

The 11th Annual Casino Executive Summit – What Makes Macau an Investment Mecca for the gaming industry

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Grand Hyatt • Singapore

Honorable Guests, Ladies and Gentlemen,

I am much honored to be invited to speak at today's "Asian Casino Executive Summit". Speaking as an "owner" of a gaming business, I would like to share with you my views about the prospects of this most promising industry in Asia in the 21st century.

Differences between the traditional and modern gaming industry

Traditionally, the mention of "gaming industry" would bring into people's mind negative ideas such as gambling, crimes, triad activities and even prostitution. In our memories, as portrayed in Hollywood or Asian movies, Las Vegas in the 1950s or casinos in Shanghai in the 1930s and 1940s were often associated with crimes. To some extent, those plots reflected the reality at the time. That plus gambling being regarded traditionally as a negative social behavior have "stereotyped" the gaming industry.

However, over time, at the advance of technology and development of transportation, the distance between people and what they wish to exchange

has been notably shortened. In the past decade, Las Vegas, deemed the gaming capital of the world, has added a great extent in variety, new non-gaming tourist attractions. It has evolved into a huge, all-year-round resort city that integrates entertainment, performing arts, gaming, cultural events, recreation, resorts, shopping, dining as well as conventions and exhibitions.

The “casino” has become a subsidiary in the modern gaming industry.

As a new investor, in 2002 we acquired one of the three gaming concessions granted by the Macau SAR Government. The questions we asked ourselves were: (1) how should we go about designing an operation that agrees with the modern entertainment and gaming concept? (2) And, what should we do to keep our business model, management and technologies at the cutting edge while integrating them into our gaming operations in Macau?

Personally, I believe “gaming” is the key driver of the business in the tourism industry. However in the long term, as the gaming market matures and develops, we see the opportunity to add significant complementary services such as retail, entertainment, conventions etc to the market.

Therefore, our investment in Macau is blueprinted according to the city’s aspiration of developing in the 21st century into a “world class super tourist, commercial, convention and exhibition center” with tourism, entertainment and gaming as the core themes managed by state-of-the-art technologies and

embodying Chinese, Macau and Western cultures, arts and customs. Galaxy will diligently follow the motto of “preservation”, “enhancement” and “innovation” in developing its business in the future. By enhancing current management and service efficiency, as well as using creativity and innovation, Galaxy will develop a large-scale, world class resort entertainment and convention/exhibition destination caters to Chinese and Asian tastes and preferences.

Essential Factors to Success in Tourism

Speaking from experience, there are a few essential factors to a city’s success in tourism. They are:

- (1) Geographical environment;
- (2) Climate;
- (3) Customs and traditions;
- (4) History and culture; and
- (5) Natural scenery.

I believe Macau has all of them working in its favor.

Macau is located on the Southeastern coast of China. Bordering the Mainland China, it is where marine, land and air traffic in southern China converge. With the Pearl River Delta on the back, neighboring Zhuhai and Hong Kong, and all with a moderate climate, Macau has been a fast growing Asian city. According to statistics, 1.3 billion people live within the region can access

Macau conveniently by a three-hour flight. Furthermore, Macau has the backing of the China market with a 1.3 billion population, presenting it a huge potential opportunity in aspects including tourism, trade and commerce, dining, shopping, and property development.

“The Historic Centre of Macao” has been included into the United Nation’s list of World Heritage. As the 31st world heritage of China, the inclusion has not only made Macau a more attractive destination for cultural tours, but will also help to promote and strengthen the city’s ties and exchange with the rest of the world.

Transformation of Macau Gaming Industry and the Big Macau Economic Concept

The history of the gaming industry in Macau dates back to the 50s in 19th century. It was then when people of dubious background in southern China gathered, and it was against this backdrop that the gaming industry began to prosper. Gaming establishments sprouted in a scene best described as chaotic. Subsequently, the Macau government saw the need to regulate the industry, improve its management and generate taxation from it. The government invited bid by tender and issued the first gaming concession in 1930.

In 1961, the government introduced legislation requiring gaming operators to abide by gaming concession regulations and stipulating that gaming tax

income would be invested in community development. Although there was only one legal gaming operator under this system, these step advanced Macau's gaming industry into a new level.

The new "Big Macau" economic concept

In the past, the economy, still relatively small, was supported by tourism with gambling as the sole attraction. However, since Macau was reunited with the Mainland in 1999, the SAR government led by its Chief Executive Mr. Edmund Ho, with discerning vision, has identified the city's superb geographical advantages, the proximity to China's flourishing economy with its 1.3 billion people and they have leveraged this to reform the economy and its industry structure. The government's aim is to steadily and harmoniously turn Macau into a major Asian tourist attraction as well as a peaceful and prosperous metropolitan in the 21st century.

