

OUR INDUSTRY

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ASIAN GAMING MARKET OVERVIEW

Asia is the fastest-growing gaming market in the world and Macau is the world's largest gaming destination in terms of revenue. Other casino and gaming centers in Asia include Malaysia, Singapore, Japan, South Korea, the Philippines and Vietnam. The Macau market was more than 2.5 times the size of the Las Vegas Strip and Atlantic City markets combined in terms of gaming revenues in 2010. The success of Macau as a gaming and entertainment destination has acted as a catalyst for the legalization, regulation and proliferation of gaming across the Asia Pacific region, and has initiated the development and construction of multiple other casino-entertainment resorts, such as the opening in early 2010 of two integrated resorts in Singapore with a combined investment of HK\$72.4 billion. In turn, the industry has supported each local economy within the broader pan-Asian region through enhanced tourism, job creation, tax revenues and the influx of domestic and foreign capital and other resources. The growth of the gaming industry has also spurred investment and employment activity in ancillary industries, most notably in the retail, dining, entertainment, conference and convention sectors, augmenting and multiplying its positive impact on each economy. The industry's growth and success are supported by Asia's cultural affinity for gaming, the low relative supply penetration, an enormous population base, the world's fastest urbanization rate and the emergence of a wealthy, middle-class segment of the population which has a propensity for leisure and entertainment consumption.

Macau Gaming Market Overview

The Macau gaming market is recognized as one of the world's premier gaming destinations and exhibits attractive investment and operating prospects, including that Macau is:

- the largest gaming market in the world in terms of gaming revenue (HK\$184.1 billion in 2010);
- the sole location in China to offer legalized casino gaming;

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- one of the world's fastest growing gaming markets in terms of revenue, and the only major gaming market to continue to grow significantly in 2008, 2009 and 2010 despite the global economic downturn;
- fed by a sizeable, underpenetrated population that is rapidly experiencing a substantial wealth increase;
- also comprised of nascent non-gaming segments in the form of retail, hotel, conference and entertainment amenities; and
- supported by government infrastructure initiatives aimed at Macau's growth and development generally.

Macau, a Special Administrative Region of the PRC, is located on the southeast coast of mainland China within the Pearl River Delta, and is adjacent to one of China's wealthiest and most urbanized provinces, Guangdong (population of 95 million). It is reachable by a one hour ferry trip from Hong Kong and within a four hour flight from multiple populous regions including Beijing, Shanghai, Taipei, Seoul, Manila and Bangkok.

Visitors to Macau are primarily from mainland China and Hong Kong, which accounted for 53.0% and 29.9%, respectively, of arrivals in 2010. Driven by the continued development and prosperity of mainland China, total visitors to Macau under China's IVS grew at a CAGR of 15.3% from 2002 to 2010. Macau's proximity to major population centers in Asia facilitates its appeal as a popular gaming destination for foreign tourists. International visitation levels exhibited rapid expansion since 2002 with arrivals from Japan, Southeast Asia⁽¹⁾ and other Asia⁽²⁾ growing at CAGRs of 14.2%, 25.6% and 37.6% from 2002 to 2010. The Macau Government is sponsoring several road and rail transportation developments to help ensure the region is able to accommodate expected future demand.

Proximity to Major Population Centers

	Population (million)	Visitation (000s)	2002 - 2010 Visitation CAGR
China	1,341	13,229	15.3%
Hong Kong	7	7,466	4.9%
Taiwan	23	1,293	(2.1%)
Southeast Asia ⁽¹⁾	195	1,055	25.6%
Other Asia ⁽²⁾	372	647	37.6%
Japan	127	414	14.2%
USA / Canada	344	297	12.6%
European Union	492	244	10.1%
India	1,215	169	32.2%
Oceania	27	128	16.2%
Others	NA	23	19.9%

Macau Proximity to Major Population Centers by Flight



Source: Population statistics as of 2010, per International Monetary Fund estimates; visitation figures as of 2010 from the Macau Government.

(1) Consists of the Philippines, Malaysia, Singapore and Thailand.

(2) Consists of Vietnam, Indonesia, Korea and others.

