

## GAMING SERVICES MODEL

SJM, as a concessionaire, operates the Casinos. We provide Gaming Services to SJM in respect of the Casinos, which include marketing, promotion, publicity, customer development and introduction, coordination of activities and other services as agreed from time to time, pursuant to the Service Agreement.

### THE CONCESSION REGIME IN MACAU

Following its decision to open Macau's gaming industry, the Macau Government conducted a public tender process for gaming concessions in Macau. 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. In March 2010, the Macau Government announced that the number of gaming tables operating in Macau would not exceed 5,500 until the end of the first quarter of 2013, and in September 2011, the Macau Government announced that for the 10 years after 2013, the total number of gaming tables to be authorized in Macau will be limited to an annual increase of 3.0%. In addition, governmental approval is required before a casino commences operations. 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.

A concessionaire or subconcessionaire may increase the number of gaming tables it operates upon authorization from the DICJ. The DICJ considers the space of the casinos and maximum limit of gaming tables granted to a concessionaire or subconcessionaire.

The following information in connection with contributions to the Macau Government is common to all concessionaires and subconcessionaires:

Special gaming tax . . . . .	35.0% of gross gaming revenue <sup>(1)</sup> ; plus
Annual gaming premium. . . . .	MOP30.0 million (HK\$29.1 million) per annum fixed premium;
	MOP300,000.0 (HK\$291,262.1) per annum per VIP gaming table;
	MOP150,000.0 (HK\$145,631.1) per annum per mass market gaming table; and
	MOP1,000.0 (HK\$970.9) per annum per electric or mechanical gaming machine including slot machines.

Source: DICJ

Note:

(1) Gross gaming revenue is defined as the total win generated by all casino gaming activities combined, calculated before deduction of commissions and other expenses.

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Following the granting of the concessions in 2002, each of SJM, Galaxy and Wynn Macau entered into a concession contract, which sets out the terms and conditions of its concession with the Macau Government. SJM executed the SJM Concession Contract with the Macau Government on 28 March 2002, which was subsequently amended on 19 April 2005 and published in the Macau Official Gazette on 4 May 2005. The SJM Concession Contract, as amended, contains similar terms and conditions as those in the other concession contracts. The concessionaires and the subconcessionaires entered into subconcession contracts, which were authorized by the Macau Government.

### THE SJM CONCESSION

The SJM Concession Contract and related Macau laws and regulations set out the terms and conditions upon which the Macau Government granted the SJM Concession. Under the SJM Concession Contract, SJM holds an 18-year concession beginning on 1 April 2002 and expiring on 31 March 2020 to operate casino games and other gaming areas in Macau as approved and authorized by the Macau Government. Upon expiration of the SJM Concession Contract on 31 March 2020, the Macau Government may grant an extension of up to a maximum of seven years to SJM pursuant to Macau Gaming Law. There are no renewal conditions imposed under the SJM Concession Contract. However, the Macau Government may impose conditions for renewal. The Macau Government may unilaterally terminate the SJM Concession Contract for cause without compensation, or SJM may fail to secure its extension. Up to six months prior to the expiry date, the SJM Concession Contract may be extended by the Macau Government for a maximum of two additional years, up to a limit of 20 years. Beyond the 20 year limit, the SJM Concession Contract may be exceptionally extended by the Macau Government, up to a further limit of five years.

The Macau Government imposes a special gaming tax on the concessionaires and subconcessionaires at the rate of 35% of gross gaming revenue, payable on a monthly basis. The tax revenue from gaming accounted for approximately 77.7%, 81.0% and 87.6% of the Macau Government's total public revenue for the fiscal years 2010, 2011 and 2012, making it the biggest contributor to the Macau Government's public revenue. The Macau Government also requires the concessionaires and subconcessionaires to pay a percentage of the gaming revenue as special levy, amounting up to 5% of gross gaming revenue, to be given to (i) a public foundation designated by the Macau Government that funds educational programs and other events; and (ii) the Macau Government for urban development, tourism promotion and social security. Until 31 December 2006, SJM enjoyed a special exemption from payment of complementary tax on gaming derived profits, pursuant to the Dispatch of Chief Executive No. 30/2004. SJM subsequently applied to the Chief Executive of the Macau Government for renewal of this exemption, approval of which was granted on 23 November 2011, which is effective from 1 January 2012 until 31 December 2016, pursuant to the Dispatch from the Chief Executive No. 378/2011, dated 23 November 2011. All concessionaires and subconcessionaires currently in operation have been granted special exemptions from complementary tax for the same number of years.

SJM is also required to remit annually to the Macau Government a gaming premium with a fixed portion and a variable portion based on the number and type of gaming tables and electronic gaming machines operated by SJM as described below. The fixed portion is MOP30.0

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million, while the variable portion is dependent upon the number of gaming tables or gaming machines. The variable portion of the gaming premium shall not be less than MOP45.0 million per annum. SJM is required to pay the fixed portion of the gaming premium by the 10th of January of each year or upon the request of the Macau Government, make the payment on a monthly basis, and the variable portion of the gaming premium must be paid by the 10th day of each month. SJM is required under article 33 of the SJM Concession Contract and section 432 of the Macau Commercial Code to maintain a legal reserve fund equal to one-fourth of its share capital.

Under the terms of the SJM Concession Contract, SJM is required to carry certain types of insurance policies for the entire duration of the SJM Concession. As at the Latest Practicable Date, SJM maintained all-risk property insurance for substantially all of its owned and leased properties, buildings, equipment and gaming-related inventories such as chips relating to its casino and slot machine operations. SJM is also required by the SJM Concession Contract to carry general civil liability insurance in connection with the operation of casino games located in Macau and the development of gaming-related services included in the SJM Concession that are not already covered by existing insurance policies.

The following table sets out some of the major terms and conditions of the SJM Concession Contract:

Term. . . . .	18 years from 1 April 2002 to 31 March 2020
Special gaming tax . . . . .	35% of gross gaming revenue
Annual gaming premium. . . . .	MOP30.0 million (HK\$29.1 million) per annum fixed premium
	MOP300,000.0 (HK\$291,262.1) per annum per VIP gaming table
	MOP150,000.0 (HK\$145,631.1) per annum per mass market gaming table
	MOP1,000.0 (HK\$970.9) per annum per electric or mechanical gaming machine including slot machines

In addition, it was agreed that SJM would pay a special levy of 1.6% of gross gaming revenue to a public foundation designated by the Macau Government for its use, with the objectives of promoting, developing or studying, among other things, culture and science, and contribute 1.4% of gross gaming revenue to the Macau Government for urban construction development, tourism promotion and provision of social security in Macau.

