

## REGULATION

### OVERVIEW OF MACAU’S REGULATORY FRAMEWORK ON GAMING OPERATIONS

The operation of casino games of chance (or games of other forms) authorized by the Macau Government is subject to general administrative, civil and criminal laws and to the specific gaming laws, in particular, Law No. 16/2001. Law No. 16/2001 introduced and established the legal framework and the principal rules for operation of casino games and further sets out the governing framework for regulation of casino or gaming areas in Macau.

The operation of casino games in Macau is reserved to the MSAR. The concession regime restricts the operation of such games to private companies incorporated in Macau that have concessions granted by the MSAR pursuant to the concession contracts and applicable gaming laws and regulations. Pursuant to Law No. 16/2001 and Administrative Regulation No. 26/2001, the MSAR granted concessions to Galaxy, SJM and Wynn Macau under an international public tender. The Macau Government also authorized three subconcessions, one by Galaxy to VML, one by SJM to MGM Grand Paradise and one by Wynn Macau to Melco Crown. It is provided under the concession contracts of SJM, Galaxy and Wynn Macau that the Concessionaires cannot enter into subconcessions without the authorization of the Macau Government. The Macau Government has stated in public announcements that only three subconcessions will be permitted. See “The Subconcession.”

#### The DICJ’s Role and Authority

The DICJ is the primary regulator and supervisory institution of the MSAR’s gaming industry. The DICJ plays an active role in fulfilling the objectives set forth in Law No. 16/2001. The main objectives of Law No. 16/2001 are (i) that Concessionaires and Subconcessionaires carry on adequate operation of casino games; (ii) that parties involved in the operation, management and supervision of casino games are suitable to perform their functions and undertake their respective responsibilities; (iii) that operation of casino games authorized by the Macau Government are performed in a just, honest manner and free from criminal influences; and (iv) that the MSAR’s public interests relating to special gaming tax and other contributions are well protected by maintaining effective controls and procedures.

Pursuant to Administrative Regulation No. 34/2003, the DICJ is entrusted with the responsibility to assist and support the Chief Executive of the MSAR in the definition and execution of economic policies for operation of casino games in the MSAR. The DICJ’s principal responsibilities are to:

- collaborate in the definition, coordination and execution of economic policies for the operation of casino games and gaming activities offered to the public;
- examine, supervise and monitor the activities of Concessionaires and Subconcessionaires, especially compliance with their legal, statutory and contractual obligations;
- examine, supervise and monitor the suitability and financial capability of Concessionaires and Subconcessionaires or other parties stipulated by the law;
- collaborate with the Macau Government in the process for authorization and classification of locations and places for operation of casino games;
- authorize and certify all equipment and apparatus used by Concessionaires and Subconcessionaires within the approved business scope stipulated in their respective concessions and subconcessions;
- issue licenses for Gaming Promoters;
- examine, supervise and monitor the activities of Gaming Promoters, especially relating to their compliance with their legal, statutory and contractual obligations and other responsibilities stipulated in other applicable legislation;
- examine, supervise and monitor the eligibility of Gaming Promoters, their collaborators and key employees;

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- investigate and penalize any administrative violations according to the applicable substantive and procedural laws;
- ensure that the relationship between the Concessionaires and Subconcessionaires, the Macau Government and the public is in compliance with applicable regulations and is in the best interest of the MSAR; and
- perform any task not mentioned above but with a similar nature according to the orders of the Chief Executive of the MSAR or applicable laws.

Among other requirements, Concessionaires and Subconcessionaires are required to submit to the DICJ for record or inspection all significant documentation and periodic reports regarding their business and operation, as well as to submit to the DICJ all matters requiring the Macau Government’s approval or authorization as required by laws, such as changes in shareholding structure, changes in control, directorship and key employees, gaming equipment, the concession or subconcession contracts, as applicable, and other matters related to the operation of casino games.

In addition, the DICJ is responsible for assessing the gross daily income of the Concessionaires and Subconcessionaires. The DICJ continuously monitors the Concessionaires’ and Subconcessionaires’ daily operations and tabulation of net-win generated from casino games including casino table games and slot machines through various control procedures conducted in the casinos.

### Gaming Commission

The Gaming Commission was created by the MSAR Chief Executive’s Dispatch No. 120/2000, of July 4, 2000, further amended by Dispatch No. 194/2003 of August 5, 2003 and Dispatch 291/2007 of October 16, 2007. The Gaming Commission is a specialized commission directly reporting to and presided over by the MSAR Chief Executive, with the responsibility of formulating policies and facilitating the development of Macau’s gaming operations and relevant regulatory framework.

### REGULATIONS RELATING TO MACAU’S GAMING INDUSTRY

The following are the pertinent laws and regulations relating to us and the gaming industry in Macau.

#### **Law No. 16/2001, published in Macau Official Gazette No. 39-I of September 24, 2001 (“Macau Gaming Law”)**

The Macau Gaming Law established the legal framework and the principal rules for the operation of casino games or other forms of gaming in the MSAR. It sets forth the objectives of the legal system governing the operation of casino games and defines the permitted types of casino games, places, locations and periods for operation. It further sets forth principal rules for the concession regime and obligations of the Concessionaires, including submitting their accounts and records to the Macau Government and paying a special gaming tax to the MSAR.