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In 2009, Macau was designated by the PRC to be developed as the “most attractive tourism and recreation center in the world” (Planning Study on the Coordinated Development of the Greater Pearl River Delta Townships, October 2009). The process had begun in 2002 when the Macau Government ended STDM’s casino license monopoly, and granted five additional concessions or subconcessions to MGM Grand Paradise, Galaxy, Wynn Macau, VML and Melco Crown. The new casino operators introduced modern full-service casinos and propelled construction and development in the gaming sector. The increase in the number of full-service casino resorts has not only contributed to a four-fold increase in gross gaming revenues from 2005 through 2010, but has transformed Macau’s gaming market into one that features a diverse range of non-gaming retail and entertainment offerings. The Macau market is increasingly evolving to appeal to new, premium-focused customers attracted by a diversified range of gaming, retail, entertainment and leisure offerings. The market has attracted investment by internationally recognized hospitality and leisure brands, which have entered into management and other alliances or contractual relationships in order to establish greater market presence. It is anticipated that developers of “Las Vegas-style” resorts will be the prime beneficiaries of continued market transformation and revenue opportunities in the Macau gaming sector.

Macau gaming revenues experienced strong growth in 2009, with total casino revenue increasing 9.6% (an equivalent of HK\$10.2 billion) to HK\$116.9 billion, despite the global economic downturn and a temporary increase in visa restrictions, which affected the ease of mainland China cross-border visitation. This trend has continued in 2010, with HK\$184.1 billion of gaming revenue being recorded in 2010, a 57.5% increase from 2009. Furthermore, the DICJ reported Macau’s highest monthly casino revenue on record of HK\$19.9 billion in April 2011 and second highest monthly casino revenue of HK\$19.5 billion in March 2011, demonstrating Macau’s continued strong growth trajectory. Growth was experienced by both VIP (18.9% sequential quarterly growth in the fourth quarter of 2010 and 69.9% year-over-year growth) and mass market (10.2% sequential quarterly growth in the fourth quarter of 2010 and 33.4% year-over-year growth) segments, reflecting the broadening appeal of casino gaming across demographic segments.

Macau Gaming Market General Statistics

	2005	2006	2007	2008	2009	2010	2005-2010 CAGR
Gross Gaming Revenues ⁽¹⁾ (HK\$ million) . .	45,761	55,846	81,404	106,627	116,876	184,065	32.1%
Gross Casino Revenues (HK\$ million)	44,706	54,974	80,607	105,603	115,894	182,857	32.5%
VIP gross gaming revenues	28,023	35,712	54,138	71,623	77,508	131,697	36.3%
Mass market table gross gaming revenues	15,469	17,269	22,979	28,493	32,071	42,791	22.6%
Slot machine gross gaming revenues	1,214	1,993	3,490	5,487	6,314	8,369	47.1%
Win Per Table (HK\$)	85,848	52,553	48,292	68,282	62,939	99,781	3.1%
Win Per Slot (HK\$).	972	834	721	1,268	1,204	1,632	10.9%
No. of Tables	1,388	2,762	4,375	4,017	4,770	4,791	28.1%
No. of Slots	3,421	6,546	13,267	11,856	14,363	14,050	32.6%
Visitation (000s).	18,711	21,998	26,993	22,933 ⁽²⁾	21,753 ⁽²⁾	24,965 ⁽²⁾	5.9%

Source: DICJ, DSEC

(1) Includes non-casino related activities such as horse racing, greyhound racing, Chinese lotteries, instant lotteries and sports lotteries.

(2) Visitation count excludes laborers traveling to Macau.

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Macau Hotel and MICE Statistics 2005 — 2010

	2005A	2006A	2007A	2008A	2009A	2010A	2005-2010 CAGR
Total Available Guest Rooms (000s) ⁽¹⁾ . . .	10.8	13.0	16.1	17.5	19.2	20.1	13%
Total Hotel Guests (MM) ⁽²⁾	4.1	4.7	5.7	6.5	6.7	7.8	13%
Average Length of Stay (Nights)	1.2	1.2	1.4	1.4	1.5	1.5	5%
Occupancy Rate (%)	70.9%	72.3%	77.2%	74.5%	76.1%	84.5%	4%
ADR (US\$)	\$ 78	\$ 85	\$ 99	\$ 104	\$ 129	\$ 139	12%
Number of MICE Events	305	360	1,177	1,240	1,215	1,399	36%
Number of MICE Participants (000s)	43.5	57.1	302.0	364.3	572.7	806.1	79%

Source: DSEC and Macau Government Tourist Office

(1) Total available rooms as of year end. Includes both hotel rooms and guest houses.

