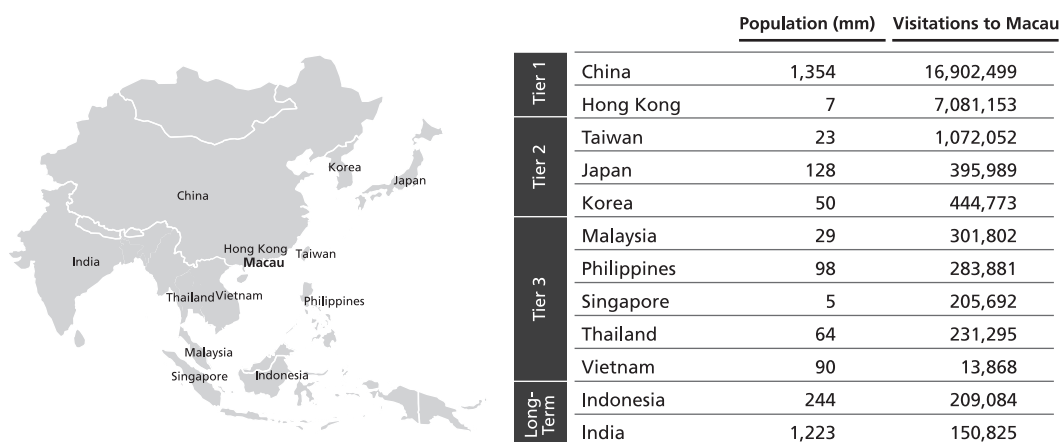
#### **Close proximity to three billion of the world's population**

Macau shares a border with China's populous and wealthy Guangdong Province and is approximately one hour from Hong Kong via high-speed ferry. Approximately 3.2 billion people live within a five-hour flight away from Macau, according to population data from the International Monetary Fund and visitation figures from the DSEC during 2012. The relatively easy access from major population centers in Asia facilitates Macau's development as a popular

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gaming destination in the region. Demand for non-gaming services including retail, leisure and entertainment services is also supported by the growth of personal disposable income and the population in urban areas in China.

The following graph shows the population of, and visitation to Macau from, countries and regions within a five-hour flight of Macau in 2012:



Sources: Population data from International Monetary Fund; visitation figures from the DSEC

Visitation growth from mainland China, Macau's primary source of visitors, has been supported by the implementation of the IVS. Following its implementation in 2003, mainland Chinese citizens from selected large urban centers and economically developed regions were able to obtain permits to travel to Macau on their own without joining a tour. In 2007, the IVS had expanded to cover 49 cities and approximately 270 million Chinese citizens, representing approximately 19.9% of China's population in 2012. However, it is estimated that merely 3% of the eligible citizens, or approximately 7.1 million, were IVS travelers to Macau in 2012.

In 2007 and 2008, the Chinese government adjusted its IVS visa policy toward Macau and limited the number of visits that some mainland Chinese citizens may make to Macau in a given time period. In addition, in May 2009, China placed certain restrictions on the operations of "below-cost" tour groups that involve low up-front payments and compulsory shopping.

Although the PRC government has in the past restricted IVS travel frequency, it is expected that the PRC government will maintain tourism development by opening the IVS to more Chinese cities to visit Macau.

### Development of Hengqin Island

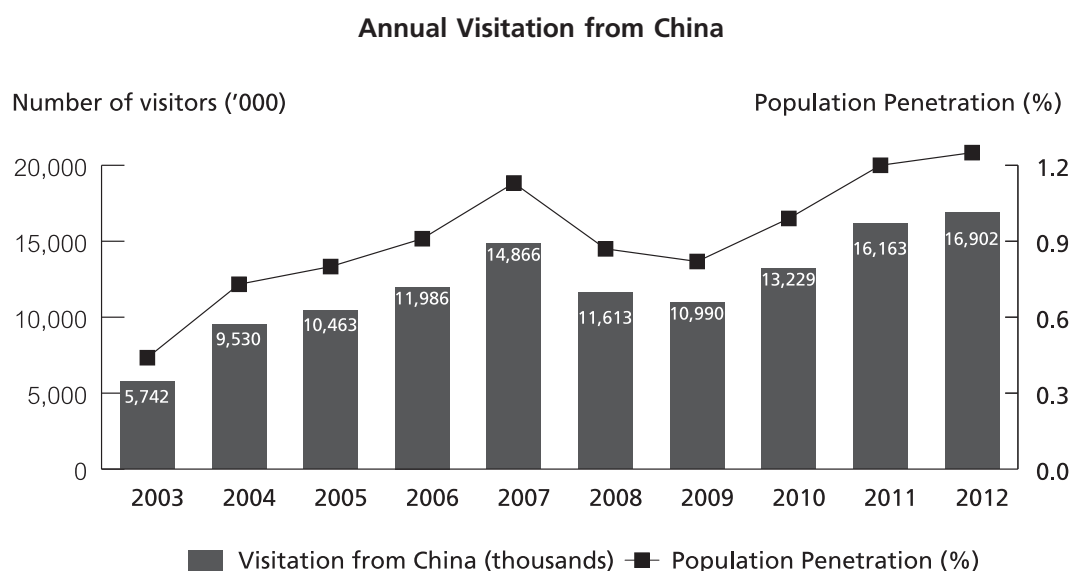
Hengqin Island, adjacent to the Taipa and Coloane Islands, is an island in Zhuhai that is connected to Cotai via the Lotus Bridge. It is the largest island among the 217 islands in Zhuhai and is more than three times the size of Macau.