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The SJM Concession Contract also contains various general covenants and obligations, including those listed below:

SJM shall, among other obligations:

- submit periodic, detailed financial and operating reports to the Macau Government and furnish any other information that the Macau Government may request;
- arrange for its casinos to remain open for operations on a daily basis;
- ensure the proper management and operation of casino games;
- hire staff with appropriate qualifications;
- undertake and operate casino games in a fair and honest manner and free from the influence of criminal activities;
- safeguard and ensure the Macau Government's tax revenue from operation of casino games;
- maintain required insurance coverage; and
- return the gaming equipment and apparatus in Macau to the Macau Government on 31 March 2020 or upon termination of the SJM Concession, if at an earlier date.

The Macau Government has the right to unilaterally terminate the SJM Concession Contract for cause, after providing SJM with the opportunity to remedy, for SJM's noncompliance with fundamental obligations under the SJM Concession Contract and the applicable laws of Macau such as:

- operation of casino games without permission or operation of business beyond the scope of the SJM Concession;
- abandonment of approved business or suspension of business without justifiable reasons for more than seven consecutive days or 14 non-consecutive days within one calendar year;
- shift of all or part of SJM's gaming operations in Macau temporarily or permanently in violation of the relevant laws and administrative regulations governing the operation of casino games;
- failure to pay taxes, premiums, levies or other amounts payable to the Macau Government;
- refusal or failure to resume operations or failure to continue operations due to on-going serious disruption or insufficiency of its organization or operations following the assumption of operations by the Macau Government;

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- repeated refusal of the inspection and supervision of the Macau Government or repeated failure to comply with decisions of the Macau Government, in particular, the DICJ's instructions;
- repeated noncompliance with fundamental obligations stipulated in the applicable laws under the concession regime;
- refusal or failure to provide or replenish the bank guarantee or surety in the SJM Concession Contract within the prescribed period;
- bankruptcy or insolvency; and
- impairment of the fairness of the casino games.

These events could ultimately lead to the termination of the SJM Concession without compensation to SJM or even result in potential liability to SJM. Upon such termination, all of SJM's casinos, slot machine operations and related equipment and property rights to the casino premises in Macau would be automatically transferred to the Macau Government without compensation to SJM. The Service Agreement would also be terminated and we would consequentially cease to generate any revenue from providing Gaming Services to SJM.

Beginning in April 2017, the Macau Government may exercise its right to redeem the SJM Concession Contract by providing SJM with at least one year prior written notice. In such event, SJM is entitled to fair compensation. The amount of such compensation will be determined based on the earnings of SJM's "Extension of Hotel and Casino Lisboa" project under the SJM Concession Contract during the taxable year prior to the redemption, before deducting interest, depreciation and amortization, multiplied by the number of remaining years before expiration of the SJM Concession.

In addition, SJM must comply with certain fundamental obligations as required and set out by law and the SJM Concession Contract. The breach of these fundamental obligations, including but not limited to acquiring the necessary funds to punctually and completely fulfill any obligation regarding its business and any necessary investment obligation in accordance with the provisions of the SJM Concession Contract, provides the Macau Government the right to terminate the SJM Concession.

### **THE SERVICE AGREEMENT**

We provide Gaming Services to SJM in respect of the Casinos, which include marketing, promotion, publicity, customer development and introduction, coordination of activities and other services as agreed from time to time, pursuant to the Service Agreement. For example, we market and advertise the Casinos extensively on billboards, the internet and various other media platforms. We also organize and host various promotional activities for our patrons, such as golf tournaments with top golfers from China and annual spring dinners held over the Chinese New Year in Beijing. As part of our focus on customer development, we provide transportation services to our patrons who travel to Macau from all parts of the Guangdong Province, one of China's wealthiest and most urbanized provinces in 2011.

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We are not a gaming operator; however, we play an important role in the Casinos' operations. We also indirectly assume the business risks of a gaming operator because SJM shares with us the gross gaming income and losses in relation to the Casinos and we assume other business risks including the provision of a guarantee to SJM against any amounts outstanding to SJM and any other losses incurred by SJM resulting from a breach of the Gaming Promotion Agreements by any of our designated gaming promoters.

### **2006 Service Agreement**

On 25 September 2006, we entered into the 2006 Service Agreement with SJM through our subsidiary, Hong Hock, pursuant to which we agreed to provide Gaming Services to SJM in respect of the Casinos. The 2006 Service Agreement was authorized and approved by the Macau Government on 15 November 2006. The salient terms of this agreement are set forth below.

#### ***License to Occupy Our Properties to Operate the Casinos***

Pursuant to the Service Agreement, we have granted to SJM a license to occupy and use spaces in The Landmark Macau and Macau Fisherman's Wharf to operate the Casinos. The license will remain valid for so long as the Gaming Services as set out in the Service Agreement are provided by us. SJM will vacate the occupied areas within one month after the termination of the Service Agreement.

#### ***Gaming Revenue***

As consideration for our provision of Gaming Services, we receive from SJM a monthly compensation, equivalent to 40% of the gross gaming income generated by the mass market tables and 31% of the gross gaming income generated by the slot machines (which was increased to 40% of the gross gaming income generated by the slot machines pursuant to the 2009 Amendment to the Service Agreement, see "— 2009 Amendment to the Service Agreement" below). In respect of the mass market tables in the Casinos, we are entitled to receive from SJM up to an amount equivalent to 15% of the gross gaming income generated by the mass market tables on a monthly basis for the operational and investment costs and expenses attributable to the mass market tables in the Casinos, which include, among other things, the amount we reimbursed to SJM for the salaries and benefits (including any discretionary bonuses) of the gaming operations employees. Depending on the total gross gaming income of the mass market tables in the Casinos, the reimbursement may or may not be sufficient to cover all our operational and investment costs and expenses, or all of the salaries and benefits of the gaming operations staff that we were required to reimburse SJM. Nevertheless, separately, we remained obliged to reimburse SJM for all such salaries and benefits on a monthly basis. Although we are a gaming service provider to SJM, at the same time we also indirectly assume the business risk of an operator such that in the event of a gross gaming loss, we share with SJM a monthly amount equivalent to 55% of such gross gaming loss incurred by the mass market tables and 31% of such gross gaming loss suffered by the operation of the slot machines. The amount of consideration we receive for our provision of Gaming Services was determined through commercial negotiations on an arm's length basis.