In 2002, the Macau government further relaxed the gaming concession system, issuing three new concessions and brought in foreign investors to enhance corporate governance in the gaming sector, putting an end to the 40-year long monopoly in the industry. On its way to internationalization, a new regulatory regime has been established for the industry.

Huge Investment Potential

Foreign investors to Macau have brought with them abundant capital and quality management. Foreign investment in Macau within the next five years is expected to exceed US\$20 billion. Those who hold gaming concessions will not only be investing in gaming, but will also actively participate in building infrastructure and developing the cities, tourism, thereby creating even greater employment opportunities. Their endeavors have driven growth of the city's construction industry, tourism, property market and overall economic development.

The Pan Pearl River Delta Cooperation Regime, which was activated in 2004, has enhanced the competitiveness of the region within international markets and delivered Hong Kong, Macau and other cities in the Pearl River Delta region a more extensive platform to achieve continuous prosperity and stability.

Some people may be concerned that Macau will soon become saturated by hotels and gaming establishments. Macau is so small, that one may wonder if Macau will have enough tourists to fill all the new entertainment facilities. However, I believe we are not engaging in wishful thinking. I mentioned earlier that the city is but a three-hour or shorter flight for more than 1.3 billion people in neighboring Asian regions. Also, taking into account the consistent and strong economic growth of Mainland China, and the reviving regional economy, about 3.1 billion potential customers within a 5-hour flight are around.

For example, Las Vegas presently offers 126,000 hotel rooms with a 90% average occupancy rate, and many of its facilities are utilized mainly by family holidaymakers. As for Macau, there will be an estimated 12,000 hotel rooms by the year end of 2006. Macau's gaming revenue and number of inbound visitors has been growing on average at double-digit rates since 2002. According to estimates of some market analysts, its gambling revenue will increase to US\$10 billion by 2010.

Let us picture the city five to 10 years from now when the multibillion tourism, entertainment, convention and exhibition facilities and massive infrastructure such as the Light Rail system, the Hong Kong-Zhuhai-Macau bridge and the super-size jetfoil terminal are all complete, and it has the support of world-class IT management hardware and software as well as world-class entertainment attractions simmering with Oriental flavors and western allures, Macau will then be a breath of fresh air for visitors of all ages from around the world. It appeals and may very well surpass those of Las Vegas.

Galaxy's competitive strengths in Macau

Since Galaxy obtained the gaming concession from the Macau Government in 2002, many have expressed concern on whether it has the experience and capability to compete with the other experienced casino operators. Some even saw Galaxy as a "dark horse" in the gaming market! In fact, we do not

deny that we are less experienced in running a pure “gaming business”. In that respect, how are we going to compete?

We spent considerable time and efforts at the very beginning to plan our course away from that of conventional gaming operations, how to merge western management concepts with eastern cultures, and the unique style of Macau. The investments of Galaxy are a long-term, large-scale and diverse tourism projects.

Currently, over 95% of the visitors to Macau are Chinese who value family ties and being together. At this stage, other than offering gaming facilities combining eastern and western styles, Galaxy is focusing on providing facilities and leisure activities that such families will find attractive. Families will have diverse choices of activities including themed cultural exhibitions and performances, fine dining, shopping, healthcare, beauty, entertainment and gaming, as well as other exciting indoor and outdoor activities cater to people of all ages.

When the transportation infrastructure is further established, Galaxy will introduce advance business facilities for activities such as exhibitions and conventions. In other words, our long term goal is to create a resort destination for primarily “sightseeing and entertainment” with “gaming” as a key growth driver. This, we believe, will be the dominating trend and business model for the future.

Galaxy's competitive strengths:

- (1) Its parent company K. Wah Group has been thriving for over 50 years and enjoys an impeccable reputation
- (2) Well-versed in management practices and concepts that merge the best in eastern and western cultures
- (3) A strong business connection and network in China established over the past 30 years
- (4) A public listed company for 20 years supported by excellent corporate governance.
- (5) 40 years of experience in property development and highly efficient and effective quality and cost controls.
- (6) Winner of numerous local and international awards for construction projects, interior design and hospitality services.
- (7) The first to introduce the star-rated hotel franchise concept to Hong Kong in 1980
- (8) Owns and operates 22 hotel properties in the USA and Hong Kong including Hilton, Marriot, Sheraton, InterContinental, etc, and was named the 12th largest hotel group in the USA in 1999
- (9) Understand thoroughly the tastes and preferences of Chinese and Asians and able to design unique products that appeal to both the refined and the broader customer base.