(2) Includes guests that stay in hotel rooms and guest houses.

MACAU MARKET DEVELOPMENT AND TRENDS

The Macau gaming market is geographically segregated into two regions, the Peninsula and Cotai. Currently, the Peninsula is the hub of gaming and entertainment activity given its dense cluster of 23 of the market's 34 casino resort properties. The Peninsula spreads across 9.3 square kilometers and is geographically connected to Zhuhai, in mainland China. The Peninsula receives the most customer traffic and volume, as it is closer to mainland China, the location of the principal immigration terminals, and the point of embarkation for the main Macau-Hong Kong Ferry. Three new casinos, L'Arc Macau, Encore at Wynn Macau and Galaxy Macau, also opened in 2009, 2010 and 2011. The former two are adjacent to MGM Macau, creating a cluster of casinos within walking distance of each other that is expected to become the mainstay of Peninsula visitation as players can conveniently move between these casinos. Currently, there are no other planned casino developments on the Peninsula.

Cotai is a 5.6 square kilometer area of land located between Taipa and Coloane islands. Cotai's greater available land for development has enabled gaming operators to build resorts characterized by significant non-gaming amenities, in particular convention and meeting facilities, compared to many of the properties currently located on the Peninsula. VML has projects under construction. Wynn Macau, MGM Grand Paradise and SJM have applied for approval for new projects in Cotai.

Sustained Growth across both Market Segments

The Macau gaming market consists of distinct customer segments: mass market and VIP players. Historically, gaming operators in Macau have focused on VIP players, but have now begun to focus on the fast-growing mass market segment.

Mass Market. The mass market segment consists of both table games and slot machines played on the main gaming floors for the public, which usually consists of walk-in and day-trip visitors. The mass market segment is the highest margin sector of the overall gaming market and exceeds the VIP segment due to the latter's commission costs to gaming promoters. Gaming revenues from the main gaming floors have grown significantly since the introduction in 2004 of casino properties. According to the DICJ, from 2005 to 2010, mass market table and slot operations grew at a CAGR of 22.6% and 47.1%, respectively. Mass market table and slot operations accounted for approximately 23.4% and 4.6%, respectively, of total casino gaming revenue in Macau in 2010.

VIP. VIP players in Macau are typically wealthy persons who play mostly in dedicated VIP rooms or designated gaming areas. VIP players are sourced either by gaming promoters who offer various services, such as extension of credit as well as complimentary hotel, food and beverage services. In return for their services, the gaming operator typically pays a commission to the gaming promoter based on either gaming wins or losses. The VIP clientele can be further segmented into direct VIP

players. Direct VIP players are brought in through the direct marketing efforts of the gaming operators. These direct VIP players select VIP rooms based on their relationship with or preference for a particular gaming operator. The direct VIP business excludes paying commissions to intermediaries.

Increased Retail and Entertainment Diversify Offering Mix to Consumers and Further Proliferate Game Play

Currently, non-gaming revenues represent a small portion of total revenues, but the increase in development of non-gaming attractions position Macau as a comprehensive entertainment destination. As Las Vegas-experienced casino operators utilize their expertise to incorporate retail, food and beverage outlets, and entertainment into their properties, Macau's offering of a complete resort experience increases visitation, lengthening visitors' duration of stay and ultimately increasing the spend per visitor in both gaming and non-gaming sectors.

Retail. In the past three years, casino operators have opened approximately 61,333 square meters on the Peninsula and 27,498 square meters in Cotai of new retail space for upscale shopping. As shoppers are predominantly mainland Chinese, retail plays an important role in attracting customers to the region who would otherwise pay a luxury goods tax in mainland China versus none in Macau. The market's latest upscale retail offering, One Central Macau, opened in December 2009 with a three-story, 18,587 square meter complex of leading luxury brand stores adjacent to the MGM Macau, directly increasing customer volume and foot traffic in its immediate vicinity. The new entertainment resorts' upcoming supply of retail space is expected to help propel visitation and business to the casinos.

Entertainment. The new gaming resorts support the development of Macau's entertainment offerings with the potential to emulate Las Vegas' breadth of entertainment attractions. The new resorts offer a variety of leisure and entertainment attractions to help draw in a constant flow of visitors.

