

World Eye Reports Macau

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Asian gaming epicenter aims to strengthen multi-industry portfolio

Macau is one of the most unique success stories of the 21st century. What used to be a simple fishing village and trading port has been transformed into one of the world's top destinations.

As China and Japan celebrate their 40th anniversary of normalized relations in 2012, the former Portuguese colony of Macau — now one of China's special administrative regions (SAR) — is positioning itself to be a regional tourism center for both the gaming and non-gaming sectors. It also aims to broaden its business portfolio in other industries while continuing to capitalize on its primary sector today: gaming and hospital-

Growing Macau

From sleepy port city to pulsing success story has taken Macau only a little more than a decade. With a population of just about 500,000, Macau's gross domestic product (GDP) has grown nearly 8 times since 2001: from \$1.75 billion by the end of 2001, to nearly \$10.5 billion by the end of 2011.

Overall retail sales volume for Macau has also seen exponential growth in recent years. From 2010 to 2011, it increased by 44.2 per-



Jackson Chang, president of Macau Trade and Investment Promotion Institute

cent mainly because of the influx of visitors from mainland China. Much of this growth can be attributed to Macau's pro-business environment. "Ever since China's resumption of the exercise of sovereignty over Macau in 1999, Macau enjoys wide-ranging and close relationships with most global economies," says Sou Tim Peng, director of the government's Macau SAR Economic Services.

"Pursuant to its free port policy and market economy system, Macau SAR applies no restrictions on the flow of goods," he continues. "Low taxation, unrestricted financial movement, social stability and relatively low operating and labor costs provide Macau with a good environment that attracts investors. Additionally, its strategic location, together with a well-established legal system, gives Macau a competitive edge."

Macau as the global gaming epicenter

Much of Macau's development can be credited to its tourism and gaming industries; both have systematically driven Macau's economy in recent years. The gaming industry alone represents 40.2 percent of Macau's GDP, while the tourism industry attracted 28 million visitors into Macau in 2011 alone — 12 percent higher than visitor rates in 2010.

Previously dominated by "the King of Gambling," Stanley Ho of SJM/STDM, Macau's gaming industry today is divided among six major gaming concessions and sub-concession holders: Sociedade de Jogos de Macau (SJM), MGM Paradise Limited, Galaxy Entertainment, Las Vegas Sands Corp., Wynn Resorts and Melco Crown Entertainment. Gross gaming revenues alone raked in about \$33.6 billion in 2011.

The greater part of gaming profits in Macau is brought in by its VIP junket system. Under this structure, independent companies and agents bring in high-end players to place their bets in outsourced VIP rooms in the major casinos. In

2011 this specialty within the gaming sector resulted in about 75 percent of total profits.

"Today, VIP rooms are doing very well for both the industry and Macau. As one of the driving forces in the gaming industry in Macau, we expect further growth and substantial profits in the VIP sector overall," comments Kenny Leong, CEO of Asia Entertainment and Resources, one of the biggest players in this profitable niche sector.

With Macau now the world's new gaming epicenter, beating out Las Vegas and newcomer Singapore, its government is expecting more investment to come, attracted by the dynamic gaming industry. Expectations are high as companies are expecting further growth in the influx of visitors and players from mainland China, Japan and around the world.

Macau's growth is attracting new investments not only into classic casino gaming and related tourism, but also into the automated slot-machine type gaming sector. "We are introducing our best products into Macau, the most exciting and entertaining ones for the end user," says Kurt Gissane, managing director of Asia-Pacific for leading slots producer Bally Technologies. "In our games we constantly strive to make them better, more exciting and more localized. Even such a simple detail as including Chinese translations makes a big difference in giving Macau's visitors a better experience."

As well, maintaining Macau's reputation for fair odds will be a key component of its continued success. "It's important to place

integrity above all other considerations, and preserve a strong relationship with all levels of the field — casinos, suppliers and end users," explains Larry Xiao, general manager of the electronic gaming equipment tester GLI Asia. "Reliability and accountability lie at the core not just of our company but also the entire gaming industry in Macau. It's important that there is a high level of trust throughout the marketplace."

Macau's diversification

An increased level of government support is also being made available to non-gaming industries. "The Macau SAR government has increased its efforts to promote a more diversified development in Macau's economy," says Ma Lao Lai, president of the Macau Chamber of Commerce. "Recent pro-business policies have contributed to the growth of sectors such as Macau's convention and exhibition industry, logistics, environmental protection and the culture and creative industries."

