

## THE SUBCONCESSION

### THE CONCESSION REGIME

Following its decision to open Macau’s gaming industry, the Macau Government conducted an international tender process for gaming concessions in Macau. In March 2002, the Macau Government awarded three gaming concessions to Galaxy, SJM and Wynn Macau, respectively, pursuant to the terms of the Macau Gaming Law and other related legislation. The Macau Government subsequently and successively authorized three subconcessions, permitting each of Galaxy, SJM and Wynn Macau to enter into the subconcession contracts with their respective Subconcessionaires to operate casino games and other games of chance in Macau. The granting of the subconcessions is prohibited unless specifically authorized by the Macau Government. The existing concessions and subconcessions do not place any limit on the number of casinos or gaming areas that may be operated under each concession or subconcession, although governmental approval is required before a Concessionaire or Subconcessionaire can commence operation of a casino or gaming area. As of the Latest Practicable Date, we operated three of the 32 casinos or gaming areas in Macau. Of the remaining casinos or gaming areas in Macau, SJM operated 20, Galaxy operated five, Melco Crown operated three, and Wynn Macau and MGM Grand Paradise each operated one.

Galaxy, SJM and Wynn Macau entered into subconcession contracts with VML, MGM Grand Paradise and Melco Crown, respectively. These contracts sets out the terms and conditions of their subconcession with their respective Concessionaire, as authorized by the Macau Government. We, through VML, our subsidiary, executed a Subconcession Contract with Galaxy on December 26, 2002. Galaxy will develop hotel and casino projects that are independent from us. If the Galaxy concession is terminated for any reason, VML’s Subconcession will remain in effect. See “Regulation—Overview of Macau’s Regulatory Framework on Gaming Operations.”

Details of the concessions and subconcessions are set forth below:

| <b>Concessionaire<sup>(1)</sup>:</b>   | <b>Galaxy</b>                                      | <b>SJM</b>  | <b>Wynn Macau</b>                                   |
|--|--|---|---|
| Committed investment of the Concessionaire:  | MOP8.8 billion <sup>(2)</sup><br>(US\$1.1 billion) | MOP4.7 billion<br>(US\$0.6 billion)               | MOP4.0 billion <sup>(3)</sup><br>(US\$ 0.5 billion) |
| Expiry Term:   | June 26, 2022                                      | March 31, 2020                                    | June 26, 2022                                       |
| Special levies:  |  |   |   |
| Contribution to a public foundation in Macau for promotion, development and study of culture, society, economy, education, science and charity events: | 1.6% of gross gaming revenue <sup>(4)(5)</sup>     | 1.6% of gross gaming revenue <sup>(4)(5)</sup>    | 1.6% of gross gaming revenue <sup>(4)(5)</sup>      |
| Contribution to the MSAR for urban development, tourism promotion and social security of the Macau Government:   | 2.4% of gross gaming revenue <sup>(4)(5)</sup>     | 1.4% of gross gaming revenue <sup>(4)(5)(6)</sup> | 2.4% of gross gaming revenue <sup>(4)(5)</sup>      |
| Total:   | 4.0% of gross gaming revenue <sup>(4)(5)</sup>     | 3.0% of gross gaming revenue <sup>(4)(5)</sup>    | 4.0% of gross gaming revenue <sup>(4)(5)</sup>      |

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| Subconcessionaire <sup>(1)</sup> :   | VML  | MGM Grand Paradise                             | Melco Crown  |
|--|--|--|--|
| Committed investment of the Subconcessionaire:   | MOP4.4 billion <sup>(2)</sup><br>(US\$0.6 billion) | MOP4.0 billion<br>(US\$0.5 billion)            | MOP4.0 billion <sup>(3)</sup><br>(US\$0.5 billion) |
| Expiry term:   | June 26, 2022                                      | March 31, 2020                                 | June 26, 2022                                      |
| Special levies:  |  |  |  |
| Contribution to a public foundation in Macau for promotion, development and study of culture, society, economy, education, science and charity events: | 1.6% of gross gaming revenue <sup>(4)(5)</sup>     | 1.6% of gross gaming revenue <sup>(4)(5)</sup> | 1.6% of gross gaming revenue <sup>(4)(5)</sup>     |
| Contribution to the MSAR for urban development, tourism promotion and social security of the Macau Government:   | 2.4% of gross gaming revenue <sup>(4)(5)</sup>     | 2.4% of gross gaming revenue <sup>(4)(5)</sup> | 2.4% of gross gaming revenue <sup>(4)(5)</sup>     |
| Total:   | 4.0% of gross gaming revenue <sup>(4)(5)</sup>     | 4.0% of gross gaming revenue <sup>(4)(5)</sup> | 4.0% of gross gaming revenue <sup>(4)(5)</sup>     |