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Although the Service Agreement does not explicitly stipulate that any gaming loss incurred by the Casinos is to be shared between SJM and Hong Hock in the same proportion as gross gaming income, the Service Agreement has been and is continuously being performed under this assumption which is mutually agreed between us and SJM. In March 2013, our Macau legal advisor consulted the DICJ on our behalf and the DICJ confirmed in writing that it had no comments in connection with such loss sharing arrangements we have with SJM pursuant to the Service Agreement.

The Group's share of gross gaming income with SJM is calculated before deduction of all taxes, levies, contributions and premiums generally payable by SJM. SJM is obligated to pay taxes due on our monthly compensation out of its share of the gross gaming income in addition to its obligation to pay all taxes, levies, contributions and premiums generally payable as a concessionaire under Macau law and the SJM Concession Contract.

### ***Appointment of a President of the Casinos***

Pursuant to the Service Agreement, we have the right to nominate a president to oversee the daily operations of the Casinos. Subject to SJM's approval of our nominee, SJM will appoint such nominee as president of the Casinos and grant him sufficient powers to perform his duties related to the Casinos.

The president is responsible for and accountable to SJM and Hong Hock for the day-to-day management of the Casinos. His duties include, among other things, directing the planning and policy making committees of the Casinos, developing and implementing strategies to grow the Casinos' revenue, ensuring a high level of customer service in the Casinos and cost-effective use of the Casinos' resources, developing the human resources policy of the Casinos, and directing and coordinating the employment, compensation and benefits of casino employees. The president will also have the power to directly hire, promote and terminate the gaming operations employees, upon consultation with SJM.

Since the date of the Service Agreement, David Chow has been appointed by SJM as the president of the Casinos to manage the daily operation of the Casinos.

### ***Key Operational Staff***

The key operational staff responsible for the gaming operations of the Casinos are nominated by us and employed by SJM. We bear all expenses incurred by SJM in connection with the hiring of such employees, including their salaries, other benefits and discretionary bonuses. Such key operational staff performs management functions with respect to the Casinos. SJM has the right, at its own costs, to hire supervisors to monitor the operation of the Casinos. However, in cases where the opinions of the key operational staff differ from those of the supervisor, the matter will be reported to high level executives and discussed between SJM and us, and until a conclusive resolution is made, the opinions of the key operational staff will prevail. The gaming services employees, who are responsible for the non-gaming operations of Casinos are employed by us. See "Business — Employees."



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### ***Operational Equipment***

All operational equipment for the Casinos, including traditional and electronic gaming tables and ancillary gaming equipment but excluding the slot machines, are provided by SJM. We are responsible for the acquisition, maintenance, repair and replacement costs of all slot machines. Upon expiry of the SJM Concession, the Macau Government will take ownership of all operational equipment of the Casinos and we will have no right to compensation for the loss of this equipment.

### ***Operating Budget***

Under the Service Agreement, we and SJM jointly prepare an operating budget for the Casinos detailing the operating and capital expenditures required to be made by us and SJM for the subsequent year.

### ***Internal Controls on Money Laundering***

As a concessionaire and the licensed operator of the Casinos, SJM is required to comply with anti-money laundering and anti-corruption regulations under Macau law. We are not a concessionaire or subconcessionaire and have no obligation under the applicable Macau laws and regulations to devise our own anti-money laundering and anti-corruption policies and related procedures. Pursuant to the Service Agreement, we cooperate with SJM so that it may monitor and ensure compliance with its anti-money laundering and anti-corruption obligations with respect to the operation of the Casinos.

### ***Assignment of Rights, Interests and Obligations***

We may, after informing SJM, assign our monetary benefits and interests under the Service Agreement to our creditors not affiliated with other concessionaires or gaming promoters to secure any debt owed or to be owed by us, but no assignee will be entitled to provide the Gaming Services to SJM. We may also, after informing SJM, assign our rights, interests and obligations under the Service Agreement to our affiliates, provided such affiliates agree to be bound by the terms of the Service Agreement, and we agree to guarantee such affiliates' obligations.

### ***Certain undertakings***

The Service Agreement also requires us to use our best efforts to ensure that Hong Hock's existing ultimate shareholders continue to directly or indirectly control Hong Hock by being collectively the single largest shareholder of Hong Hock, and any change of the ownership of Hong Hock in this regard requires prior written consent from SJM. We have also undertaken to cooperate with SJM so that it may comply with all its obligations under Macau Law and the SJM Concession and to indemnify and hold SJM harmless of any and all damages and claims caused by Hong Hock's breach of the Service Agreement.



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### ***Termination***

The Service Agreement will remain in force until SJM loses the SJM Concession or when either party ceases to legally exist. The Service Agreement does not provide for any right or obligation of SJM or us to terminate the Service Agreement whether by way of serving notice of any time period to the other party or otherwise, unless the other party (i) enters into liquidation; (ii) is subject to bankruptcy proceedings; (iii) resolves to enter into liquidation or (iv) defaults on the Service Agreement and fails to remedy the default and indemnify the damage suffered by the other party within 21 days of receiving written notice. Upon the extension of the SJM Concession or the award of a new concession to SJM, we have a right of first refusal in respect of any proposal to provide Gaming Services to SJM for the Casinos under the extension or new concession. The Service Agreement does not provide SJM or us with any rights or obligations to re-negotiate any of the terms of the Service Agreement upon expiry of the current term of the SJM Concession.

Although we are not a gaming operator, we have been advised by our Macau legal advisor that the applicable Macau laws do not prohibit us from applying to the Macau Government for a concession or for authorization for entering into a subconcession agreement with a concessionaire to operate certain games of fortune or chance or slot machines by ourselves, if the Macau Government eventually reopens such applications. As such, the Company does not rule out the possibility to further leverage on its experience and reputation in the provision of gaming services to become a gaming operator for certain games of fortune or chance or slot machines in the future, when the Macau Government allows new concessionaires and/or subconcessionaires to enter into the market. In such an event and upon receiving the necessary authorizations and approvals from the Macau Government, the Service Agreement will be amended to exclude such particular games of fortune or chance or slot machines from the scope of Gaming Services that we currently provide under the Service Agreement and we will operate such games or slot machines in the Casinos.

### **2009 Amendment to the Service Agreement**

On 3 August 2009, we entered into the 2009 Amendment to the Service Agreement with SJM to provide our Gaming Services to VIP rooms located in the Casinos. Prior to the 2009 Amendment to the Service Agreement, the VIP rooms were leased to SJM for a fixed monthly fee. The 2009 Amendment to the Service Agreement was authorized and approved by the Macau Government on 28 September 2009.