"We are very confident that our recent agreements with certain regions in China, such as the Guangdong-Macau Cooperation Framework agreement and the Hengqin Overall Development Plan, will



Macau continues to grow its spectacular skyline defined by an astronomical level of luxury and class, an example of which is Melco Crown Entertainment's City of Dreams. The City of Dreams is just one of Macau's widening array of integrated hotels and casinos.

greatly support Macau's goal of bettering regional cooperation and effectively promote Macau's developing diversified business portfolio," he adds.

"Macau serves as a potentially strong platform for both Japanese and international businesses looking into both China and Southeast Asia," says Jackson Chang, president of the Macau Trade and Investment Promotion Institute. "For companies looking into China, Macau has strengthened its relationship with the mainland through the Closer Economic Partnership Arrangement (CEPA). Macau's infrastructure is also well prepared for the future, especially with the upcoming Hong Kong-Zhuhai-Macau Bridge, and the new railway link being developed between Guangzhou and Zhuhai. These projects will all greatly contribute to Macau's overall growth and global competitiveness."

"In the next few years, with our strong infrastructure and political support, we expect that the economy can only keep growing strongly," he concludes. "This should serve as a strong invitation to Japanese business and the international market to come into Macau and position investments here." ◆

Melco Crown Entertainment's trump card for diversity

After the liberalization of the gaming market by the Macau Government in 2002, Melco Crown Entertainment secured a gaming sub-concession through its Macau subsidiary and began planning to build a unique, integrated entertainment resort in the territory. Lawrence Ho, co-chairman and CEO of Melco Crown Entertainment, foresaw great potential in Macau.

The company's first casino hotel, Altira Macau (formerly Crown Macau), was opened in 2007. Melco Crown Entertainment also owns Mocha Clubs, Macau's largest non-casino-based operator of electronic gaming machines. Its flagship integrated resort, City of Dreams, welcomed its first visitors in 2009 and was the only new resort to open in Macau that year while others struggled to cope with the global financial crisis.

Following the company's NASDAQ listing in 2006, Melco Crown Entertainment completed a dual listing on the Hong Kong Stock Exchange in December 2011, and subsequently captured the attention of investors around the world by posting an approximately 17-fold gain in earnings and a 27 percent rise in net revenue for the first quarter of 2012 as compared to the same period in 2011.

Melco Crown Entertainment is committed to offering visitors a full range of gaming and non-gaming options that work together to create a complete experience. *The House of Dancing Water*, the world's largest and hugely successful water-based show at City of Dreams, has been playing to packed audiences since its opening in September 2010, while casinos run round-the-clock are just a few steps away. The three luxury hotels — Hard Rock Hotel, Crown Towers and Grand Hyatt Macau — located throughout the City of Dreams perfectly support the resort's premium-focused strategy, particularly in the mass-market segment.

Melco Crown Entertainment has continued to broaden the Macau visit experience through Dragon's Treasure, an award-winning multimedia attraction, Kids' City and Club Cubic. City of Dreams also has other exclusive entertainment productions including *Legend Fighting Championship*, the mixed martial arts (MMA) tournaments, and *SPLASH*, the hottest pool party series in Macau. Another trailblazing initiative is the exclusive, limited-run cabaret production, *Taboo*, which opened this summer.

"We are committed to strongly supporting the Macau government's initiative to promote tourism diversification to further enhance a sustainable business environment in the city," explains Ho. "We believe the strategy will continue to help drive visitation, length of stay and overall spending in Macau. Our dedicated effort in providing diverse and unique entertainment in Macau has significantly attracted a broader base of customers and created synergies with our gaming businesses, helping to drive improved operating performance." ◆