Source: DICJ

- (1) Pursuant to the Macau Gaming Law, the Macau Government is precluded from granting more than three gaming concessions. The Macau Government subsequently and successively authorized three subconcessions permitting each of Galaxy, SJM and Wynn Macau to enter into a subconcession contract with its respective Subconcessionaire to operate casino games in Macau.
- (2) Under the tripartite Subconcession Contract executed among Galaxy, the Macau Government and VML, VML was responsible for MOP4.4 billion of Galaxy's original investment obligations of MOP8.8 billion under the Galaxy concession. On May 11, 2006, we received a letter from the DICJ confirming completion of our committed investment.
- (3) Under the subconcession contract between Wynn Macau and Melco Crown, as authorized by the Macau Government, Melco Crown is required to invest at least MOP4.0 billion in Macau for one resort-hotel-casino complex to be concluded and open to the public by December 2010.
- (4) The contribution percentages are subject to changes upon re-negotiation between the Concessionaires or Subconcessionaires, as the case may be, and the Macau Government in 2010.
- (5) Gross gaming revenue is defined as all revenue derived from casino or gaming areas.
- (6) Under the concession contract between the Macau Government and SJM, SJM agreed it would contribute only 1.4% of its gross gaming revenue, taking into consideration SJM's commitment to be jointly responsible with one of its controlling shareholders for Macau's navigation channel dredging service with the support of the corresponding consideration costs. There are no similar arrangements between the Macau Government and the other two Concessionaires.

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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 <sup>(2)</sup> : | <ul style="list-style-type: none"> <li>• MOP30.0 million (US\$3.8 million) per annum fixed premium;</li> <li>• MOP300,000 (US\$37,500) per annum per VIP gaming table<sup>(3)</sup>;</li> <li>• MOP150,000 (US\$18,750) per annum per mass market gaming table; and</li> <li>• MOP1,000 (US\$125) per annum per electric or mechanical gaming machine including slot machines.</li> </ul> |

*Source: DICJ*

- (1) Gross gaming revenue is defined as all revenue derived from casino or gaming areas.
- (2) A Concessionaire or Subconcessionaire may increase or decrease the number of gaming tables and/or slot machines it operates upon sending an advance notice to the DICJ. There is currently no limit on the number of VIP gaming tables, mass market gaming tables and electric or mechanical gaming machines that VML can set up.
- (3) VML’s VIP gaming tables include tables for VIP, premium and Paiza cash players.

### The Subconcession Contract

The tripartite Subconcession Contract executed among Galaxy, the Macau Government and VML and its related laws and regulations set out the terms and conditions of the Subconcession granted to VML for the operation of casino games. VML does not have the right to grant a subconcession to third parties pursuant to the Subconcession Contract.

Our Group did not pay any amount to, or for the benefit of, Galaxy for the Subconcession. Instead, Galaxy and VML agreed that VML would share half of Galaxy’s investment obligations under its concession, amounting to MOP4.4 billion (US\$0.6 billion). Because the Subconcession is independent from Galaxy’s concession, it will not be affected by any modification, suspension, redemption, termination or rescission of Galaxy’s concession. In addition, an early termination of Galaxy’s concession before June 26, 2022 would not result in the termination of VML’s Subconcession. Our Macau legal advisor is of the opinion that the Subconcession was authorized and approved by the Macau Government and that its negotiation and formalization process complied with the applicable legal framework in Macau, including the Macau Gaming Law, the “Regulation of the public tender for awarding licenses to operate casino games of chance in casino,” the concession contracts and the suitability and financial standing of the candidates (Administrative Regulation No. 26/2001). In addition, our Macau legal advisor has advised us that, absent any change to VML’s legal status, rights, duties and obligations towards the Macau Government, VML shall continue to be validly and unconditionally entitled to operate independently under and pursuant to the Subconcession, notwithstanding the termination or rescission of Galaxy’s concession, the insolvency of Galaxy and/or the replacement of Galaxy as concessionaire in the Subconcession Contract. Pursuant to the Subconcession Contract, each of the Macau Government and Galaxy is obligated to cooperate with VML so that VML can fulfill its legal and contractual obligations under the Subconcession Contract. VML’s Subconcession expires on June 26, 2022.