Pursuant to this agreement, SJM agreed to enter into a gaming promotion agreement with only one gaming promoter to be designated by us, who will be responsible for the operation of all the VIP rooms in the Casinos. As at the Latest Practicable Date, all the VIP rooms were situated in The Landmark Macau. SJM entered into a Gaming Promotion Agreement with TCL on 3 February 2010, pursuant to which SJM agreed to let TCL operate as a gaming promoter and provide credit in the VIP rooms in the Casinos, for a term of one year with a right to renew thereafter.

As consideration for our provision of Gaming Services, the terms of our compensation under the 2006 Service Agreement were amended such that we receive from SJM a monthly compensation, equivalent to 40% of the gross gaming income generated by the mass market

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tables, 42% of the gross gaming income generated by the VIP rooms (which the gaming promoters receive 40% and we receive 2% pursuant to the Cooperation Agreements, see “— The Cooperation Agreements” below) and 40% of the gross gaming income generated by the slot machines. In respect of the mass market tables in the Casinos, SJM continues to reimburse us for the operational and investment costs and expenses, up to an amount equivalent to 15% of the gross gaming income generated by the mass market tables on a monthly basis, similar to the reimbursement arrangement under the 2006 Service Agreement. In respect of the VIP tables in our properties, SJM reimburses the gaming promoters for expenses incurred in connection with the gaming promotion services they provide to SJM, through us, up to an amount equivalent to 15% of the gross gaming income of the respective VIP rooms. We are entitled to deduct from such reimbursement any utility expenses, including water and power consumption that we incurred in respect of the respective VIP rooms, fees for the use of hotel rooms and consumption of food and beverage by gaming patrons of the respective VIP rooms, as well as all the salaries and benefits<sup>(1)</sup> of the gaming operations employees assigned to the respective VIP rooms. Under the Cooperation Agreements, the gaming promoters are ultimately responsible for such operational and investment costs and expenses related to the VIP tables. If the amount of such reimbursement falls below such operational and investment costs and expenses attributable to the respective VIP rooms for any particular month, the relevant gaming promoter is required to repay such a shortfall to us. In the event of a gross gaming loss, we share with SJM a monthly amount equivalent to 55% of such gross gaming loss incurred by the mass market tables, 57% of such gaming loss incurred by the VIP rooms (which the gaming promoters are liable for 55% and we are liable for 2%, see “— The Cooperation Agreements” below) and 40% of such gross gaming loss suffered by the operation of the slot machines. The amount of consideration we receive for our provision of services was determined through commercial negotiations on an arm’s length basis.

### **2011 Amendment to the Service Agreement**

On 16 December 2011, we entered into the 2011 Amendment to the Service Agreement with SJM, pursuant to which SJM agreed to enter into Gaming Promotion Agreements with more than one gaming promoter to be designated by us. Such gaming promoters will be responsible for the operation of VIP rooms in the Casinos as designated by us. The Service Agreement was subsequently authorized and approved by the Macau Government on 1 June 2012.

In accordance with the 2011 Amendment to the Service Agreement, since October 2012, SJM has entered into Gaming Promotion Agreements with seven other gaming promoters designated by us, pursuant to which SJM agreed to allow such gaming promoters to operate as gaming promoters and provide credit in the VIP rooms in the Casinos, for a term of three years renewable thereafter in accordance with the terms therein. Similar to the Gaming Promotion Agreement between SJM and TCL, SJM may terminate the Gaming Promotion Agreements with these gaming promoters if they fail to renew their gaming promoter license.

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*Note:*

- (1) Such reimbursement of salaries and benefits excluded discretionary bonuses we paid to the gaming operations employees assigned to respective VIP rooms except in respect of the VIP rooms of which TCL is responsible for gaming promotion.

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### 2012 Amendments to the Service Agreement

On 7 March 2012 and 19 April 2012, we entered into the First 2012 Amendment and Second 2012 Amendment to the Service Agreement with SJM, respectively. The 2012 Amendments to the Service Agreement were authorized and approved by the Macau Government on 1 June 2012.

Pursuant to the two agreements, SJM authorized Hong Hock to provide Gaming Services in respect of six additional VIP tables in the VIP rooms in the Casinos for an initial period of approximately one year in accordance with a special compensation scheme. The authorization for the provision of Gaming Services in respect of these VIP tables were initially extended to 31 March 2013, pursuant to a notice of renewal issued by SJM to Hong Hock on 28 January 2013. Subsequently, SJM issued a further notice to Hong Hock on 3 May 2013, extending authorization for the provision of such Gaming Services to 31 January 2014. Under these two agreements, we receive 42% of the gross gaming income generated by the six additional tables (which the gaming promoters for the six additional tables receive 40% and we receive 2%). In addition, SJM reimburses the gaming promoters for expenses incurred in connection with the gaming promotion services they provide to SJM, through us, up to an amount equivalent to 15% of the gross gaming income of the respective VIP rooms. We are entitled to deduct from such reimbursement any utility expenses, including water and power consumption that we incurred in respect of the respective VIP rooms, fees for the use of hotel rooms and consumption of food and beverage by gaming patrons of the respective VIP rooms, as well as all the salaries and benefits<sup>(1)</sup> of the gaming operations employees assigned to the respective six additional VIP tables. Such reimbursement is paid by SJM to the gaming promoters through Hong Hock, who passes on the balance to the respective gaming promoters after deducting the salaries and benefits of gaming operations employees attributable to the respective six additional VIP tables. If the amount of such reimbursement falls below the amount of such operational and investment costs and expenses attributable to the respective six additional VIP tables for any particular month, the relevant gaming promoter is required to repay such a shortfall to us. In the event of a gross gaming loss, we share with SJM a monthly amount equivalent to 57% of such gaming loss incurred by the six additional VIP tables, which the gaming promoters are liable for 55% and we are liable for 2%. We guarantee SJM that the monthly gross gaming income generated by the six additional tables in aggregate that SJM ultimately receives will not fall below HK\$1,920,000, whereby we agree to top up any shortfall in SJM's monthly revenue of HK\$1,920,000 (but are entitled to retain any amounts in excess of the guaranteed amount). The gaming promoters for the six tables pay a monthly premium fee of MOP25,000 to SJM for each of these tables, which we are liable to pay to SJM in the event the gaming promoters fail to pay.

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*Note:*

- (1) Such reimbursement of salaries and benefits excludes discretionary bonuses we paid to the gaming operations employees assigned to respective VIP rooms except in respect of the VIP rooms of which TCL is responsible for gaming promotion.

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### Summary of the salient terms of the Service Agreement

Following the 2009 Amendment to the Service Agreement, the 2011 Amendment to the Service Agreement, the 2012 Amendments to the Service Agreement and the Additional Tables Extension Notice, the salient terms of the Service Agreement in effect as of the Latest Practicable Date are set forth below.