Future Development of Transportation and Infrastructure

Macau is accessible by land, air and sea, mainly through the Peninsula. In 2010, approximately 52.4% of visitors arrived in Macau via the Zhuhai border gate crossing with China and the Cotai checkpoint, approximately 41.0% arrived via the Peninsula ferry terminal from Hong Kong and nearby cities in China, and approximately 6.5% arrived via the Macau International Airport and heliport. Several airline carriers currently fly directly to Macau International Airport, operating direct routes to Macau from countries such as, South Korea, Japan, Thailand, Malaysia, Singapore and the Philippines.

Improved transportation to and within Macau is expected to contribute to growth in visitation and mass market gaming. In particular, the planned Guangzhou-Zhuhai Super Highway will link Macau to Hengqin Island, a PRC government-mandated strategic new zone planned for development into a commercial, residential and resort destination. According to the National Development and Reform Commission, the PRC government has expressed support for a more modern and integrated transportation system within the region as described in its Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020).

Macau Infrastructure Development Update

Guangzhou Zhuhai High-Speed Railway

- Links Guangzhou to Gongbei
- Estimated travel time of less than one hour
- Estimated completion in 2011

Expansion of Border Gate

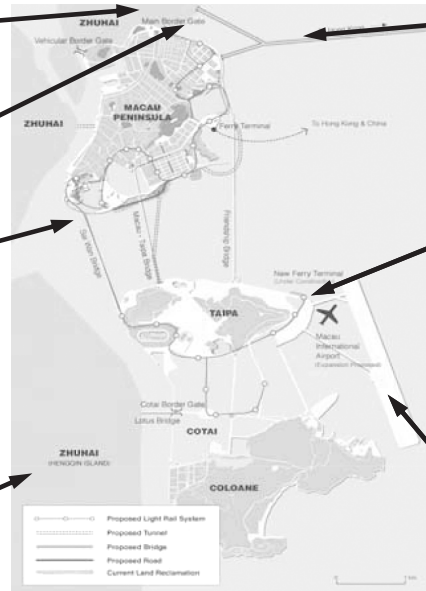
- Expands capacity to 500,000 movements per day (up from 300,000)

Macau Light Rail System

- Light rail network connecting Peninsula, Taipa and Cotai with 20 km-long Phase I line planned for 21 stations
- Phase I capacity for 7,800 passengers per hour with potential to increase to 14,100 by 2020
- Estimated completion in 2015

Guangzhou-Zhuhai Super Highway

- Links Guangzhou to Henqin Island, Zhuhai
- Estimated completion in 2012-2013



HK-Zhuhai-Macau Bridge

- 50 km bridge that links Lantau Island of Hong Kong to Macau and Zhuhai
- Estimated completion in 2015

Permanent Taipa Ferry Terminal

- Temporary Pac On Terminal upgraded to permanent terminal
- Planned extension of 16 piers for boats with a capacity of to 400 passengers and three piers for ships of 1,200 passenger berths
- Permanent pier phase opens in 2013

Airport Capacity Upgrade

- Capacity upgrade from 6 million to 12 million people per year
- Estimated completion in 2017

Source: Media and Press Reports.

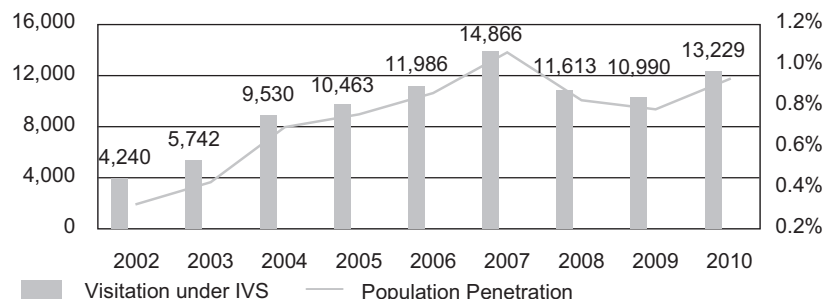
Liberalization of Travel Restrictions

Visitation growth from China, Macau's primary source of visitors, has been supported by the implementation of IVS. Following its initiation in 2003, mainland Chinese citizens from select large urban centers and economically developed regions were able to obtain permits to travel to Macau on their own without belonging to a tour group. As at December 2009, IVS had expanded to cover 49 cities with access to more than 270 million Chinese citizens. In 2010, Chinese visitation reached 13.2 million, a 20.4% increase from the same period last year. The visa program currently permits citizens to travel to Macau once every two months. Although the Chinese government has in the past restricted, and then loosened, IVS travel frequency, the government has signaled its intention to accelerate tourism development by encouraging mainland Chinese to visit Macau.