#### **Administrative Regulation No. 26/2001 (“Gaming Tender Regulation”)**

The Gaming Tender Regulation sets forth the terms of the public tender procedures for the granting of concessions for the operation of casino games, and the suitability and financial capacity requirements of bidders (also applicable to the subconcessions). The Gaming Tender Regulation also contains relevant provisions that impose information obligations on the Concessionaires and Subconcessionaires and provides the Macau Government with approval rights in relation to the Concessionaires or Subconcessionaires obtaining loans or credit in an amount over MOP5.0 million. It was amended by Administrative Regulation No. 34/2001 and No. 4/2002, rectified in the Macau Official Gazette 13/2002 of April 1, 2002, on November 2, 2001 and April 1, 2002, respectively, and supplemented by the following administrative releases:

- (i) Dispatch of the Chief Executive No. 215/2001 (setting out the fixed annual premium payable by the Concessionaires as consideration of the granting of concessions for the operation of casino games);

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- (ii) Dispatch of the Chief Executive No. 216/2001 (creating the First Public Bidding Committee in charge of Games of Fortune or Chance in Casino for the granting of concessions);
- (iii) Dispatch of the Chief Executive No. 217/2001 (opening the international public tender for the granting of the three concessions for the operation of casino games);
- (iv) Dispatch of the Secretary for Economy and Finance dated November 21, 2001 (delegating the power to the First Public Bidding Committee in charge of casino games to authorize local or international renowned firms for the first tender to prepare risk evaluation reports);
- (v) Dispatch of the Chief Executive No. 250/2001 (setting the framework applicable to the association of tenderors and the respective admissible terms); and
- (vi) Dispatch of the Chief Executive No. 26/2002 (granting three gaming concessions).

### ***The Subconcession Contract***

On December 26, 2002, VML entered into a tripartite Subconcession Contract with Galaxy and the Macau Government for the operation of casino games in Macau. The Subconcession Contract details the rights of VML and its obligations towards the Macau Government and in particular to the DICJ. See "The Subconcession" for further details on all material rights and obligations under the Subconcession Contract.

### ***The Rules of Casino Games***

The Macau Government has promulgated additional rules to supplement the rules of casino games set forth in Section 55 of the Macau Gaming Law. These supplemental rules were approved by, among others, the External Dispatches of the Secretary for Economy and Finance Nos. 41/2003, 42/2003, 69/2003, 55/2004, 56/2004, 57/2004, 58/2004, 59/2004, 60/2004, 61/2004, 65/2004, 89/2004, 73/2005, 74/2005, 69/2006, 30/2007, 42/2007, 63/2007, 64/2007, 67/2007, 11/2008, 78/2008 and 71/2009, which set out or renewed the detailed procedures and rules of certain casino games, namely football poker, wheel of fortune, baccarat, soccer poker, blackjack, craps, roulette, Q poker, fan-tan and stud poker.

### **Administrative Regulation No. 6/2002, Enacted on April 1, 2002 ("Gaming Promoters Regulation")**

The Gaming Promoters Regulation sets forth the requirements and procedures to engage and operate casino gaming promotion activities. See "—Gaming Promoters Regulation" below.

### **Administrative Regulation No. 27/2009, Enacted on August 10, 2009**

As a result of the amendments made to Administrative Regulation No. 6/2002 by the recently enacted Administrative Regulation 27/2009 dated August 10, 2009, the Secretary of Economy and Finance of the Macau Government now has the authority to issue a dispatch implementing the 1.25% Gaming Promoter commission cap, as agreed between all Concessionaires and Subconcessionaires. The commission cap is expected to become effective on December 1, 2009. The amendment sets forth standards for what constitutes a commission to Gaming Promoters, including all types of payments, either monetary or in specie, that are made to Gaming Promoters such as food and beverage, hotel and other services and allowances. The amendment also imposes obligations on Gaming Promoters, Concessionaires and Subconcessionaires to report regularly to the DICJ and imposes fines or other sanctions for non-compliance with the commission cap or the monthly obligations to report and detail the amount of commissions paid to Gaming Promoters.

### **Law No. 5/2004, Enacted on June 14, 2004 ("Gaming Credit Law")**

The Gaming Credit Law governs the granting of gaming credit in the MSAR and authorizes the (i) Concessionaires; (ii) Subconcessionaires; and (iii) Gaming Promoters who enter into a contract with a Concessionaire or Subconcessionaire to grant gaming credit. Pursuant to the Gaming Credit Law, the granting of gaming credit is limited to the following three circumstances: (i) a Concessionaire or a Subconcessionaire as a creditor may grant gaming credit to a gaming patron as a borrower; (ii) an

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authorized Gaming Promoter as a creditor may grant gaming credit to a gaming patron as a borrower; or (iii) a Concessionaire or a Subconcessionaire as a creditor may grant gaming credit to an authorized Gaming Promoter as a borrower. It also forbids the assignment or transfer in any form of the power to grant gaming credit. The Gaming Credit Law provides for the obligations of the credit grantors towards the DICJ and scope of the DICJ’s supervision. Specifically, the granting of gaming credit is enforceable as a civil debt pursuant to Article 4 of the Gaming Credit Law.