VML may operate other gaming-related activities, provided that it receives prior approval from the Macau Government. If VML’s Subconcession Contract is not extended or renewed upon its expiration on June 26, 2022, on that date, all of its casino premises and gaming-related equipment would be automatically transferred to the Macau Government without compensation and VML would cease to generate any revenues from such operations. See “Risk Factors—Risks Relating to Our On-going

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Operations—The Macau Government can terminate VML's Subconcession under certain circumstances without compensation to VML, which would have a material adverse effect on our business, financial condition, results of operations and cash flows." Beginning on December 26, 2017, the Macau Government may redeem the Subconcession by providing VML at least one year's prior notice. In the event the Macau Government exercises this redemption right, VML is entitled to fair compensation or indemnity. Pursuant to VML's Subconcession Contract, the amount of such compensation or indemnity will be determined based on the amount of gaming and non-gaming revenue generated by The Venetian Macao (but not the Sands Macao or the Plaza), excluding the convention and exhibition facilities, 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 Subconcession.

The Subconcession Contract requires, among other things: (i) approval of the Macau Government for transfers of shares in VML, or of any rights over or inherent to such shares, including the grant of voting rights or other stockholder's rights to persons other than the original owners, as well as for the creation of any charge, lien or encumbrance on such shares; (ii) approval of the Macau Government for transfers of shares, or of any rights over such shares, in any of our direct or indirect stockholders, provided that such shares or rights are directly or indirectly equivalent to an amount that is equal to or higher than 5.0% of VML's share capital; and (iii) that the Macau Government be given notice of the creation of any encumbrance or the grant of voting rights or other stockholder's rights to persons other than the original owners on shares in any of the direct or indirect stockholders in VML, provided that such shares or rights are equivalent to an amount that is equal to or higher than 5.0% of VML's share capital. The requirements in provisions (ii) and (iii) above will not apply, however, to securities listed as tradable on a stock exchange. As of the Latest Practicable Date, other than the terms of the Usufruct Agreement set forth in the "History and Reorganization" section, which create an encumbrance in favor of a Group company, there are no encumbrances over ownership or other rights relating to shares of our Company or our subsidiaries.

In addition, VML, as a Subconcessionaire, must obtain prior approval from the Macau Government for the issuance of shares or bonds or the listing of its shares in a stock exchange. Our Macau legal advisor has advised us that, as a parent company of VML, [●] does not require Macau Government authorization, license, consent or approval, nor any notice to or filing with the Macau Government pursuant to the Subconcession Contract.

The transfer or creation of encumbrances over VML's gaming assets (including casinos and gaming equipment and utensils) is also subject to approval of the Macau Government.

To ensure VML's suitability and financial capacity as a Subconcessionaire, the Macau Government requires VML's directors, certain key employees and shareholders holding 5.0% or more of VML's share capital to be subject to suitability assessment and on-going suitability screening during the Subconcession term, and accept the persistent and long-term inspection and supervision exercised by the Macau Government. The Macau Government may investigate relevant individuals at any time and may object to suitability for any cause it deems reasonable. VML is required to immediately notify the Macau Government should it become aware of any fact that may be material to the appropriate qualification of any shareholder who owns 5.0% of its share capital, or any officer, director or key employee. Changes in our officers, directors or key employees must be reported to the Macau gaming authorities and, in addition to their authority to object to a finding of suitability, the Macau gaming authorities have jurisdiction to disapprove a change in corporate position. If the Macau gaming authorities were to find one of our officers, directors or key employees unsuitable for licensing, we would have to sever all relationships with that person. In addition, the Macau gaming authorities may require us to terminate the employment of any person who refuses to be subject to a suitability review. Any person who refuses to after being ordered to do so by the Macau gaming authorities may be found unsuitable. We will be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us, we:

- pay that person any dividend or interest upon its shares;

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- allow that person to exercise, directly or indirectly, any voting right conferred through shares held by that person;
- pay remuneration in any form to that person for services rendered or otherwise; or
- fail to pursue all lawful efforts to require such unsuitable person to relinquish its shares.