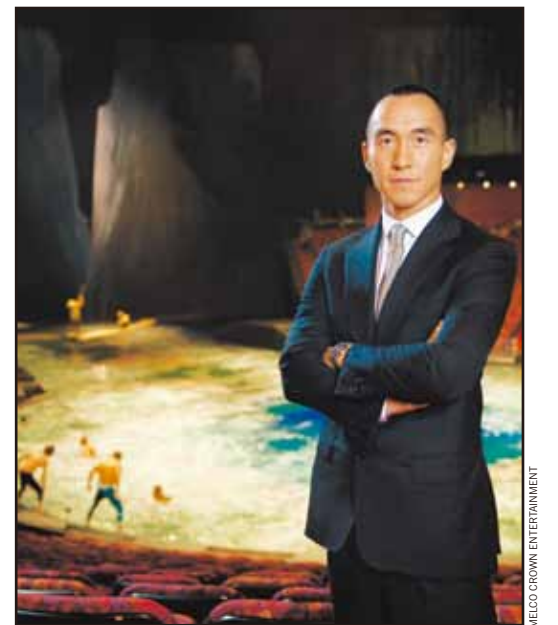
In a further bid to broaden its offerings and reach a wider range of customers, Melco Crown Entertainment acquired a majority stake in Studio City in 2011. Studio City is envisioned as a large-scale integrated entertainment, retail and gaming resort targeting visitors from mainland China and the rest of Asia, with a cinematic theme that is an ideal marriage of entertainment and lifestyle attractions.

"This site is perfect as a mid-segment mass-market venue," says Ho. "Altira Macau is our exclusive VIP property. City of Dreams is our higher-end anchor property. Meanwhile, Studio City will welcome the masses."

"We aren't cannibalizing ourselves," he affirms. "The movie theme presents a wide spectrum of design options. Though we haven't unveiled any of the graphics yet, I can say it will be different in style from City of Dreams and Altira Macau. We're packing it with lots of attractions, including something similar to the Bubble, the dome-shaped venue hosting the multimedia show *Dragon's Treasure*, but even better. There will also be a Kids' City, all with movie motifs. There will be facilities available for productions such as reality shows, along with a multipurpose theater — plenty of things for customers to relax and enjoy."

Beyond Macau and mainland China, Melco Crown Entertainment has set its gaze at extending its successful strategic mix of gaming and entertainment in Asia. "We have recently conducted careful research of the Japanese market," Ho concludes. "We are closely monitoring the progress of gaming liberalization there while formulating our regional investment plans." ◆

www.melco-crown.com



Lawrence Ho, co-chairman and CEO of Melco Crown Entertainment

In Macau's gaming room, trust trumps risk

In the rarified world of Macau's VIP gaming rooms, where a single bet on one hand of baccarat can be as much as \$250,000, trust is valued more than any chip.

"Our entire system is built on relationships," says Kenny Leong, CEO of the NASDAQ-listed VIP room promoter Asia Entertainment and Resources (AERL). "It's a point of similarity between our Chinese and Japanese patrons: both place trust above everything else. We base our business on it."

It's a business that has grown almost exponentially since the company's listing in 2010 — from \$10.4 billion rolling chip turnover that year to over \$19.9 billion in 2011. In April, AERL announced a 36 percent increase in turnover for the month of March 2012 compared to the same period last year — substantially higher than the corresponding figure for Macau's gaming sector as a whole of 24 percent.

"We are pleased with our results as we significantly outperformed Macau industry growth," remarked AERL Chairman Paul M.P. Lam at the announcement. His company works at the forefront of the boom that has taken over Macau since new gaming concessions were granted by the government in 2002.

More than 75 percent of Macau's total revenue from gaming now comes from VIP rooms such as theirs. AERL now runs luxury VIP rooms

at the Venetian Macao Resort Hotel, the Galaxy Macao Resort and Star-World Hotel.

"Eventually, we aim to open VIP rooms with all the Macau gaming license holders," says Leong. "We'll be able to handle more customers and gain a higher market share."

He ascribes his company's success to its top-grade service to both patrons and the all-important agents: those people who find and provide lines of credit to the growing number of patrons who can both afford the betting levels at the VIP rooms and appreciate the special treatment.

So far, all of AERL's VIP rooms operate on a fixed commission basis, meaning it earns a percentage of the total amount bet by a patron, regardless of winning or losing.

"We want our players to win," Leong explains, "because we readily get our capital back plus a commission that we can then lend to others and get more business."

VIP room promoters such as AERL play a key role in Macau's gaming sector — absorbing risk that would otherwise have to be borne by the casinos. It is risk backed by a very personalized system based on reliance, where lines of trust are far more important than lines of credit. ◆

www.aerl.com



Ben H.K. Vong (left), COO of Asia Entertainment and Resources and Paul M.P. Lam, chairman of Asia Entertainment and Resources

Continuing a tradition of elegance from Las Vegas to Macau

The Wynn Macau, considered the spearhead property of the Wynn Resorts brand in Macau, stands out on the Macau skyline like a golden beacon for the hedonistic traveler and the hopeful gamer. With 600 elegantly styled hotel rooms and suites, it offers an array of international and local cuisine, spectacular events and exhibitions, and more than 19,000 sq. meters of casino space.