#### License to Occupy Our Properties

to Operate the Casinos . . . . . We grant to SJM a license to occupy and use spaces in The Landmark Macau and Macau Fisherman's Wharf to operate the Casinos. The license will remain valid for so long as the Gaming Services as set out in the Service Agreement are provided by us. SJM will vacate the occupied areas within one month after the termination of the Service Agreement.

#### Reimbursement of Costs . . . . .

In respect of the mass market tables in the Casinos, we are entitled to receive from SJM up to an amount equivalent to 15% of the gross gaming income generated by the mass market tables on a monthly basis for the operational and investment costs and expenses attributable to the mass market tables in the Casinos, which include, among other things, the amount we reimburse to SJM for the salaries and benefits (including any discretionary bonuses) of the gaming operations employees. In respect of the VIP tables in our properties, SJM reimburses the gaming promoters, through us, for their expenses in connection with the gaming promotion services they provide to SJM up to an amount equivalent to 15% of the gross gaming income of the respective VIP rooms. We are entitled to deduct from such reimbursement any utility expenses, including water and power consumption that we incurred in respect of the respective VIP rooms, fees for the use of hotel rooms and consumption of food and beverage by gaming patrons of the respective VIP rooms, as well as all the salaries and benefits<sup>(1)</sup> of the gaming operations employees assigned to the respective VIP rooms.

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*Note:*

(1) Such reimbursement of salaries and benefits excludes discretionary bonuses we paid to the gaming operations employees assigned to respective VIP rooms except in respect of the VIP rooms of which TCL is responsible for gaming promotion.

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### Consideration — Share of

Gaming Revenue/Loss. . . . .	We receive from SJM a monthly compensation, equivalent to 40% of the gross gaming income generated by the mass market tables, 42% of the gross gaming income generated by the VIP rooms (which the gaming promoters receive 40% and we receive 2%) and 40% of the gross gaming income generated by the slot machines. In the event of a gross gaming loss, we share with SJM a monthly amount equivalent to 55% of such gross gaming loss incurred by the mass market tables, 57% of such gaming loss incurred by the VIP rooms (which the gaming promoters are liable for 55% and we are liable for 2%, see “— The Cooperation Agreements” below) and 40% of such gross gaming loss suffered by the operation of the slot machines (which, for the slot machines at The Landmark Macau, Weike is liable for 40%, see “— The Slot Hall Agreement” below).
Gaming promoters . . . . .	SJM enters into Gaming Promotion Agreements with more than one gaming promoter to be designated by us, subject to approval by SJM and the DICJ. Such gaming promoters will be responsible for the operation of VIP rooms in the Casinos as designated by us.
Six additional VIP tables . . . . .	SJM authorizes Hong Hock to provide Gaming Services in respect of six additional VIP tables in the VIP rooms in the Casinos for a period expiring on 31 January 2014 in accordance with a special compensation scheme. See “— 2012 Amendments to the Service Agreement.”
Appointment of a President of the Casinos . . . . .	We have the right to nominate a president to oversee the daily operations of the Casinos. Subject to SJM's approval of our nominee, SJM will appoint such nominee as president of the Casinos and grant him sufficient powers to perform his duties related to the Casinos.
Casino Employees and Key Operational Staff . . . . .	We nominate and SJM will employ the key operational staff responsible for the gaming operations of the Casinos. We will employ the gaming services employees, who are responsible for the non-gaming operations of the Casinos. See “Business — Employees.” We will bear all expenses incurred by SJM in connection with the hiring of such key operational staff, including their salaries and other benefits.

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Operational Equipment . . . . . SJM provides all the operational equipment for the Casinos, including traditional and electronic gaming tables and ancillary gaming equipment but excluding the slot machines. We will be responsible for the acquisition, maintenance, repair and replacement costs of all slot machines.

Operating Budget . . . . . We prepare an operating budget for the Casinos detailing the operating and capital expenditures required to be made by us for the subsequent year.

### Internal Controls on Money

Laundering . . . . . SJM is required to comply with anti-money laundering and anti-corruption regulations under Macau law. We cooperate with and assist SJM in monitoring and ensuring its compliance with its anti-money laundering and anti-corruption obligations with respect to the operation of the Casinos.

### Assignment of Rights, Interests and Obligations . . . . .

We may, after informing SJM, assign our monetary benefits and interests under the Service Agreement to our creditors not affiliated with other concessionaires or gaming promoters to secure any debt owed or to be owed by us, but no assignee will be entitled to provide the Gaming Services to SJM. We may also, after informing SJM, assign our rights, interests and obligations under the Service Agreement to our affiliates, provided such affiliates agree to be bound by the terms of the Service Agreement, and we agree to guarantee such affiliates' obligations.

### Certain undertakings . . . . .

We will use our best efforts to ensure that Hong Hock's existing ultimate shareholders continue to directly or indirectly control Hong Hock by being collectively the single largest shareholder of Hong Hock, and any change of the ownership of Hong Hock in this regard requires prior written consent from SJM.

We have undertaken to cooperate with SJM so that it may comply with all its obligations under Macau Law and the SJM Concession and to indemnify and hold SJM harmless for any and all damages and claims caused by Hong Hock's breach of the Service Agreement.

## GAMING SERVICES MODEL

Termination . . . . . The Service Agreement will remain in force until SJM loses the SJM Concession or when either party ceases to legally exist. Neither SJM nor we may terminate the Service Agreement whether by way of service of notice of any time period to the other party or otherwise, unless the other party enters into liquidation, is subject to bankruptcy proceedings, resolves to enter into liquidation or defaults on the Service Agreement and fails to remedy the default and indemnify the damage suffered by the other party within 21 days of receiving written notice.

Upon the extension of the SJM Concession or the award of a new concession to SJM, we have a right of first refusal in respect of any proposal to provide Gaming Services to SJM for the Casinos under the extension or new concession. Neither SJM nor we have the rights or obligations to renegotiate any of the terms of the Service Agreement upon expiry of the current term of the SJM Concession.

Although the Service Agreement does not explicitly stipulate that the gross gaming loss incurred in the Casinos is to be shared by SJM and Hong Hock in the same proportion as the share of gross gaming income, the Service Agreement has been performed under this assumption, which is mutually agreed by the parties. We have been advised by our Macau legal advisor that Hong Hock's undertaking to reimburse SJM for losses in the same proportion it would share in the gross gaming revenues is legal, valid and enforceable and has no impact on the validity and effectiveness of the DICJ approval of the Service Agreement.