Under the Gaming Credit Law, restrictions and conditions imposed on Concessionaires and Subconcessionaires include:

- (i) to act prudently and with integrity, with full respect to laws, regulations and standards of professional conduct (Section 9, Gaming Credit Law);
- (ii) to keep all information obtained while providing credit confidential (Section 10, Gaming Credit Law), other than for exceptions enumerated in Section 11, Gaming Credit Law;
- (iii) to collaborate with the DICJ to enable its supervision as well as to provide information requested by the Judiciary Police of the MSAR while investigating a crime (Section 15, Gaming Credit Law); and
- (iv) as the obligation to repay the debt is qualified as a civil obligation under Section 4, Gaming Credit Law, the credit grantors and the granting of credit shall also be subject to the restrictions and limitations established in the Macau Civil Code, namely the limits of usury established in Section 1073; these limits are triple the legal interest rate for remuneration of the loan and for compensation the limit is five times the legal interest rate—currently 9.75%, stipulated in the Executive Order No. 29/2006, applicable ex vi Section 552, Macau Civil Code. Contracts stipulating higher interests may be annulled based upon usury or the interests statutorily reduced to the legal limit (Section 1073, Nos. 3 and 4, Macau Civil Code).

Pursuant to Section 16 of the Gaming Credit Law, the acts taken while granting credit under the Gaming Credit Law shall not be considered usury for gaming, and are thus expressly excluded from Law No. 8/96/M prohibiting illicit gaming.

### **Law No. 8/96/M, Enacted on July 22, 2002 (“Law on Illicit Gaming”)**

The Law on Illicit Gaming prohibits all forms of operation, promotion or assistance to gaming outside the authorized areas, as well as any fraudulent gaming in authorized areas, or any unlicensed granting of loans or gaming credits to players.

## **GAMING PROMOTERS REGULATION**

### **Compulsory Licensing Requirements for Gaming Promoters**

The DICJ initiated the first licensing process in Macau for Gaming Promoters under the transition arrangements introduced by the Gaming Promoters Regulation. Pursuant to a notice issued by the DICJ on April 21, 2006, the DICJ prescribed a deadline for the first licensing process of June 1, 2006 by which date the Gaming Promoters who have not yet been licensed must be licensed by the DICJ and must be transacting business with a Concessionaire or a Subconcessionaire in order to be permitted to carry on gaming promotion activities in the MSAR. The Gaming Promoters must also execute a contract with the Concessionaire or Subconcessionaire after obtaining Gaming Promoter licenses. As of the Latest Practicable Date, all Gaming Promoters who provide gaming promotion services to us have been licensed by the DICJ. The DICJ offers a register of licensed Gaming Promoters for public inspection.

The Gaming Promoters Regulation restricts the operation of gaming promotion to licensed corporate entities, commercial partnerships or individuals that are registered as entrepreneurs with the MSAR Finance Department and meet the relevant requirements promulgated by the DICJ. In order to obtain a license for gaming promotion, the applicant must submit its application for suitability assessment by the DICJ, which includes assessment of the suitability of the Gaming Promoters’ key

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employees. When the Gaming Promoter is a commercial partnership or a company, the suitability of the Gaming Promoter's directors and shareholders holding 5.0% or more of the share capital is also assessed. A Gaming Promoter license is valid until December 31 in the year it is granted and can be renewed each year upon submission of an application to the DICJ. The renewal application must include a signed declaration by the legal representative of the relevant Concessionaire or Subconcessionaire with which such Gaming Promoter is transacting business that the Concessionaire or Subconcessionaire intends to operate with such Gaming Promoter in the following year. Gaming Promoters that are sole proprietors are subject to compulsory assessment of their suitability every three years, and Gaming Promoters that are commercial partnerships or companies are subject to compulsory assessment every six years. Extraordinary suitability assessment may also be conducted by the DICJ.

Concessionaires and Subconcessionaires are jointly liable to the Macau Government for the activities conducted by their Gaming Promoters and Gaming Promoters' employees and collaborators, within their respective casinos and gaming areas. Gaming Promoters are jointly liable for the activities of their employees and collaborators within the casinos and gaming areas of Concessionaires and Subconcessionaires and for their compliance with applicable laws and regulations. Failure by the Gaming Promoters or the Concessionaires or Subconcessionaires to fulfill their major obligations under the Gaming Promoters Regulation may result in the following consequences:

- the issue of a non-suitability report;
- refusal to grant a new gaming promotion license or to renew an existing license;
- upon notice by the Concessionaire or Subconcessionaire to the DICJ, suspension of the gaming promotion activities of Gaming Promoters; and
- administrative liability arising out of violation of the Gaming Promotion Regulation without prejudice of contractual liability of the Gaming Promoter towards the Concessionaire or Subconcessionaire.

### Major Obligations Imposed upon Gaming Promoters

Gaming Promoters are required to comply with the following obligations:

- to register with Concessionaires or Subconcessionaires and operate under the terms agreed in a written contract submitted to the DICJ, including, in particular, the amount and payment method of commissions or other agreed remunerations, the nature of their activities in the casinos or gaming areas, including the designation of any VIP rooms or other premises within the casinos or gaming areas, the amounts and forms of required securities and guarantees and the waiver indicating that Concessionaires or Subconcessionaires and Gaming Promoters agree to submit to the exclusive jurisdiction of the MSAR courts and defer to Macau laws;
- to execute written contracts with their collaborators and submit copies of such contracts to the DICJ;
- to submit annually, through Concessionaires or Subconcessionaires, a list containing the identification of their chosen collaborators for the following year, and copies of their identification documents and certificates of no criminal record or equivalent documents to the DICJ for approval;
- to comply with laws and regulations relating to Gaming Promoters and Gaming Promoter-related announcements and instructions issued by the DICJ;
- to accept auditing carried out by the DICJ and the MSAR Finance Department;
- to make all books and records available for the inspection and review by the DICJ and the MSAR Finance Department and provide any additional information and materials upon their request;
- to perform all contractual obligations, especially obligations to players;



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- to comply with the reasonable instructions issued by the Concessionaires or Subconcessionaires to the extent that such instructions do not interfere with the Gaming Promoters' autonomy;
- to perform all contractual obligations stipulated in the written contracts with Concessionaires or Subconcessionaires; and
- to comply with all legal and regulatory requirements required by the laws and regulations of the MSAR.