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In November 2011, Zhuhai authorities announced plans to redevelop Hengqin Island, which include construction of oil and gas terminals, recreational facilities and a branch of the University of Macau. The recreational facilities on the island are expected to include nine theme parks, including the largest whale and shark aquarium in the world, 12 resort hotels, two yacht clubs and three golf courses. The redevelopment of Hengqin Island is expected to generate US\$8 billion in GDP for the island by 2020.

Development of Hengqin is expected to be an important driver of mass market gaming revenues in Macau, given the proximity of Macau from Hengqin Island, ease of access to Macau by visitors to Hengqin and the likely longer length of stay of visitors to Hengqin's theme parks.

The following diagram sets out the annual visitation to Macau from China from 2003 to 2012:



*Sources:* The DSEC and the National Bureau of Statistics of China

*Note:*

- (1) The number of visitors to Macau in 2008 was revised by the DSEC and showed a significant drop compared to previous non-revised numbers due to a methodological change. From 2008, visitor arrivals have excluded non-resident workers and students, but included arrivals at the Trans Border Industrial Park. The number of visitors to Macau in 2008 based on the DSEC's previous methodology was 30,185,740, an increase of 11.8% from 2007.

### **Emergence of a wealthier demographic in China**

It is anticipated that Macau will directly benefit from China's expanding economy. According to the National Bureau of Statistics of China, China's GDP grew at a 16.1% CAGR from 2007 to 2012. China is currently the third largest economy in the world by GDP. Unlike some of the world's other large economies, the Chinese economy has been resilient to the global economic crisis in 2008. In the future, China's economic growth is expected to remain strong, reflecting PRC government spending and development of the inland provinces. World

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Economic Outlook forecasts China's economic growth to reach approximately 8.8% for 2013. Long-term, economic growth in China is expected to help sustain and fuel the development of Macau as the mass entertainment and leisure hub in the Pan Pearl River Delta.

The promotion of domestic demand is critical in sustaining long-term economic growth in China. The impact of the recent global recession on China's economic growth has provided the impetus to China's shift to increase domestic consumption in order to reduce dependence on exports and foreign investments. In order to strengthen domestic spending and consumption, the PRC government is accelerating urbanization and seeking to provide better education and jobs. At the end of 2012, approximately 52.6% of China's 1.35 billion population lived in urban areas. Rapid urbanization has historically spurred greater consumption and shifted the composition of the retail spending from a heavy weighting towards food to a more balanced consumption model. Urban households' per capita disposable income increased from RMB21,810 per annum in 2011 to RMB24,565 per annum in 2012. China retail sales of consumer goods increased 14.3% on a year-over-year basis from 2011 to 2012. The shift in China's consumption patterns towards more discretionary spending is expected to continue as income increases. Given the higher propensity for gaming in this demographic, increased spending patterns are expected to serve to further support growth in Macau's gaming market.

### **Diversified range in gaming segments with a focus on VIP customers**

The Macau gaming market consists of two primary segments: the cash or mass market segment and the rolling chip or VIP segment.

**Mass market segment.** The mass market segment consists of both table games and slot machines played on public mass gaming floors for primarily cash stakes. The mass market segment is generally viewed as a higher-margin component of the overall gaming market as compared to the VIP segment due to the commission costs of operating the rolling chip operations. Mass market gaming revenues have grown significantly and according to the DICJ, mass market table and slot operation revenue grew at a CAGR of 27.6% and 29.8% from 2007 to 2012, respectively. Mass market table games and slot operations accounted for approximately 26.3% and 4.4%, respectively, of total gross gaming revenue in Macau for 2012.

**VIP segment.** VIP players in Macau are typically wealthy persons who play mostly in dedicated VIP rooms or designated gaming areas. VIP players are sourced either by gaming promoters or through direct relationship between the casinos and the players, such as members of loyalty programs.