## GAMING SERVICES MODEL

### THE COOPERATION AGREEMENTS

As we are not a party to the Gaming Promotion Agreements, on 5 June 2013, we entered into the Cooperation Agreements, through our wholly owned subsidiary, Hong Hock, with each of the designated gaming promoters, which, among other things, set out the obligations of each of the designated gaming promoters with respect to the operational and investment costs and expenses related to the VIP rooms and the terms of allocation of gross gaming income and loss of VIP rooms between Hong Hock and each of the designated gaming promoters. We have been advised by our Macau legal advisor that the Cooperation Agreements are legally enforceable and that they do not require approval from the DICJ. The salient terms of these agreements are set forth below.

Allocation of gross gaming income and losses of VIP rooms . . . . .	In the event of a gross gaming win, of the 42% of the gross gaming income of the VIP rooms that the designated gaming promoters receive from SJM under the Service Agreement, we are entitled to receive 2% and the gaming promoters are entitled to receive 40% of the gross gaming income of the VIP rooms. In the event of a gross gaming loss, we are liable for 2% and the gaming promoters are liable for 55% of the gross gaming loss.
Operational and investment costs and expenses of VIP rooms . . . . .	The gaming promoters are entitled to be reimbursed by SJM, through us, for their expenses in connection with the gaming promotion services they provide to SJM in respect of the VIP rooms up to an amount equivalent to 15% of the gross gaming income of the respective VIP rooms. We deduct such amounts representing expenses to be reimbursed by the gaming promoters to us, before delivering the difference to the gaming promoters as reimbursement by SJM for their expenses relating to the VIP rooms.  The gaming promoters are ultimately responsible for all operational and investment costs and expenses related to the VIP rooms.
Reimbursement and indemnification for gross gaming losses incurred in VIP rooms and for losses incurred by SJM resulting from breach of Gaming Promotion Agreements . . . . .	The gaming promoters will reimburse and indemnify us for 55% of any gross gaming losses incurred in the respective VIP rooms and for losses incurred by SJM resulting from their breach of Gaming Promotion Agreements.

## GAMING SERVICES MODEL

Security and indemnity from gaming promoters to share the gross gaming losses incurred in the VIP rooms. . . .	The gaming promoters will each provide us with a deposit, in form of check and/or cash, HK\$20 million as security for its obligation to share in the losses incurred in the respective VIP rooms and to reimburse and indemnify us for such losses and for losses incurred by SJM resulting from their breach of Gaming Promotion Agreements.
Undertaking to meet the minimum monthly rolling chip volume for each VIP table . . .	The gaming promoters undertake to us that it will meet the minimum monthly rolling chip volume for each VIP table. Failure to meet the minimum monthly rolling chip volume will constitute breach of the Cooperation Agreement and may result in liability for damages payable by the gaming promoters.
Termination . . . . .	Each of the Cooperation Agreements may be terminated by either party giving not less than two months prior notice to the other party and will expire on the date the Service Agreement is terminated. As advised by our Macau legal advisor, each of the Cooperation Agreements will also be terminated if (i) the SJM Concession is not renewed upon its expiry date or is otherwise terminated; (ii) the relevant Gaming Promotion Agreement is terminated; or (iii) the relevant gaming promoter's license is revoked or not renewed.

Under the Cooperation Agreements, the gaming promoters have warranted to the Group that they will comply with, and notify the Group of any potential breach of, the Gaming Promotion Agreements and the applicable laws and regulations in connection with the operation as a gaming promoter within the Casinos. Our Directors further confirmed that during the Track Record Period and as at the Latest Practicable Date, we had not been required to reimburse or indemnify SJM for any breaches or defaults by the gaming promoters or for any gaming losses incurred in respect of the VIP rooms which are not reimbursed to us by the respective gaming promoters. To the extent the gaming promoters' obligations to meet the minimum monthly rolling chip volume for each VIP table under the Cooperation Agreements are provided for in the Gaming Promotion Agreements, our Macau legal advisor has confirmed that any failure by the gaming promoters to meet such a requirement would result in liability on the gaming promoters for any damages suffered by SJM as a result of such failure and SJM having the right to terminate the Gaming Promotion Agreement in question.

### THE TRI-PARTY AGREEMENTS

At or around the same time the Gaming Promotion Agreements were entered into between the designated gaming promoters and SJM, we entered into the Tri-Party Agreements with SJM and each of the designated gaming promoters.

## GAMING SERVICES MODEL

As we are not a party to the Gaming Promotion Agreements, the Tri-Party Agreements set out our responsibility to SJM with respect to the gaming promoters and how the portion of the gross gaming income of the VIP rooms, which the gaming promoters are entitled to receive from SJM, are to be transferred from SJM to the gaming promoters. We have been advised by our Macau legal advisor that the Tri-Party Agreements are legally enforceable and that copies of such agreements have been submitted to the DICJ in compliance with the applicable regulations. The salient terms of these agreements are set forth below.

Transfer of the gaming promoters' share of gross gaming income and loss of the VIP rooms . . . . .	Each of the designated gaming promoters has authorized us to act on its behalf in relation to collecting their share of the gross gaming income of the respective VIP rooms from SJM or paying their share of the gross gaming loss of the respective VIP rooms to SJM. The designated gaming promoters have agreed to pay us all amounts outstanding to SJM (including their share of the gross gaming loss), such that we can pass these amounts to SJM on their behalf.
Guarantee from us to SJM against any amount outstanding to and any other losses incurred by SJM resulting from a breach of the Gaming Promotion Agreements by any of the designated gaming promoters	We provide a guarantee to SJM against any amount outstanding to SJM (including the gaming promoters' share of the gross gaming loss) and any other losses incurred by SJM resulting from a breach of the Gaming Promotion Agreements by any of the designated gaming promoters.
Termination . . . . .	The Tri-Party Agreements do not contain a termination clause or a clause specifying the duration of the agreement. Our Macau legal advisor has advised us that according to Macau Law, in the absence of a termination clause or a clause specifying the duration of the agreement, the Tri-Party Agreements will remain in effect until any of the parties elects to terminate the agreement by giving reasonable notice. Our Macau legal advisor is also of the view that each of the Tri-Party Agreements will be terminated if (i) the SJM Concession is not renewed upon its expiry date or is otherwise terminated; (ii) the relevant Gaming Promotion Agreement is terminated; or (iii) the relevant gaming promoter's license is revoked or not renewed; or (iv) the Service Agreement is terminated.