The Wynn Macau resort complex continues to attract and awe the leisure and professional traveler by constantly redefining and reinventing its idea of hospitality and glamour.

The hotel's in-house services have received countless awards for its personalization and luxury facilities. In fact, both the hotel and the hotel spa are the only ones in Macau to have won four consecutive Forbes Five-Star awards, from 2009 to 2012. In the same vein, two of its restaurants received Michelin stars in 2012.

Right beside the Wynn Macau stands another example of elegance — Encore. The Encore at Wynn Macau, an all-suite boutique hotel, opened in April 2010 as Wynn Resort's stunning ode to luxury and elegance. The Encore has added 414 additional suites to the Wynn Resorts lineup in Macau, plus two first-rate restaurants, a jewelry-box designed bar and a world-class spa complete with eight private therapy suites.

Today, Wynn looks forward to its new integrated resort being built on Macau's Cotai Strip. Construction will take about four years. The company plans to invest about \$4 billion for the resort set on more than 20 hectares of land.

Wynn Resorts is traded on the Nasdaq Global Select Market and is part of the S&P 500 and NASDAQ-100 indexes. Aside from the Wynn resorts in Macau, Wynn owns and operates both Wynn Las Vegas and the Encore Las Vegas. ◆



The Encore at Wynn Macau today stands as one of the most prominent structures in the Macau Skyline.

Building a home for international thoroughbred racing in Macau

In 2011, the highlight of the horse-racing season in Macau took place in November with the holding of the inaugural Macau Sand Premier Cup at the Macau Jockey Club (MJC) facilities. The SAR's first international race, entries for the cup came from Europe, Hong Kong, Singapore, Malaysia, Australia and Japan to compete on the sand track in Taipa.

MJC's connection with Japan and Japanese horse racing is particularly strong.

"My father was the director of the Asian Racing Conference (now known as the Asia Racing Federation) and he was a pioneer over 10 years ago in starting our close contacts with the Japan Racing Association (JRA)," explains Thomas Li, executive director and chief executive of MJC.

Over the years, its relationship with JRA has only intensified. Li particularly remembers the (now retired) Japanese jockey Isao Sugawara, who distinguished himself racing in MJC in the 1996 and 2001 seasons.

In 2010, the club brought a group of its horse owners and members to Japan to visit racing facilities there in Sapporo and Tomakomai and witness the MJC Goodwill Trophy race.

"In our Hokkaido meeting we discussed how MJC and JRA can work together to further develop the horse-racing industry in Asia," he recalls.

Last year's international race in Macau promoted a further strengthening of ties between the two entities.

"We worked with both the Macau and Japanese governments to pave the way for more Japanese participants to join the race. We

also had positive discussions on such key issues as quarantine protocols," Li says.

The upshot is that Macau can now accept horse imports from Japan and 10 other countries and regions around the world. In April this year, MJC held its JRA Trophy race with prize money of HK\$350,000 (\$45,000). Afterward, Michio Ide, executive vice president of JRA, presented trophies to the winners.

MJC began as the Macau Trotting Club for harness racing in 1980. Nine years later, its concept was changed to classic thoroughbred racing, and then subsequently acquired by a consortium led by Stanley Ho.

The modernization of MJC and its involvement in the growth of the booming Macau economy has proceeded rapidly since then. It has become one of Macau's largest private employers. It also contributes to Macau society through its annual Charity Day race that has garnered millions of dollars over the past 10 years for worthy local causes.

MJC's internationalization is continuing to gather steam, especially with regard to Japanese racing. In February, three Japanese thoroughbreds arrived in Macau from their home in Japan. Owned by a Japanese resident in the SAR, the arrival of the horses should further promote interaction between the local Japanese community and horse racing as a fascinating and rewarding pastime.

Li looks forward to the next holding of MJC's international race and is positive that Japanese participation in Macau horse racing has only just begun. ◆

www.mjc.mo/race_en/info/index.php



Thomas Li, executive director and CEO of Macau Jockey Club