In accordance with general industry practice, gaming promoters typically commit to certain casino-specified minimum rolling chip purchases per VIP room per month. In return for their services, the gaming promoter is typically paid a commission by the gaming operator, based on either gaming win or the rolling chip volume generated. The obligation to pay commissions to gaming promoters and revenue rebates to VIP players directly sourced by concessionaires and subconcessionaires means that although this segment accounts for a large proportion of total gross gaming revenues, margins are lower than those of the mass market segment. VIP players typically receive various forms of complimentary services, including transportation, accommodation and food and beverage services from the gaming promoters, concessionaires or



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subconcessionaires. These complimentary services also affect the margins associated with the VIP segment of the business and form part of the 1.25% limit on commissions paid to gaming promoters on rolling chip programs.

Direct VIP players are brought in through the direct relationships between players and gaming operators or players' preference for a particular gaming operator or property. Although revenue rebates are paid to these customers, the level is typically lower than those paid to gaming promoters. As such, direct VIP players have potentially higher margins compared to VIP players sourced through gaming promoters.

In 2012, VIP gross gaming revenues represented 69.3% of the total gross gaming revenues in Macau. It is anticipated that the diversified range in gaming segments in the Macau gaming market, with a focus on VIP players, will continue to be the key growth driver in the near future.

### Further improvement of transportation and infrastructure to drive visitation

Macau is accessible by land, air and sea. In 2012, approximately 52.8% of visitors arrived in Macau via the Zhuhai border gate crossing with China and the Cotai checkpoint, approximately 40.9% arrived via ferry and nearby cities in China, and approximately 6.3% arrived via the Macau International Airport and heliport. Several airlines currently fly directly to Macau International Airport, operating direct routes to Macau from countries such as South Korea, Japan, Thailand, Malaysia, Singapore and the Philippines.

Further, we believe that improved transportation to and within Macau will also contribute to continued growth in visitation and gaming players. A number of infrastructure projects to facilitate travel have been recently completed or are in various stages of planning or development, such as the following:

- **Guangzhou-Zhuhai Highway.** The highway which opened in 2004 links Macau to Hengqin Island, a PRC government-mandated strategic new zone planned for development into a commercial, residential and resort destination.
- **Guangzhou-Zhuhai Intercity Mass Rapid Transit.** The mass rapid transit was opened in January 2011, which provides another convenient form of transport to Macau.
- **Guangzhou-Zhuhai Intercity Railway.** The high speed railway was partially opened in 2011 and was completed at the end of 2012. The high speed railway reduces travel time between Guangzhou and Zhuhai, from two hours to approximately 45 minutes.
- **Airport capacity upgrade.** With the continuous upgrade in the capacity and facilities of the Macau International Airport, the airport is expected to accommodate up to 7.1 million passengers by 2020, according to media reports.
- **Taipa Ferry Terminal.** Macau will add a new ferry terminal, Taipa Ferry Terminal in Taipa Island, in addition to its two current ferry terminals in 2013. Currently, there are two ferry terminals located at the inner harbor and the outer harbor on the Macau Peninsula, and a temporary one on the city's Taipa Island in operation. The new