## GAMING SERVICES MODEL

### THE SLOT HALL AGREEMENT

On 1 February 2013, we entered into the Slot Hall Agreement with Weike through our subsidiary, Hong Hock, pursuant to which we agreed to engage Weike to install and service the slot machines in the casino and other gaming areas in The Landmark Macau. Weike primarily engages in the placement and management of electronic gaming machines in Macau. Weike was established in 2009 in Macau and has been in operation for four years. It also supplies customer-centric turnkey solutions for gaming operations, which involves the provision, installation and management of slot machines and the provision of all related services as a complete package to its customers in the gaming industry in Macau. Weike is held as to 4% by Poh Po Lian and 96% by Weike (G) Management Pte Ltd. Both Weike (G) Management Pte Ltd and Poh Po Lian are independent third parties of the Company.

We have been advised by our Macau legal advisor that the Slot Hall Agreement is legally enforceable and we have obtained the necessary approvals from the DICJ. The salient terms of this agreement are set forth below.

- |  |  |
|--|--|
| Installation of slot machines . . .  | Weike will establish and set up a minimum of 205 slot machines in a designated gaming area of The Landmark Macau.  |
| Approval from the DICJ. . . . .  | As Weike is neither a licensed entity in Macau nor recognized by the DICJ and cannot obtain DICJ approval for the slot machines on its own, it has agreed to provide the necessary international certification documentation for the slot machines it supplies to SJM to allow it to obtain DICJ approval for the slot machines. |
| Monitoring system . . . . .  | Weike will establish a monitoring system, at its own cost, to assist Hong Hock with monitoring and operating the slot machines.  |
| Maintenance and repair of slot machines . . . . .  | Weike will ensure that the slot machines are operational at all times and provide technical support for the slot machines upon request by Hong Hock.   |
| Operational and technical staff to service, repair and maintain the slot machines. . . . . | Weike will hire technical staff to service, repair and maintain the slot machines. The costs and expenses incurred in connection with the hiring of such staff will be reimbursed by Weike to Hong Hock or set-off from amounts due from Hong Hock to Weike.   |

## GAMING SERVICES MODEL

Operational expenses . . . . . Weike will be responsible for all expenses incurred in connection with the maintenance and management of the slot machines, including promotional and marketing, staff, utilities and security expenses. This includes the guarantee that SJM receives a minimum daily gross slot win of HK\$110 for each of the slot machines in The Landmark Macau, and Weike will account to SJM for any shortfall from such guaranteed minimum daily gross slot win for the slot machines.

Consideration . . . . . In consideration of the installation of slot machines and provision of operational and technical services and staff, Hong Hock agrees to pay Weike a monthly performance bonus, being 70% of Hong Hock's share of the gross slot win from the slot machines at The Landmark Macau, in the event Hong Hock's share of the monthly gross slot win exceeds HK\$700,000.

Weike will also receive up to seven hotel room nights, on a monthly basis, if after deducting the value of these hotel room nights based on the daily prevailing rate, Hong Hock will not receive less than HK\$700,000.

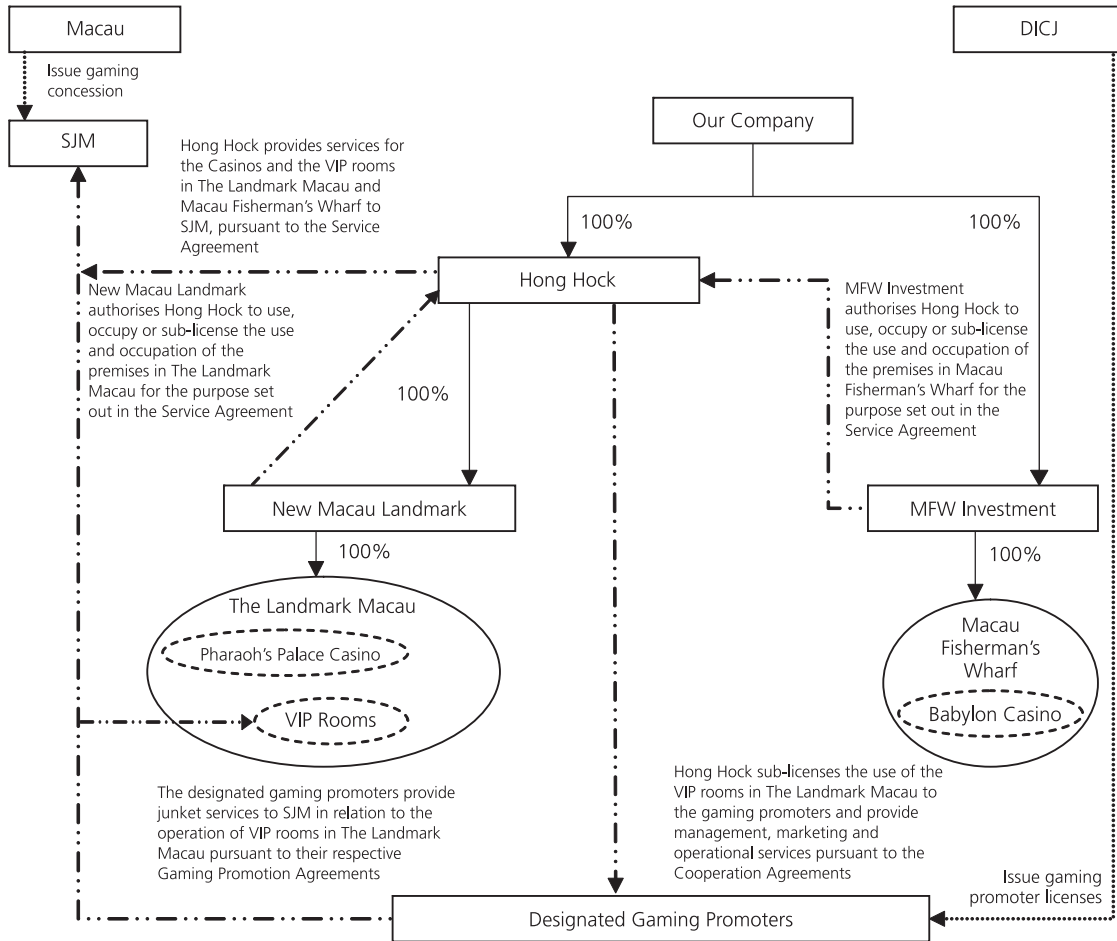
Monthly revenue guarantee  
from Weike to Hong Hock . . . . . Weike has guaranteed Hong Hock that it will receive a monthly minimum of HK\$700,000 in gross slot win and has agreed to make up for any shortfall from this amount.

Term and termination . . . . . The Slot Hall Agreement is for a term of five years. Upon expiry, Weike has an option to renew the agreement for another five years.