### Major Obligations Imposed upon Concessionaires and Subconcessionaires

Concessionaires and Subconcessionaires are required to comply with the following obligations with respect to their Gaming Promoters:

- to submit to the DICJ annually a list of Gaming Promoters with whom they intend to operate in the following year (the Macau Government, through the DICJ, determines annually the maximum number of Gaming Promoters and issues licenses to the Gaming Promoters identified in lists provided to it by the Concessionaires and Subconcessionaires);
- to submit to the DICJ, prior to the 10th of each month, a detailed list of the amounts of commissions or other remunerations paid to each Gaming Promoter in the previous month, as well as the amounts of taxes withheld;
- to prepare and maintain an updated list of the names of registered Gaming Promoters, their directors, key employees and collaborators for submission to the DICJ quarterly;
- to inform the DICJ or proper authorities of any fact that may affect the solvency of their Gaming Promoters;
- to maintain and update the book records with their Gaming Promoters;
- to supervise the activities of their Gaming Promoters, in particular the Gaming Promoters' compliance with legal and contractual obligations;
- to inform the authorities of any potential criminal activity by their Gaming Promoters, in particular potential money laundering activities;
- to promote a healthy relationship with registered Gaming Promoters;
- to settle commissions or other remunerations agreed upon with their Gaming Promoters in a timely manner; and
- to pay withholding taxes for their Gaming Promoters in a timely manner.

### ANTI-MONEY LAUNDERING REGULATIONS

The MSAR has been a member of the Asia/Pacific Group on Money Laundering ("APG") since 2000. As a member of APG, the MSAR undertook to implement the 40 recommendations and nine special recommendations of the FATF between 1990 and 2004. As of July 24, 2007, the APG and Offshore Group of Banking Supervisors ("OGBS"), in their "Mutual Evaluation Report on Macau, China Against the FATF 40 Recommendations (2003) and 9 Special Recommendations," determined that, despite non-compliance with Special Recommendation 9 relating to cross border declaration and disclosure, Macau had demonstrated a strong commitment towards implementing laws and institutional bodies to enhance its compliance with international anti-money laundering standards. The MSAR Legislative Assembly approved a new anti-money laundering law on March 23, 2006 to combat money laundering by further strengthening the record-keeping and reporting requirements relating to suspicious activities.

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The following are the pertinent laws and regulations relating to the anti-money laundering regulations in Macau that have been enacted:

### **Law No. 2/2006, published in Macau Official Gazette No. 14 of April 3, 2006**

This law (the "new anti-money laundering law") took effect on April 4, 2006. However, regarding the duties imposed upon the subject entities in relation to the new anti-money laundering law, this law only came into effect on November 12, 2006.

The new anti-money laundering law requires Concessionaires and Subconcessionaires, Gaming Promoters, and other entities such as financial institutions, insurance companies, exchange houses, money-remittance companies and professionals to assist the Macau Government in its efforts to combat money laundering activities. The entities mentioned must comply with the following duties as set out in Section 7 of the new anti-money laundering law:

- (i) identify contracting parties, clients or users whenever any transactions with such parties may indicate money laundering practices or involve high transaction amounts;
- (ii) identify the transactions and/or operations referred to in the preceding item;
- (iii) refuse to carry on the transactions or operations whenever the relevant information necessary to fulfill the duties set forth in items (1) and (2) is not provided;
- (iv) maintain, for a reasonable period of time, documents and records relating to the duties set forth in items (1) and (2);
- (v) report transactions and/or operations when they indicate money laundering practices or transactions; and
- (vi) collaborate with all authorities in charge of anti-money laundering measures.

The centralization, analysis and general monitoring of compliance with these duties is entrusted to the GIF.

Under the new anti-money laundering law, corporate entities and associations are responsible and liable for money laundering when the crime is committed in their name and corporate interest by: (i) their corporate bodies or representatives, or (ii) a person under their authority, when the crime became possible by virtue of an unlawful breach of the vigilance or control duties pending on such entity.

### **Law No. 3/2006, published in Macau Official Gazette No. 15 of April 10, 2006**

The anti-terrorism law took effect on April 11, 2006.

### **Administrative Regulation No. 7/2006, published in Macau Official Gazette No. 20 of May 15, 2006**

Administrative Regulation No. 7/2006 sets out in detail the duties of relevant entities set forth in the new anti-money laundering law and anti-terrorism law, establishing the supervision and monitoring mechanism and determining the penalties for non-compliance. The administrative regulation has been in force since November 12, 2006.