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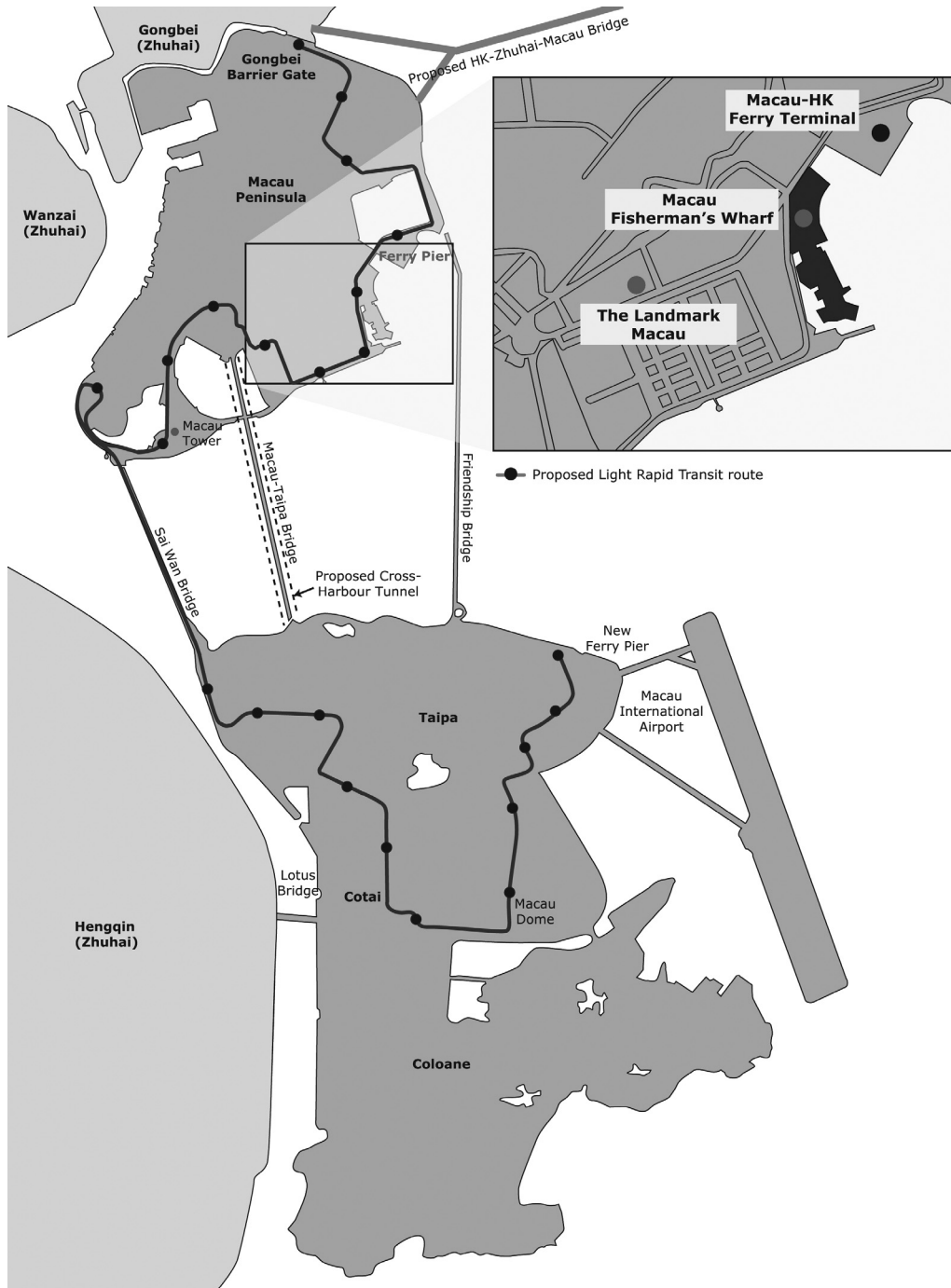
terminal is expected to have 16 piers for boats with a capacity of up to 400 passengers and three piers for ships of 1,200 passenger berths. A heliport on the roof of the terminal is also expected to be constructed.

- **Macau Light Rail System.** The light rail system connecting the Macau Peninsula, Taipa and Cotai via 21 different stations is expected to be ready for use by 2015, which is expected to improve connectivity.
- **Hong Kong-Zhuhai-Macau Bridge.** The bridge linking three areas will include a bridge with a total length of around 30 km, boundary crossing facilities, access roads and associated works. In January 2007, the local governments of Hong Kong, Zhuhai and Macau established the Hong Kong-Zhuhai-Macau Task Force to implement the project, which is expected to open in around 2016. It will contribute to the reduction in road travel time from Hong Kong and/or Zhuhai to Macau.
- **Expansion of Border Gate.** The expansion of the border gate checkpoint in the Portas do Cerco area in northern Macau was completed at the end of 2012, increasing the capacity of the border from 300,000 people per day to more than 500,000 people per day.

In addition, according to the National Development and Reform Commission, the PRC government has expressed support for a more modern and integrated transportation system within the region as described in its Outline of the Plan for the Reform and Development of the Pearl River Delta (2008–2020). Such improved transportation to and within Macau is expected to contribute to growth in visitation and mass market gaming.

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The following diagram sets out the completed infrastructure projects and those in various stages of planning or development:



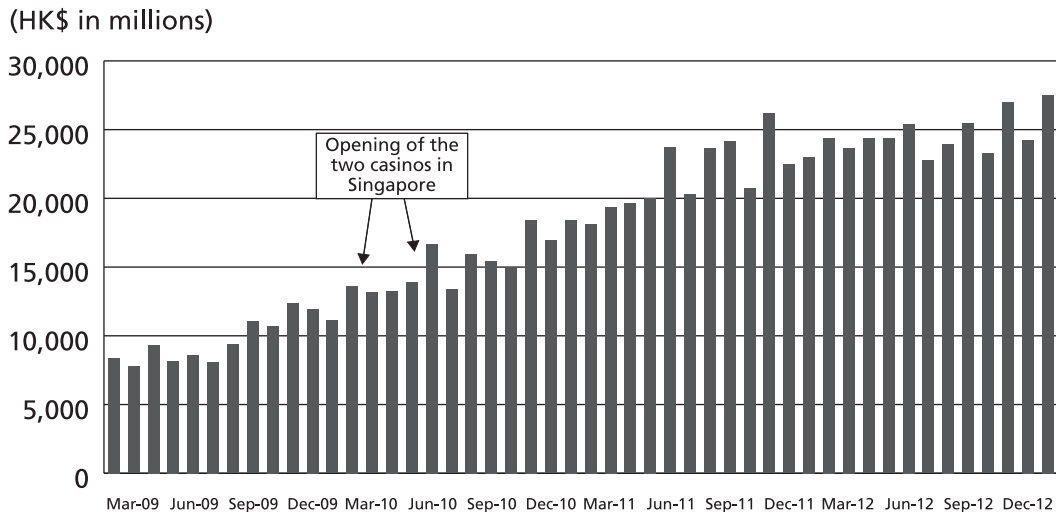
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### Other Asian gaming markets

Our Company competes with other casinos located in countries such as Malaysia, South Korea, the Philippines, Vietnam, Cambodia, Australia, New Zealand and elsewhere in the world, including Las Vegas and Atlantic City in the United States. In addition, certain countries, such as Singapore, have legalized casino gaming and others may follow suit, including Japan, Taiwan and Thailand. Singapore awarded casino licenses to Las Vegas Sands and the Genting Group in 2006. The Genting Group opened its casino in February 2010 and Las Vegas Sands opened its casino in April 2010 in Singapore. We also compete with cruise ships operating out of Macau, Hong Kong and other areas of Asia that offer gaming. The regulation, liberalization, development and growth of gaming in the region are in a continual state of evaluation and evolution. See “Business — Competition.”

The extension and proliferation of gaming in other regional markets such as Singapore, while creating additional competition, is likely to encourage visitation and increase the penetration of gaming across the region, including in Macau, to the benefit of the established operators and markets. For example, despite the opening of two integrated resort casinos in Singapore in 2010 that have generated an aggregate of approximately HK\$26.9 billion of revenue, Macau recorded the seven highest monthly gross gaming revenues in history during February to August 2011. Below is an overview of the monthly gross gaming revenue in Macau since January 2009:

**Monthly Gross Gaming Revenue in Macau**



Source: DICJ

Please refer to “Risk Factors — Risks Relating to Our Business and Operations — We face intense competition in Macau and elsewhere in Asia.”

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### MACAU HOTEL, CONVENTION AND RETAIL INDUSTRIES

Historically many of the casino properties in Macau were gaming-centric facilities that contained a relatively limited offering of non-gaming amenities. Since the liberalization of the Macau gaming industry, new development properties increasingly offer a variety of non-gaming services such as high quality hotel rooms, high-end retail and dining areas, MICE space and entertainment amenities. The development of non-gaming attractions positions Macau as a comprehensive entertainment destination. As casino operators utilize their expertise to incorporate retail, food and beverage outlets and entertainment into their properties to offer an integrated resort experience, visitation to Macau, the duration of stay and the spending per visitor in both gaming and non-gaming sectors have all increased.

#### The Macau hotel and convention market

According to the DSEC, the total number of hotels and guest houses in Macau increased from 84 as at 31 December 2008 to 100 as at 31 December 2012 and the number of rooms increased from 17,490 to 26,069 during the same period. Such increase in the number of rooms during 2008 to 2012 represented a CAGR of 10.5%. Overnight hotel visitation increased from 28.5% of total visitation to Macau in 2008 to 34.0% of total visitation in 2012, with an average length of stay of 1.4 nights in 2012. According to the Macau Government Tourism Office, there were approximately 11,760 rooms in the Macau Peninsula as at 31 December 2012. The following table shows total available rooms, total hotel guests, average length of stay, occupancy rate and average daily rate for the Macau hotel market.

	2008	2009	2010	2011	2012
Total Available Rooms <sup>(1)</sup> . . . . .	17,490	19,259	20,091	22,356	26,069
Total Hotel Guests (in millions) <sup>(2)</sup> . . . . .	6.54	6.71	7.76	8.61	9.54
Average Length of Stay (Nights) . . . . .	1.44	1.50	1.54	1.53	1.4
Occupancy (%) . . . . .	74.3	71.4	79.8	84.1	83.1
ADR (US\$) <sup>(3)</sup> . . . . .	126	128	146	168	177

Sources: The DSEC and the Macau Government Tourism Office

Notes:

- (1) Total available rooms as at year end, including both hotel rooms and guest houses.
- (2) Includes guests that stay in hotel rooms and guest houses.
- (3) Average daily rate.