VML is also required to: (i) notify and obtain prior approval from the Macau Government before it may provide loans to, or enter into similar contracts with, VML's board of directors, shareholders and key employees in its casinos or other gaming areas; and (ii) obtain the Macau Government's prior approval of any recapitalization plan proposed by VML's board of directors. The Chief Executive of the MSAR could also require VML to increase its issued share capital if he deems it necessary and duly justified on a case-by-case basis.

The Macau Government imposes a special gaming tax on the Concessionaires and Subconcessionaires at the rate of 35.0% of gross gaming revenue, payable on a monthly basis. The special gaming tax accounted for approximately 76.9%, 76.1% and 82.5% of Macau's total public revenue for fiscal years 2006, 2007 and 2008, making it the biggest contributor to Macau's public revenue. The Macau Government also requires the Concessionaires and Subconcessionaires to pay a percentage of the gross gaming revenue as a special levy to be given to (i) a public foundation designated by the Macau Government and (ii) the Macau Government for urban development, tourism promotion and social security. As with all other Concessionaires and Subconcessionaires, VML is exempt from payment of complementary tax, which acts as a tax on profit, pursuant to the Dispatch of Chief Executive No. 167/2008, until the end of fiscal year 2013. All Concessionaires and Subconcessionaires currently in operation. The relevant exemption periods are:

- (a) For VML: Fiscal year 2004 until fiscal year 2013 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 250/2004, dated September 30, 2004 and No. 167/2008, dated May 21, 2008.
- (b) For SJM: Fiscal year 2007 until fiscal year 2011 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 333/2007, dated December 8, 2007.
- (c) For Galaxy: Fiscal year 2004 until fiscal year 2013 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 249/2004, dated September 30, 2004 and No. 326/2008 dated November 20, 2008.
- (d) For Wynn Macau: Fiscal year 2006 until fiscal year 2010 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 283/2006, dated September 19, 2006.
- (e) For Melco Crown: Fiscal year 2007 until fiscal year 2011 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 180/2007, dated June 7, 2007.
- (f) For MGM Grand Paradise: Fiscal year 2007 until 2011 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 186 / 2008, dated June 19, 2008.

VML 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 VML as described below. The fixed portion is MOP30.0 million (US\$3.8 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 (US\$5.6 million) per annum. VML is required to pay the fixed portion of the gaming premium by January 10 of each year or upon the request of the Macau Government, make the payment on a monthly basis, and one-twelfth of the variable portion of the gaming premium must be paid by the 10th day of each month. VML is required under Article 33 of the Subconcession Contract and section 432 of the Macau Commercial Code to maintain a legal reserve fund equal to one-fourth of its share capital. In addition, the Subconcession Contract requires VML to provide, for the first five years ended December 26, 2007, a "first demand" guarantee of an amount not exceeding MOP500.0 million (US\$62.5 million) and from

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that date until 180 days after the term of the Subconcession, an amount not exceeding MOP300.0 million (US\$37.5 million).

Under the terms of the Subconcession Contract, VML is required to carry certain types of insurance policies for the entire duration of the Subconcession. As of the Latest Practicable Date, VML 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 any of its casino, gaming area and slot machine operations. VML is also required by the Subconcession Contract to carry general third-party liability insurance in connection with the operation of casino games located in the MSAR and the development of gaming-related services included in the Subconcession Contract that are not already covered by existing insurance policies.

Based on (i) the DICJ's confirmation dated September 16, 2009, which confirms full compliance by VML with the Subconcession Contract and that no default or event of default exists thereunder; (ii) due inquiry of VML's anti-money laundering legal and regulatory framework; (iii) examination of the agreements executed between VML and its five largest Gaming Promoters in terms of income contribution, as well as a random sample of VML's agreements with its remaining Gaming Promoters; (iv) inquiry of several of our top officials in relation to the modus operandi of VML's compliance checks; and (v) the nonexistence of noticed investigations by the DICJ in relation to non-compliance of VML or any Gaming Promoter engaging in business activities with VML, our Macau legal advisor is of the opinion that VML is in compliance with its obligations as a Subconcessionaire, which include compliance with anti-money laundering legal and regulatory framework requirements and the relevant laws relating to VML's business operations with Gaming Promoters. Our Macau legal advisor has advised us that VML is the only company in our Group which is bound by the obligations pertaining to the prevention and repression of money laundering offenses.