### **Dispatch No. 227/2006, published in Macau Official Gazette No. 32 of August 7, 2006**

Under this dispatch, the Chief Executive of the Macau Government created the GIF for the specific task of centralizing, monitoring, analyzing and providing information gathered in relation to actions against money laundering and financing of terrorism to police and judicial authorities. The GIF has the power to (i) request information from any private or public entity and (ii) provide information to foreign entities in compliance with any third party, including international agreements or other international instruments to which the MSAR is a party.

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### **Instruction No. 2/2006, issued by the DICJ on November 13, 2006**

The instruction was issued in relation to compliance with the provisions of Section 2, No. 2 of Administrative Regulation No. 7/2006, to define the minimal compulsory duties, rules and procedures for Concessionaires and Subconcessionaires, including corporate entities entrusted by their management, lottery or sports betting Concessionaires, and Gaming Promoters, under the new anti-money laundering laws. Any breach of these duties can result in fines or administrative action from the DICJ, leading to heavy fines under the terms of Administrative Regulation No. 7/2006.

The following are other laws and regulations in Macau which relate to anti-money laundering:

### **Section 34 of the Gaming Law**

This section imposes a duty on the external auditors of the Concessionaires, Subconcessionaires and managing companies of gaming operations to inform the DICJ and the MSAR Finance Department about any facts that may give rise to a suspicion of that entity, the members of the relevant corporate bodies or the employees of such entities of being involved in money laundering.

### **Section 30 of the Gaming Promoters Regulation**

This section provides that the Concessionaires and Subconcessionaires must inform the relevant authorities about any fact indicating that Gaming Promoters or their collaborators are involved in acts of money laundering.

Please also refer to “Internal Controls and Anti-Money Laundering” and “Risk Factors—Risks Relating to Our On-going Operations.”

## **LAND USE AND TITLE PROCESS LAWS IN MACAU**

### **Land Concessions**

The Macau Government grants the use of either new land that is claimed or to land that is vacant without being previously privately owned through an agreement called a “Land Concession.” The Land Concession is basically a lease and is published in the Official Gazette of Macau Government. Each Land Concession creates an obligation on the developer/grantee to develop the land that is being granted. Therefore, the land is initially conceded on a provisional basis, subject to completion of the proposed development. Upon completion of the development, the Land Concession is converted into definitive status through registration with the Macau Property Registry. In accordance with the terms of each Land Concession, the developer must pay to the Macau Government an annual rent in addition to an upfront land premium. The Land Concession is granted for a determined period of time not to exceed 25 years, and it may be renewed successively for 10 year periods indefinitely. Applications for the renewal of the Land Concession (a “Declaration”) can be filed by any proprietor, co-owner or mortgagee, or any other person having an interest either in the land, or in a building or unit built on the such land, and appropriately registered. Furthermore, any holder of a right that could be affected by the expiration of the Land Concession (e.g., owner, lessee, mortgagee of any unit within a building developed in the land) can issue the Declaration for the purpose of renewing the Land Concession. All acts regarding the Land Concession are submitted to the Macau Property Registry and available for public review by any person. The individual strata title rights over any building or unit under any Land Concession may be privately owned, mortgaged or sold on terms similar to any full ownership rights over real estate built on privately owned land. All ownership rights over the properties or buildings subject to a Land Concession (being strata title for residential units or full ownership of any building or fraction thereof) are also registered with the Macau Property Registry and fall under a full private ownership regime.

Any transaction involving the transfer of ownership rights over real estate property must be notarized in a deed before a notary, which deed must subsequently be submitted to the Macau Property Registry. Similar procedures are applicable with respect to the execution of a mortgage.



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### ENVIRONMENTAL REGULATIONS

Our Company, as well as all corporate entities in Macau, have to comply with the environmental principles of environment protection according to Macau laws, namely in respect of noise, pollution and construction nuisance.

All new projects and construction have to comply with Macau environmental ordinances and international conventions applicable in Macau, which require that plans and projects that may affect the environment and health of the citizens must be done with a study of the environmental impact. The conditions of the study are regulated by law and, after detailed analysis on the impact, the Macau Government may authorize the relevant projects as well as any alteration of a project or construction that is also under the approval of the Macau Government (Construction Bureau). These rules and regulations are established in Decree-Laws No. 79/85/M and No. 44/91/M regarding construction, Decree-Law No. 34/93/M regarding noise and Regulation No. 123/98/M on measures to deal with electrical accidents. Our Company also has to comply with the provisions of Decree-Law No. 37/89/M which establishes the environmental law-related rules and conditions for office and commercial spaces.

### LABOR AND SAFETY REGULATIONS

Pursuant to Macau laws and regulations, Macau employers must register their employees under the mandatory Social Security Fund (pursuant to Decree-Law No. 58/93/M—Sections 3 and 4), make social security contributions for each of its employees (Dispatch No. 45/GM/98) and contract insurance to protect the rights and interests of their employees in the event of work-related accidents and/or occupational illnesses (as required from VML pursuant to Article 40 of the Subconcession Contract). In the particular case of gaming concessionaires or subconcessionaires, there is a general obligation to make annual contributions for urban construction, tourism promotion and social security (Section 22, No. 8 of the Macau Gaming Law and Articles 48 and 49 of the Subconcession Contract).