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We believe that the introduction of additional high quality hotels, in combination with increasing retail and entertainment facilities and MICE space, will continue to enhance Macau's reputation as a world-class tourist and business destination and to contribute to an increase in the average length of stay in Macau.

The development of new convention facilities on the Macau Peninsula and in Cotai in recent years have helped to boost the attractiveness of Macau as a regional centre for MICE.

According to the DSEC, although the total number of MICE events decreased from 1,240 in 2008 to 1,022 in 2012, the number of MICE participants increased from 364,320 to 1,612,961 during the same period, representing a CAGR of 45.1%. Despite the rapid growth, the market is still significantly lower than its Las Vegas counterpart which had 21,615 events and 4.9 million attendees in 2012, according to the Las Vegas Convention and Visitors Authority. We believe there is significant long-term growth potential for this segment given the ongoing development of world class facilities and Macau's proximity to the growing MICE market in China.

### **The Macau retail market**

In the past three years, casino operators have expanded their retail space on the Macau Peninsula and in Cotai for upscale shopping. According to the DSEC, total shopping spending increased from HK\$15,613 million in 2008 to HK\$24,920 million in 2012. As mainland Chinese constitute a majority of visitors to Macau, retail plays an important role in attracting Chinese customers to the region to purchase premium brands without paying a luxury goods tax which may be levied in China. According to the Macau Government Tourism Office, in 2012, mainland Chinese visitors spent an average of HK\$1,337 per person on shopping, higher than visitors from any other region.

With regard to the spending habits, visitors from China spend about 58% of their per-capita spending on shopping (excluding gaming expenses), whereas those from Japan, Hong Kong, Taiwan and Southeast Asia spent significantly less on shopping (excluding gaming expenses), spending 11%, 18%, 29% and 27%, respectively, of their per-capita spending in 2012.

We believe the upcoming supply of retail space offered by entertainment resorts will help further propel visitation and business to the casinos.

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### CONCESSIONAIRES, SUBCONCESSIONAIRES AND GAMING SERVICE PROVIDERS

In 2002, the Macau Government awarded three gaming concessions, to SJM, Galaxy and Wynn Macau, respectively, pursuant to the terms of the Gaming Law and other related legislation. The Macau Government subsequently and successively authorized three subconcessions permitting each of SJM, Galaxy and Wynn Macau to enter into the subconcession contracts with its respective subconcessionaire to operate games of fortune and chance in casinos in Macau. The granting of further subconcessions is prohibited unless specifically authorized by the Macau Government. The existing concessions and subconcessions do not place any limit on the number of gaming facilities or casinos that may be operated under each concession or subconcession, although the total number of gaming tables operating in Macau is subject to limits as may be announced by the Macau Government from time to time. See “Gaming Services Model — The Concession Regime in Macau.”

Following the award of gaming concessions and subconcessions, concessionaires and subconcessionaires began to enter into service agreements with third-party gaming service providers, whereby such third-party gaming service providers would provide gaming services, including marketing, promotion, publicity, customer development and introduction, and coordination of activities in respect of the gaming facilities in a casino operated by the concessionaire or subconcessionaire, for a share of the gross gaming revenue and losses generated by the casino.

As at 31 December 2012, SJM operated 20 (including two slot machine halls) of the 35 casinos in Macau. Of the remaining casinos in Macau, Galaxy operated six casinos, Melco Crown Gaming operated three casinos, VML operated four casinos, and each of Wynn Macau and MGM Grand Paradise operated one casino. According to Union Gaming, 19 of the 35 casinos were operated by these concessionaires and subconcessionaires under service agreements with various gaming service providers.

According to Union Gaming, as at 31 December 2012, these 19 casinos are estimated to have operated a total of 1,174 gaming tables, comprising 407 VIP table games and 767 mass market table games. According to the DICJ, as at 31 December 2012, there was a total of 5,485 gaming tables that were in operation in Macau. We are the second largest gaming service provider, in terms of the total number of gaming tables in our properties, among the casinos operating under service agreements in Macau, as at 31 December 2012. Pharaoh’s Palace Casino and Babylon Casino, together with the other top five casinos operating under service agreements, accounted for approximately 50% of gaming table supply of casinos operating under service agreements in Macau.