As a new entrant to the industry, Galaxy commenced its business by remodeling and redecorating hotels and commercial premises to fit the new purpose of casino operation. In just three short years, we have opened three

casinos in themed hotels and one casino in a grand modern resort hotel with all-round facilities.

Started with zero market share, we have introduced 396 gaming tables, 825 slot machines, 19 restaurants and eateries, 1,700 hotel rooms and large scale 5-star Sauna spas in the short span of two year.

In terms of human resources, Galaxy is well equipped with all expertise necessary for its long-term development. Our high-calibre management professionals and operation staff are made up of experts in entertainment, hospitality and construction industries. More than 10 top management executives such as CEO, CFO and COO hired from around the world each has more than 20 years' experiences in gaming business management. We have more than 30 industry veterans with more than 10 years' experience, and 800 staff members with at least 5 years' experience. 7,000 employees have been recruited to support the Group's operations. We have also set up in Macau the largest ever privately owned professional training center that spans more than 22,000 sq ft to nurture talent of different functions. We have made achievement beyond our expectation.

Construction of StarWorld, one of our flagship hotels, has been completed and it will commence operation in the third quarter of this year. By then, Galaxy will have in operation over 700 gaming tables, 10 times more than what we had last year, accounting for more than 28% of the total number of gaming tables in Macau.

Such notable achievements in three years serve as proof that this “new player”, has outperformed market expectations in terms of the design and operation of its superb gaming and entertainment facilities, and advance electrical and mechanical engineering. The Group has won acclaims for outstanding management of the said gaming establishments and hotels, and crafted a brand destined for prominence which is unprecedented in the global market.

With many of the Macau Government infrastructure projects still underway, the business market has yet to fully mature, Galaxy will therefore pursue our Galaxy Mega Resort project in phases which will be in line with market conditions.

What is note-worthy is that the Galaxy Mega Resort site is the single largest site held by a gaming licensee in Macau. It totals 4.7 million sq ft. and facilities in the first phase of the project including a 3,000 room 5-star hotel, a 250,000 sq ft gaming hall with 600 tables and 1,000 slot machines will be ready to operate in early 2008. The project will be developed in several phases, providing gaming, shopping, entertainment, dining, artistic enjoyment, spa and message facilities and theme park at one-stop for visitors to Macau.

By 2012, when all planned facilities are completed, Galaxy will own between 6 to 8 various star-rating hotels offering about 12,000 rooms, or 36% of all available in the Cotai district; about 1,500 gaming tables or 30% of all in Macau; about 3,000 slot machines; a total of one million sq ft of high class

shopping space; 500,000 sq. ft of convention and exhibition space and two performance halls each large enough to hold an audience of 2,500. The other leisure and entertainment facilities planned include spa and massage center, high-class nightclub, more than 100 restaurants and eateries, the biggest musical fountain in Macau, a man-made beach, etc. Our Galaxy Mega Resort will be an ideal quality resort destination that can give family holiday makers unmatched enjoyment.

According to the solid experience of Galaxy's management team over the past couple of years in the gaming industry, I believe Macau does not need to be a replica of Las Vegas. What we hope to build is a more creative, a more state-of-the-time resort that will agree with Asian tastes as well as being able to bring pleasant surprises to western tourists.

Conclusion: A Quadruple Win Situation

The opening of the gaming market to competition in 2002 has fostered growth of the gaming and entertainment industry in Macau. The Macau Government has demonstrated its window through the long-term and effective development of the economy by diversifying the city's gaming industry and tourism. Many international investors are looking forward to participating in Macau's many different economic development projects, which is testimony to the investment value of those projects and the all-win scenario they can present to the market.

Mr. Michael Spence, a Nobel Prize laureate in Economics and Professor of Economics and Business Administration, Harvard University, states in an open forum that the Macau gaming industry has achieved preliminary success in building a global brand name and is well on track to develop a tourism and entertainment business embracing unique gaming characteristics. That development combined with the Mainland, increasingly relaxed travel restrictions on individual citizens, coupled with the flourishing growth in the number of private companies and entrepreneurs in China, has brought record numbers of family travelers and staff incentive travelers to Macau. I believe we will see Macau emerge as a “must visit” destination for tourists from around the world in the foreseeable future, and thereby confirm that Macau is one of the best choices for investors to direct their capital.

Thank you very much.

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