The Slot Hall Agreement may be terminated by written notice to either Weike or Hong Hock if, among other things, (i) tasks to be performed by either party are not performed in a timely manner; (ii) either party breaches a material obligation or undertaking under the agreement and, where capable of remedy, such breach is not remedied within 30 days of receiving notice from the aggrieved party to remedy such failure; or (iii) either party ceases to have full power to carry on all or a material part of its business activities or to perform its obligations under the agreement.

# GAMING SERVICES MODEL

The following chart sets out the relationships among our Group, SJM, the gaming promoters and the DICJ:



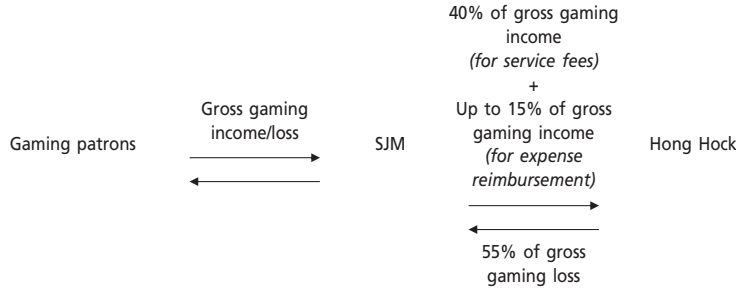
**Notes:**

- ..... : contractual relationship
- : shareholding relationship
- ..... : regulatory relationship

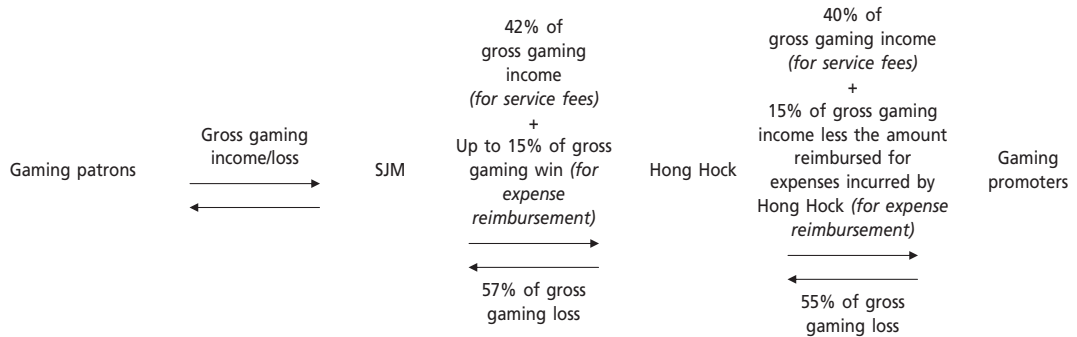
# GAMING SERVICES MODEL

The following flow charts set out the allocation of profits and losses generated by or arising from (as applicable) by the operations of the Casinos among different parties as at the Latest Practicable Date.

**(a) In respect of mass market operations**

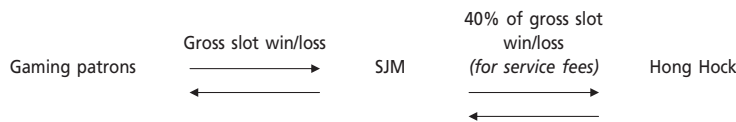


**(b) In respect of VIP rooms operated by gaming promoters<sup>(1)</sup>**

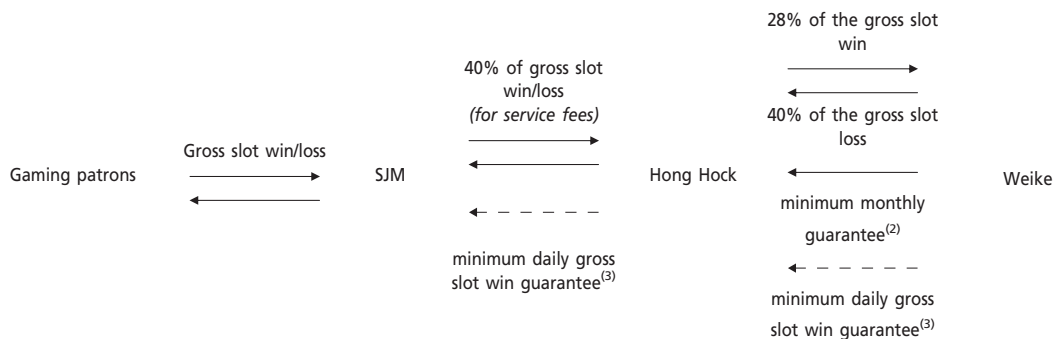


**(c) In respect of slot machine operations**

*For Babylon Casino*



*For Pharaoh's Palace Casino*





## GAMING SERVICES MODEL

*Notes:*

- (1) Includes the six additional tables in respect of which SJM has authorized Hong Hock to provide Gaming Services in accordance with a special compensation scheme for a period expiring on 31 January 2014. Under this special compensation scheme, we guarantee SJM that their share of the monthly gross gaming income generated by the six additional tables in aggregate will not fall below HK\$1,920,000, whereby we agree to top up any shortfall in SJM's monthly revenue of HK\$1,920,000. The gaming promoters for these six tables pay a monthly premium fee of MOP25,000 to SJM for each of these tables, which we are liable to pay to SJM in the event any of the gaming promoters fails to pay. If we, or the gaming promoters designated for these VIP tables, fail to generate sufficient revenue from these additional VIP tables and default on monthly guaranteed amounts and premium fees, or if we breach any provision of the Service Agreement, SJM may decide to terminate these arrangements with us.
- (2) The guarantee from Weike to Hong Hock that Hong Hock's monthly share of the gross slot win will not be less than HK\$700,000.
- (3) The guaranteed minimum daily gross slot win of HK\$110 for each of the slot machines in The Landmark Macau made by Hong Hock to SJM in connection to promotional and marketing expenses for the slot machines. Weike has agreed to be responsible for this guarantee and will account to SJM for any shortfall from SJM's share of the guaranteed minimum daily gross slot win for the slot machines.

### **GAMING PROMOTERS**

As of the Latest Practicable Date, six gaming promoters, including TCL, had entered into Cooperation Agreements with us and were responsible for the promotion of six VIP rooms in our properties. We have been advised by our Macau legal advisor that the Gaming Promotion Agreements, entered into between SJM and the gaming promoters, are legally enforceable and that copies of such agreements have been submitted to the DICJ in compliance with the applicable regulations. Except for TCL, all of these gaming promoters are independent third parties. We intend to terminate our relationship with TCL in relation to the VIP room which TCL currently operates prior to Listing.