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The following table illustrates the casinos operating under service agreements and the number of gaming tables in each of these casinos, as at 31 December 2012:

No.	Property name	Concessionaire/ Subconcessionaire	VIP tables	Mass market tables	Total	Percentage of Total
1	Casino L'Arc Macau . . . . .	SJM Holdings	112	58	170	15%
2	Casino VIP Legend/Pharaoh. . . .	SJM Holdings	63	60	123	11%
3	Casino Ponte 16 . . . . .	SJM Holdings	18	91	109	9%
4	Casino Golden Dragon . . . . .	SJM Holdings	21	65	86	7%
5	Casino Lan Kwai Fong . . . . .	SJM Holdings	30	54	84	7%
6	Casino Greek Mythology . . . . .	SJM Holdings	48	32	80	7%
7	Casino Emperor Palace . . . . .	SJM Holdings	13	64	77	7%
8	Rio Casino . . . . .	Galaxy Entertainment Group	12	50	62	5%
9	Casino Fortuna . . . . .	SJM Holdings	18	40	58	5%
10	Casino Jimei . . . . .	SJM Holdings	27	20	47	4%
11	Casino Casa Real . . . . .	SJM Holdings	4	44	48	4%
12	Grand Waldo Casino . . . . .	Galaxy Entertainment Group	15	23	38	3%
13	Waldo Casino . . . . .	Galaxy Entertainment Group	15	22	37	3%
14	Casino Diamond . . . . .	SJM Holdings	6	27	33	3%
15	Taipa Square Casino . . . . .	Melco Crown Entertainment	2	32	34	3%
16	Casino Kam Pek Paradise . . . . .	SJM Holdings	0	26	26	2%
17	Casino Grandview/MJC . . . . .	SJM Holdings	3	21	24	2%
18	Casino Babylon . . . . .	SJM Holdings	0	23	23	2%
19	President Casino . . . . .	Galaxy Entertainment Group	0	15	15	1%
<b>Total</b>			<u>407</u>	<u>767</u>	<u>1,174</u>	<u>100%</u>

*Sources:* Union Gaming Research Macau and data from the Company

*Note:*

- (1) Save for Pharaoh's Palace Casino, Babylon Casino, Casino Casa Real and Casino Grandview/MJC, all the above casinos are managed by different gaming service providers. Casino Casa Real and Casino Grandview/MJC are managed by the same gaming service provider.



## INDUSTRY OVERVIEW

The following table illustrates the net win per table per day of all the casinos operated by the concessionaires and subconcessionaires, and Pharaoh's Palace Casino and Babylon Casino, which were operated under the Service Agreement, for the periods indicated:

	Net win per table per day (HK\$)			
	Year Ended 31 December			
	2009	2010	2011	2012
<b>SJM<sup>(1)</sup></b>				
VIP . . . . .	219,400	257,500	259,100	243,400
Mass market . . . . .	27,900	36,300	49,600	56,000
VIP/mass market combined . . . . .	59,200	89,900	117,100	119,300
<b>Galaxy<sup>(2)</sup></b>				
VIP . . . . .	150,500	232,800	342,600	335,700
Mass market . . . . .	23,400	27,400	46,800	65,900
VIP/mass market combined . . . . .	87,400	130,900	178,900	178,700
<b>Melco Crown Gaming<sup>(3)</sup></b>				
VIP . . . . .	103,100	150,200	225,700	219,800
Mass market . . . . .	26,400	39,500	65,700	88,100
VIP/mass market combined . . . . .	77,500	104,000	157,700	161,900
<b>MGM Grand Paradise</b>				
VIP . . . . .	128,200	189,000	292,500	270,000
Mass market . . . . .	25,500	41,000	57,700	75,900
VIP/mass market combined . . . . .	62,500	104,300	170,000	176,000
<b>VML (Sands China Ltd.)</b>				
VIP . . . . .	94,300	136,800	149,900	204,500
Mass market . . . . .	36,900	47,100	56,000	67,100
VIP/mass market combined . . . . .	57,300	79,400	90,800	115,300
<b>Wynn Macau</b>				
VIP . . . . .	197,300	269,000	288,400	246,000
Mass market . . . . .	43,500	55,600	80,000	89,300
VIP/mass market combined . . . . .	111,700	163,700	196,600	182,300
<b>Pharaoh's Palace Casino</b>				
VIP . . . . .	— <sup>(4)</sup>	293,600	367,300	267,900
Mass market . . . . .	46,900	56,900	69,300	71,000
VIP/mass market combined . . . . .	—	147,600	191,700	164,100
<b>Babylon Casino</b>				
VIP . . . . .	—	—	—	—
Mass market . . . . .	22,400	19,200	28,300	33,900
VIP/mass market combined . . . . .	22,400	19,200	28,300	33,900