Employment relations and contracts are regulated under Law 7/2008 (“Labor Relations Law”), which came into force in January 2009. The Labor Relations Law contains various rules concerning employment contracts that range from, among other things, general principles applicable to employment relationships, duties and obligations of the employer and the employee, probation time, employment contract requirements, employment contract for a fixed term, working hours, overtime, weekly time-off, annual leave, remuneration to causes for termination, termination without cause and compensation due to the employee for termination without cause. Although certain of the above provisions are mandatory, some of these provisions can be changed by agreement between the employer and employee.

### REGULATIONS RELATING TO HONG KONG

Three laws of general application in Hong Kong relate to money laundering. Regulations or guidelines have also been promulgated for certain industries, but none are of specific application to our Company and its subsidiaries. The three laws of general application are the Drug Trafficking (Recovery of Proceeds) Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance, and OSCO. Each of these ordinances defines various offenses in relation to money laundering.

#### Drug Trafficking (Recovery of Proceeds) Ordinance

The Drug Trafficking (Recovery of Proceeds) Ordinance provides for the tracing, confiscation and recovery of the proceeds of drug trafficking and defines various offenses in relation to the laundering of proceeds of drug trafficking. The offenses most likely to be relevant to our Company include:

- (a) dealing with property known or believed to represent proceeds of drug trafficking (section 25); and
- (b) failing to disclose to the authorities knowledge or suspicion that any property represents any person’s proceeds of drug trafficking or was used, or is intended to be used, in connection with drug trafficking (section 25A).

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### **United Nations (Anti-Terrorism Measures) Ordinance**

The United Nations (Anti-Terrorism Measures) Ordinance implements various directives and covenants of the United Nations with respect to anti-terrorism policies, including a decision of the Security Council of the United Nations in its Resolution 1373 of September 28, 2001 relating to measures for the prevention of terrorist acts and certain of the Special Recommendations on Terrorist Financing of the Financial Action Task Force. In relation to money laundering, the provisions most likely to be relevant to our Company are sections 6, 7, 8 and 12 of such ordinance.

Section 6(1) provides that where the Secretary for Security has reasonable grounds to suspect that any funds held by any person are terrorist property, the Secretary for Security may direct that the funds not be made available to any person except under the authority of a license granted by the Secretary for Security.

Section 7 provides that a person may not provide or collect funds by any means with the intention that the funds be used or knowing that the funds will be used to commit one or more terrorist acts, whether or not the funds are actually so used.

Section 8 further provides that no person may, except under the authority of a license granted by the Secretary for Security, make any funds or financial or related services available to or for the benefit of a person who the first-mentioned person knows or has reasonable grounds to believe is a terrorist or terrorist associate.

Section 12 requires that where a person knows or suspects that any property is terrorist property, then the person must disclose to an authorized officer the information or other matter on which the knowledge or suspicion is based as soon as practicable.

### **OSCO**

OSCO is the anti-money laundering legislation of the broadest application in Hong Kong. OSCO creates two money laundering offenses, namely:

- (a) dealing with property known or believed to represent the proceeds of an indictable offense (section 25(1)); and
- (b) failing to disclose to the authorities knowledge or suspicion that any property represents any person's proceeds of an indictable offense or was used, or is intended to be used, in connection with an indictable offense (section 25A(l) and (7)).

### **The Gambling Ordinance**

Under the Gambling Ordinance, operating, managing or controlling a gambling establishment is an indictable offense in Hong Kong.

The Stock Exchange announced in March 2003 that it has no objections to foreign casinos being listed in Hong Kong so long as the activity is legal in the foreign jurisdiction and is not unlawful under the Gambling Ordinance.

We confirm that, to the best of our knowledge after due enquiry, no member of our Group was in violation of the Drug Trafficking (Recovery of Proceeds) Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance, OSCO and the Gambling Ordinance during the Track Record Period.

Our Company will use its best endeavors to seek to ensure that the operation of its casino gaming activities in Macau is in compliance with all applicable laws in Macau and does not contravene the Gambling Ordinance.

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### REGULATIONS RELATING TO NEVADA

As a result of its gaming operations in Nevada, U.S.A., our parent company, LVS, is subject to regulatory oversight responsibilities imposed by the Nevada regulatory authorities. See "Risk Factors—Risks Relating to Our On-going Operations—As a result of LVS's majority ownership in us, certain Nevada, Singapore and Pennsylvania gaming laws apply to our planned and on-going gaming activities and associations in Macau. If our operations, activities or associations do not comply with Nevada, Singapore and Pennsylvania gaming laws or laws of other jurisdictions in which LVS operates or may operate in the future, LVS may be compelled to curtail or sever its relationship with us, which would have a material adverse effect on us." The following descriptions highlight certain laws and regulations under the Nevada Gaming Control Act which impose obligations or responsibilities relating to our Macau gaming operations.

#### Approval and Investigation of Foreign Gaming Operations

Pursuant to Section 463.680 of the Nevada Revised Statutes, "foreign gaming" refers to the conduct of gaming outside of the State of Nevada. Pursuant to Section 463.700 of the Nevada Revised Statutes, any licensee who proposes to participate in foreign gaming as defined under Section 463.680 of the Nevada Revised Statutes must deposit with the State Gaming Control Board of Nevada (the "Gaming Control Board") and thereafter maintain a refundable revolving fund in the amount of US\$10,000 to pay the expenses of investigation by the Gaming Control Board of his participation in foreign gaming no later than 30 days after either: (i) his execution of a definitive agreement pertaining to the proposed participation in foreign gaming or (ii) his filing of an application for licensing or related approval pertaining to the proposed participation, whichever is earlier. In particular cases, the Nevada Gaming Commission may also increase or decrease the required amount of the revolving fund. Upon the licensee's termination of all proposed and actual participation in foreign gaming, the Gaming Control Board shall refund the remaining balance in the licensee's revolving fund. Prior to participating in foreign gaming, a licensee shall provide to the Gaming Control Board all such information pertaining to his proposed participation as the Gaming Control Board may request.