There are no renewal conditions imposed under the Subconcession Contract. However, the Macau Government may impose new conditions for renewal. See "Risk Factors—Risks Relating to Our On-going Operations—The Macau Government can terminate VML's Subconcession under certain circumstances without compensation to VML, which would have a material adverse effect on our business, financial condition, results of operations and cash flows."



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VML is not required to make any one-off payments to the Macau Government under the Subconcession but has certain payment obligations under the Subconcession Contract and pursuant to Macau Gaming Law, which include payment of a special gaming tax, annual gaming premiums and contributions to a public foundation in Macau and to urban development, the promotion of tourism and social security. Pursuant to the Subconcession Contract VML also agreed to a committed investment of MOP4.4 billion (US\$0.6 billion) which was completed as of December 31, 2005. The following table sets out some of the major terms and conditions of the Subconcession Contract:

|  |  |
|--|--|
| Committed investment: .....                        | MOP4.4 billion (US\$0.6 billion) <sup>(1)</sup>  |
| Term: .....  | 19 1/2 years to June 26, 2022  |
| Special gaming tax: .....                          | 35.0% of gross gaming revenue <sup>(2)</sup>   |
| Annual gaming premium <sup>(3)</sup> : .....       | MOP30.0 million (US\$3.8 million) per annum fixed premium<br>MOP300,000 (US\$37,500) per annum per VIP gaming table <sup>(4)</sup><br>MOP150,000 (US\$18,750) per annum per mass market gaming table<br>MOP1,000 (US\$125) per annum per electric or mechanical gaming machine including slot machines |
| Special levies:                                    |  |
| Contribution to a public foundation in Macau ..... | 1.6% of gross gaming revenue—for promotion, development or study of culture, society, economy, education, science and charity events <sup>(2)(5)</sup>   |
| Contribution to the MSAR .....                     | 2.4% of gross gaming revenue—for urban development, tourism promotion and social security <sup>(2)(5)</sup>  |
| Total .....  | 4.0% of gross gaming revenue <sup>(2)(5)</sup>   |

- (1) On May 11, 2006, we received a letter from the DICJ confirming completion of our committed investment.
- (2) Gross gaming revenue is defined as all revenue derived from casino or gaming areas.
- (3) There is currently no limit on the number of VIP gaming tables, mass market gaming tables and electric or mechanical gaming machines that VML can set up.
- (4) VML's VIP gaming tables include tables for VIP, premium and Paiza cash players.
- (5) The contribution percentages are subject to changes upon re-negotiation between the Concessionaires or the Subconcessionaires, as the case may be, and the Macau Government in 2010.

The Subconcession Contract also contains various general covenants and obligations. Specifically, VML 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 or gaming areas 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; and
- maintain required insurance coverage.

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VML's Subconcession may be terminated by agreement between VML and Galaxy but Galaxy is not entitled to unilaterally terminate VML's Subconcession. Although the Subconcession Contract specifies that the Macau Government has the right to unilaterally terminate the Subconcession after consultation with Galaxy, the Subconcession Contract does not explicitly grant Galaxy any veto rights, nor require Galaxy's consent in order to allow the Macau Government to exercise its unilateral termination rights. Moreover, in a letter from the Macau Government received in May 2006, the Macau Government reconfirmed that VML's Subconcession is separate from Galaxy's concession and that VML does not have any obligations to Galaxy pursuant to the Subconcession Contract, except with respect to the investment obligations under the Subconcession Contract which were completed as of December 31, 2005.