## INDUSTRY OVERVIEW

The following table illustrates the number of gaming tables of all the casinos operated by the concessionaires and subconcessionaires<sup>(5)</sup>, and Pharaoh's Palace Casino and Babylon Casino, which were operated under the Service Agreement, for the periods indicated:

	Number of gaming tables			
	2009	2010	2011	2012
SJM (excluding casinos operated by third-party gaming service providers)				
VIP . . . . .	128	154	191	224
Mass market . . . . .	656	570	550	559
SJM (only casinos operated by third-party gaming service providers)				
VIP . . . . .	192	353	418	363
Mass market . . . . .	748	613	616	625
Galaxy (excluding casinos operated by third-party gaming service providers)				
VIP . . . . .	160	160	310	310
Mass market . . . . .	80	80	380	380
Galaxy (only casinos operated by third-party gaming service providers)				
VIP . . . . .	49	49	39	42
Mass market . . . . .	126	126	106	110
Melco Crown Gaming (excluding casinos operated by third-party gaming service providers)				
VIP . . . . .	396	359	357	346
Mass market . . . . .	284	259	270	281
Melco Crown Gaming (only casinos operated by third-party gaming service providers)				
VIP . . . . .	2	2	2	2
Mass market . . . . .	29	29	32	32
MGM Grand Paradise				
VIP . . . . .	156	188	210	225
Mass market . . . . .	240	220	214	194
VML (Sands China Ltd.)				
VIP . . . . .	404	408	434	468
Mass market . . . . .	724	727	701	867

## INDUSTRY OVERVIEW

	Number of gaming tables			
	2009	2010	2011	2012
<b>Wynn Macau</b>				
VIP . . . . .	196	238	295	289
Mass market . . . . .	198	225	195	205
<b>Pharaoh's Palace Casino</b>				
VIP . . . . .	—	42	50	63
Mass market . . . . .	66	66	66	60
<b>Babylon Casino</b>				
VIP . . . . .	—	—	—	—
Mass market . . . . .	33	23	23	23

*Sources:* Union Gaming Research Macau and data from the Company (with numbers rounded up to the nearest hundred)

*Notes:*

- (1) The casinos operated by SJM include Pharaoh's Palace Casino and Babylon Casino, at which we provide Gaming Services, and all the other casinos operated by gaming service providers under service agreements with SJM.
- (2) The casinos operated by Galaxy include the casinos operated by gaming service providers under service agreements with Galaxy.
- (3) The casinos operated by Melco Crown Gaming include a casino operated by a gaming service provider under a service agreement with Melco Crown Gaming.
- (4) We only began providing Gaming Services in the VIP rooms in Pharaoh's Palace Casino in October 2009 pursuant to the 2009 Amendment to the Service Agreement.
- (5) The difference in the number of gaming tables between the DICJ's data and the data reported by the concessionaires and subconcessionaires (which is adopted by Union Gaming) is largely due to differences in the way electronic gaming tables are categorized. There is no standardized categorization for live dealt and entirely digital electronic gaming tables. Gaming operators either classify these live dealt and entirely digital electronic gaming tables as slot machines or as traditional gaming tables.

The casino gaming facilities in Pharaoh's Palace Casino were one of the highest performing casinos in Macau in terms of net win per table per day in 2010 and 2011, with a net win per table per day of HK\$147,600 and HK\$191,700 respectively, exceeding that of casinos operated by, among others, Galaxy, Melco Crown Gaming, MGM Grand Paradise and VML. In 2012, the average net win per table per day in Pharaoh's Palace Casino was HK\$164,100, which was above the industry average of HK\$142,100.

## INDUSTRY OVERVIEW

### UNION GAMING

We commissioned Union Gaming, an independent third party, to prepare a report on Macau's gaming industry in December 2012. The total fee we paid for the report prepared by Union Gaming was MOP120,000. Union Gaming is an equity research firm focused on the global gaming industry founded in 2009 that provides research products and services. Union Gaming regularly publishes industry reports on the global gaming industry. In preparing these reports, including this commissioned report, Union Gaming collects and reviews publicly available data such as government-derived information, annual reports and industry association statistics. Union Gaming has advised us that it has exercised due care in collecting and reviewing the information collected and believes that the basic assumptions contained therein are factual and correct, and that the interpretations are reasonable. Union Gaming has advised us that it has independently analyzed the information collected, but that the accuracy of the conclusions of its review largely depends upon the accuracy of the information collected. Union Gaming's independent analysis of the Macau gaming market was undertaken through primary and secondary research that was obtained from various sources. Primary research included interviews with parties directly involved in Macau's gaming industry, including casino operators and VIP-room operators. Secondary research included gathering and refining data from several publicly available sources, including the DICJ, and various reports from hotel and/or gaming business owners and operators.