Annual Growth of IVS Program

IVS (000s)

Population Penetration (%)



Source: DSEC, CEIC

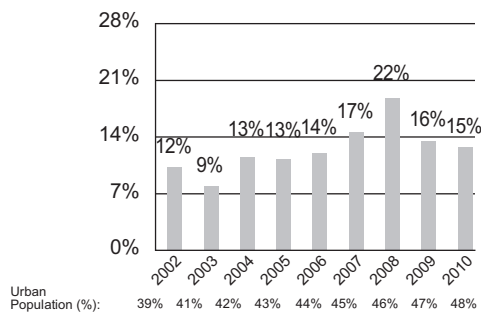
Emergence of a Wealthier Demographic in China

It is anticipated that Macau will directly benefit from China's expanding economy. According to the National Bureau Statistics of China, China's GDP grew at a 16% CAGR over the past five years. China is currently the second largest economy (by GDP) in the world. Unlike some of the world's other large economies, the Chinese economy has been resilient in the face of the global economic crisis since 2008. As the global economy recovers, China's economic growth is likely to remain strong, reflecting PRC government spending and development of the inland provinces. Leading economic research forecasts China's economic growth to reach over 8.7% for 2011. Long-term, economic growth in China is expected to help sustain and fuel the development of Macau as the mass entertainment and leisure hub in the Pan Pearl River Delta.

The promotion of domestic demand plays a crucial role in sustaining long-term economic growth in China. The impact of the recent global recession on China's economic growth explains China's shift to increase domestic consumption in order to reduce dependence on exports and foreign investments. In order to strengthen domestic spending and consumption, the PRC government is accelerating urbanization and seeking to provide better education and jobs. At the end of 2010, approximately 48% of China's 1.34 billion population lived in urban areas. Given the PRC government's focus on promoting urbanization, research estimates that more than 50% of the population will be urbanized by 2012-2013. Rapid urbanization has historically spurred greater consumption and shifted the composition of the retail spending from a heavy weighting towards food to a more balanced consumption model. The shift in China's consumption patterns towards more discretionary spending is expected to continue as income increases. Given the higher propensity for gaming in this demographic, increased spending patterns are expected to serve to further support the growth in Macau's gaming market.

Retail Sales Growth

2002 – 2010



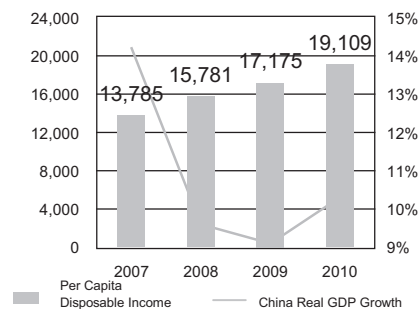
Source: DSEC, IHS Global Insight

Per Capita Disposable Income

Urban Households

RMB / Year

GDP Growth %



Source: CEIC, IHS Global Insight

Other Asian Gaming Markets

The Macau market competes with a number of gaming centers in Asia and around the world, including Singapore, Australia, the Philippines, Malaysia, South Korea, Cambodia, Vietnam, and Las Vegas. The market also competes against cruise ships in Asia that offer gaming and against unlicensed gaming operators. The regulation, liberalization, development and growth of gaming in the region is in a state of continual assessment and evolution.

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The extension and proliferation of gaming to other regional markets such as the case in Singapore, while creating additional competition, is likely to encourage visitation and increases the population penetration of gaming across the region, including in Macau, to the benefit of the established operators and markets. For example, despite the opening of two new integrated resort casinos in Singapore in 2010 that have generated an aggregate HK\$31 billion per annum of annualized revenues, Macau recorded the two highest monthly revenues in its history in March and April 2011.

See the section headed “Risk Factors — Risks Relating to Our Business — Risks Relating to Our Business and Operations — We face intense competition in Macau and elsewhere in Asia” in this prospectus.