The Macau Government, after consultation with Galaxy, has the right to unilaterally terminate VML's Subconcession Contract for non-compliance with fundamental obligations under the Subconcession Contract and the applicable Macau laws such as:

- operation of casino games without permission or operation of business beyond the scope of VML's Subconcession;
- suspension of operations of VML's gaming business without reasonable grounds for more than seven consecutive days or more than 14 non-consecutive days within one calendar year;
- unauthorized transfer of all or part of VML's gaming operations in Macau 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 temporary assumption of operations by the Macau Government;
- repeated objections to the implementation of supervision and inspection power or repeated failure to comply with decisions of the Macau Government, in particular, DICJ Instructions;
- systematic non-compliance 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 Subconcession Contract within the prescribed period;
- bankruptcy or insolvency of VML. The terms "bankruptcy" or "insolvency" are not expressly defined in the Subconcession Contract. However, the Macau Civil Procedure Code expressly establishes that a company is deemed "bankrupt" when a court judges that such company is "unable to fulfill its obligations timely" and that a debtor becomes "insolvent" when its liabilities are greater than its assets. Although a company cannot be declared legally "insolvent" by a court pursuant to the Macau Civil Procedure Code, our Macau legal advisor has advised us that this legal definition of insolvency is frequently used to provide contracting parties with remedies in a situation whereby a counterparty is, for all intents and purposes, bankrupt, but has not yet been legally so declared by a court. Accordingly, our Macau legal advisor has advised us that the Macau Government will not need to have a court judgment declaring VML's bankruptcy in order to unilaterally terminate VML's Subconcession as the Macau Government can unilaterally terminate VML's Subconcession upon determining that VML's liabilities are greater than its assets;
- non-compliance with Macau laws, regulations and/or DICJ Instructions for the purpose of anti-money laundering and counter-terrorism financing;
- fraudulent activity by VML to the detriment of the public interest;
- serious violation of the applicable rules for the operation of casino games or harm to fairness of the casino games;
- grant to a third party the managing powers over gaming activities; and
- non-compliance with the obligation regarding transfer of shares.



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These events could ultimately lead to the termination of VML's Subconcession without compensation to VML or even result in potential liability to VML. Upon such termination, all of VML'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 VML and we would cease to generate any revenue from VML's operations. In many of these instances, the Subconcession Contract does not provide a specific cure period within which any such events may be cured and, instead, we would rely on consultations and negotiations with the Macau Government to give us an opportunity to remedy any such default.

Beginning on December 26, 2017, the Macau Government will be allowed to exercise its right to redeem the Subconcession by providing VML with at least one-year prior written notice. In such event, VML is entitled to fair compensation or indemnity. The amount of such compensation or indemnity will be determined based on the amount of gaming and non-gaming revenue generated by The Venetian Macao, excluding the convention and exhibition facilities, 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 Subconcession.

### **Investment Obligations under the Subconcession Contract**

As part of the requirements under the Subconcession Contract, VML was required to make certain capital investments of a stipulated value of MOP4.4 billion (US\$0.6 billion) in Macau within a specified period. Under VML's Subconcession Contract, this investment by VML was taken into account for the purpose of assessing Galaxy's compliance with the investment obligations established for Galaxy under its concession, and Galaxy was responsible for any shortfall in VML's committed capital investments under its Subconcession Contract. Our Macau legal advisor has advised us that with respect to these investment obligations, Galaxy and VML were severally, but not jointly, obligated vis-à-vis the Macau Government until VML's fulfillment of its investment obligations but Galaxy and VML were not, and are not, co-obligees, either severally, jointly, nor severally and jointly, for compliance with either Galaxy's concession or the Subconcession in any other respects. The Macau Government may request or approve the request to make changes in the plans and specifications of VML's properties in Macau. Under the investment plan attached to the Subconcession Contract, VML's obligation to invest in the construction and development of The Venetian Macao was subsequently extended to December 2009. The construction and development costs of the Sands Macao were also applied to the fulfillment of this total investment obligation. We opened the Sands Macao in May 2004 and The Venetian Macao in August 2007 and on May 11, 2006, the DICJ issued a certificate affirming that, as of December 31, 2005, VML had fulfilled its investment obligations under the Subconcession. VML has therefore met its required investment obligations through its investments in The Venetian Macao and the Sands Macao. VML's agreement to make these capital investments constitutes the sole consideration to Galaxy in connection with the entering into the Subconcession Contract. Under the Subconcession Contract, VML is not obligated to make any further payments or contribution to Galaxy.