As a gaming licensee in Nevada, our parent, LVS, is subject to these requirements with respect to the conduct of foreign gaming operations in Macau by us as its subsidiary.

#### On-going Reporting Obligations

Pursuant to Section 463.710 of the Nevada Revised Statutes, unless otherwise ordered by the Gaming Control Board or the Nevada Gaming Commission, a licensee who participates in foreign gaming shall file with the Gaming Control Board:

- As soon as participation in foreign gaming begins:
  - all documents filed by him or by an affiliate with the foreign jurisdiction; and
  - the systems of accounting and internal control utilized in the foreign gaming operation and any amendments to the systems as soon as made.
- Annual operational and regulatory reports describing compliance with regulations, procedures for audit, and procedures for surveillance relating to the foreign gaming operation.
- Quarterly reports regarding any of the following information which is within the knowledge of the licensee:
  - any changes in ownership or control of any interest in the foreign gaming operation;
  - any changes in officers, directors or key employees of the foreign gaming operation;
  - all complaints, disputes, orders to show cause and disciplinary actions, related to gaming, instituted or presided over by an entity of the United States, a state or any other governmental jurisdiction concerning the foreign gaming operation;

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- any arrest of an employee of the foreign gaming operation involving cheating or theft, related to gaming, in the foreign jurisdiction; and
- any arrest or conviction of an officer, director, key employee or owner of equity in the foreign gaming operation for an offense that would constitute a gross misdemeanor or felony in the State of Nevada.
- Any other information that the Nevada Gaming Commission may require by regulation.

### Compliance Review and Reporting System

The Nevada Gaming Commission also has the authority to impose conditions upon any license or order of registration to require implementation of a compliance review and reporting system by the licensee or registrant if the Nevada Gaming Commission determines that special circumstances exist which require additional management review by such licensee or registrant. The terms of the condition may include, without limitation: (i) that the condition expire on a certain date or after a designated period of time without action by the Nevada Gaming Commission; (ii) that the condition be administratively removed by the Gaming Control Board if a specified activity ceases or a specified event occurs; or (iii) that a periodic review will be conducted by the Gaming Control Board and upon such review the Gaming Control Board may recommend and the Nevada Gaming Commission may remove or continue to require any such condition. Subject to the approval of the Nevada Gaming Commission, and based on recommendations of the Gaming Control Board, such conditions may be modified or removed upon application by the licensee or registrant.

The compliance review and reporting system is created for the purpose of monitoring activities relating to the licensee's or registrant's continuing qualifications under the provisions of the Nevada Gaming Control Act and regulations of the Nevada Gaming Commission in accordance with a written plan to be approved by the Gaming Control Board administratively or as otherwise ordered by the Nevada Gaming Commission. The written plan must provide for the following: (i) the operation of the compliance review and reporting system and designation of parties which will be responsible for this system; (ii) involvement of at least one person knowledgeable of the provisions of the Nevada Gaming Control Act, as amended, and the regulations of the Nevada Gaming Commission, as amended; and (iii) periodic reports to senior management of the licensee or registrant. Periodic reports provided to senior management pursuant to this written plan shall be advisory and the licensee or registrant shall maintain responsibility for compliance with the Gaming Control Act and regulations of the Nevada Gaming Commission. Copies of the reports must also be provided to the Gaming Control Board.

The activities to be monitored pursuant to the compliance review and reporting system must be set forth in the written plan and must be determined by the circumstances applicable to the licensee or registrant. Without limitation, the activities that may be required to be monitored pursuant to the compliance review and reporting system include the following: (i) associations with persons denied licensing or other related approvals by the Nevada Gaming Commission or who may be deemed to be unsuitable to be associated with a licensee or registrant; (ii) business practices or procedures that may constitute grounds for denial of a gaming license or registration; (iii) compliance with other special conditions that may be imposed by the Nevada Gaming Commission upon the licensee or registrant; (iv) review of reports submitted pursuant to the Nevada Gaming Control Act and regulations of the Nevada Gaming Commission; (v) compliance with the laws, regulations, or orders of duly constituted governmental agencies or entities having jurisdiction over the gaming affairs, or such other business activities which the Gaming Control Board or the Nevada Gaming Commission may deem necessary or proper, of the licensee, registrant, or its affiliates; and (vi) review of such other activities determined by the Gaming Control Board or the Nevada Gaming Commission as being relevant to the licensee's or registrant's continuing qualifications under the provisions of the Nevada Gaming Control Act and the regulations of the Nevada Gaming Commission.

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### ***Compliance Committee***

Pursuant to LVS's order of registration, which was approved by the Nevada Gaming Commission, LVS must establish and maintain a gaming compliance program for the purpose of, at a minimum, performing due diligence, determining the suitability of relationships with other entities and individuals, and to review and ensure compliance by LVS, its subsidiaries and any affiliated entities, with the Nevada Gaming Control Act, as amended, the Nevada Gaming Commission's regulations, as amended, and the laws and regulations of any other jurisdictions in which LVS, its subsidiaries and any affiliated entities operate. The gaming compliance program, any amendments thereto, and the members of the compliance committee (one such member who shall be independent and knowledgeable of the Nevada Gaming Control Act, as amended) and the Nevada Gaming Commission's regulations, as amended, shall be administratively reviewed and approved by the Chairman of the Gaming Control Board or his designee. LVS shall amend the gaming compliance program, or any element thereof, and perform such duties as may be assigned by the Chairman of the Gaming Control Board or his designee, related to a review of activities relevant to the continuing qualification of LVS, under the provisions of the Nevada Gaming Control Act, as amended, and the Nevada Gaming Commission's regulations, as amended.

The approved Compliance Plan of LVS requires that any subsidiary of LVS that is involved in foreign gaming shall have its own designated compliance officer who may be a member of the LVS Compliance Committee or otherwise shall report to the LVS Compliance Committee directly or through the LVS Compliance Officer.

### **Prohibited Practices and Suitability Reviews of Certain Activities or Associations of Licensee**

Pursuant to Section 463.720 of the Nevada Revised Statutes, a licensee shall not, in a foreign gaming operation, knowingly:

- violate a foreign, federal, tribal, state, county, city or township law, regulation, ordinance or rule, or any equivalent thereof, concerning the conduct of gaming;
- fail to conduct the operation in accordance with the standards of honesty and integrity required for gaming in the State of Nevada;
- engage in an activity or enter into an association that is unsuitable for a licensee because it:
  - poses an unreasonable threat to the control of gaming in Nevada;
  - reflects or tends to reflect discredit or disrepute upon the State of Nevada or gaming in the State of Nevada; or
  - is contrary to the public policy of the State of Nevada concerning gaming;
- engage in an activity or enter into an association that interferes with the ability of the State of Nevada to collect all license fees imposed under Chapter 463 of the Nevada Revised Statutes; or
- employ, contract with or associate with a person whom the Nevada Gaming Commission or a court in the State of Nevada has found guilty of cheating or to whom the Nevada Gaming Commission has denied a gaming license, or finding of suitability, on the ground of unsuitability.

Pursuant to Section 463.715 of the Nevada Revised Statutes, if the Gaming Control Board determines that an actual or intended activity or association of a licensee in a foreign gaming operation may be prohibited because it: (i) poses an unreasonable threat to the control of gaming in Nevada; (ii) reflects or tends to reflect discredit or disrepute upon Nevada or gaming in Nevada; or (iii) is contrary to the public policy of Nevada concerning gaming (hereinafter referred to as "subsection 3 of Section 463.720 of the Nevada Revised Statutes"), the Gaming Control Board may require the licensee to file an application for a finding of suitability to be made by the Nevada Gaming Commission concerning the activity or association. The licensee shall file the application for a finding of suitability



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within 30 days after receiving the request from the Gaming Control Board unless the Chairman of the Gaming Control Board grants an extension of time.

In lieu of filing an application for a finding of suitability as set forth above, within 30 days after receiving a request from the Gaming Control Board, a licensee may petition the Nevada Gaming Commission to review the request and determine whether the licensee is required to file the application. A licensee may also file an application for a finding of suitability concerning his actual or intended activity or association in a foreign gaming operation without a request from the Gaming Control Board.

If the Nevada Gaming Commission determines that an intended activity or association of a licensee in a foreign gaming operation is unsuitable pursuant to subsection 3 of Section 463.720 of the Nevada Revised Statutes, the licensee shall not engage in the activity or enter into the association. If an activity or association of a licensee in a foreign gaming operation is prohibited pursuant to subsection 3 of Section 463.720 of the Nevada Revised Statutes, the licensee shall terminate the activity or association within the time prescribed by the Nevada Gaming Commission.

### OTHER REGULATORY CONSIDERATIONS

Our Controlling Shareholder, LVS, is subject to U.S. federal securities and other laws, such as the FCPA and the U.S. Anti-Money Laundering Laws. In addition, LVS is also subject to the gaming laws and regulations of the Commonwealth of Pennsylvania and will be subject to the gaming laws and regulations of the Republic of Singapore. In order for LVS to comply with the above, we, as a principal operating subsidiary of LVS, will need to take actions that we would not otherwise need to take, including but not limited to filing of quarterly financial statements, maintenance of books and records in line with the requirements of the FCPA, and implementing procedures to monitor compliance with anti-money laundering rules and other applicable laws and regulations. LVS is also listed on the NYSE and must comply with the NYSE's Listed Company Manual rules.

We understand from LVS that the issue of the Bonds by VVDI (II), the subsequent mandatory exchange of the Bonds and the spin-off of our Company from LVS are not subject to U.S. regulatory approval or the approval of LVS shareholders. Although we are not directly subject to U.S. Listing rules or regulations, as a result of LVS's on-going compliance obligations with respect to the above laws and regulations, we will need to monitor our compliance with several U.S. federal and state laws in addition to Macau laws and regulations. See "Risk Factors—Risks Relating to Our On-going Operations—LVS, our Controlling Shareholder, is subject to certain U.S. federal and state laws, which may impose on us greater administrative burdens and costs than we would otherwise have."