Part 1, Chapter 2

New Prospects Following Liberalisation of the Gaming Industry

On 8 February 2002, Chief Executive Edmund Ho issued an Executive Order granting provisional gaming concessions to Sociedade de Jogos de Macau, Wynn Resorts (Macau) and Galaxy Casino Company. The Executive Order was later published in the *Macao SAR Gazette* and took effect, putting an end to the system of a sole concession in the gaming industry.

The Government hopes that the liberalisation will help regulate and diversify Macao's gaming industry and spur the overall development of Macao's economy.

In its 2002 Policy Address, the Government clearly stated that it would strategically develop an economic structure in which the gaming sector and service sector would be the "head" and "body" respectively, with the gaming sector driving the overall development of Macao's other industries.

Casino Gaming Monopoly Ends

The Casino Concessions Committee launched the bidding process on 2 November 2001. After a careful analysis and study of the 21 bids submitted, the committee shortlisted 18 casino companies for the consultative stage of the bidding programme.

At the beginning of February, after the bids were unsealed and consultation and follow-up meetings with the bidding companies were completed, the Casino Concessions Committee submitted a report to the Chief Executive in which the bidders' names were listed in order of their respective rankings.

After studying the report submitted by the Casino Concessions Committee and especially its conclusions and proposals, the Chief Executive considered the tenders submitted by Sociedade de Jogos de Macau, Wynn Resorts (Macau) and Galaxy Casino Company to be the most favourable to the Macao SAR and issued an Executive Order on 8 February, granting the provisional concessions accordingly. In the Executive Order, the unsuccessful bidders were ranked in sequence, so that they could fill the places that might become available if detailed negotiations with the selected casinos should fall through.

Gaming: The Leading Sector of Macao's Economy

According to Francis Tam Pak Yuen, Secretary for Economy and Finance and Chairman of the Casino Concessions Committee, Sociedade de Jogos de Macau, won because of the "extensive experience" of its parent company, Sociedade de Turismo e Diversoes de Macau (STDM), which would be beneficial for maintaining stability in Macao's gaming industry. Wynn Resorts and Galaxy Casino won because of the experience of their major shareholders and their "capacity for innovation and creativity" in establishing and managing holiday resorts as well as international conference and exhibition businesses.

Tam emphasised that the proposals submitted by the bidders constituted one of the major

elements that the Casino Concessions Committee considered when selecting the winners. Throughout the entire bid review process, while considering the bidders' relevant experience and corporate structure, the Casino Concessions Committee took greater account of the development concepts embodied in the proposals. The Casino Concessions Committee hopes that the three provisional concessionaires will become the best combination for running the local casino business, generating steady gaming proceeds for the Government and turning Macao into a regional entertainment, exhibition and conference centre.

After the provisional results were announced, the Chief Executive met individually with the three provisional concessionaires. First-round negotiations between the committee and the provisional concessionaires regarding the concession contracts were held respectively on 18, 20 and 21 February 2002.

The Central Government Supports Macao's Liberalisation of the Gaming Industry

The planned economic structure of Macao and the liberalisation of the gaming industry have received the full support of the central government. On 7 March 2002, when receiving Chief Executive Edmund Ho in Beijing, President Jiang Zemin said that the central government supports the SAR's decision to grant provisional gaming concessions. When meeting with Edmund Ho, Qian Qichen, Vice Premier of the State Council, also praised the Government for the appropriate measures taken in its liberalisation of the gaming industry and the new opportunities it will bring to Macao's economic development.

Member of the Standing Committee of the Political Bureau of the CPC Central Committee and Chairman of the Standing Committee of the National People's Congress, Li Peng, visited Macao on 17 February, while local people were still enjoying their Spring Festival celebrations. When receiving senior Government officials and local community leaders, Mr Li clearly expressed his support for the SAR Government's policy of "further developing the gaming industry to drive the growth of tourism and the cultural sector." He confirmed that the guideline suits Macao's actual situation.

On 11 December, when receiving Chief Executive Edmund Ho during his visit to Beijing to report on his work, President Jiang Zemin praised Macao's social stability and economic growth in the three-year period since its return to the motherland, as well as the peace and contentment its citizens feel in their lives and work. Macao's success demonstrates that the principle of "One country, two systems" can be used to not only settle problems left over from history, but to guarantee Macao's stability, prosperity and development.

Equity Transfers in Accordance with Legal Procedures

On 1 April 2002, the 11 casinos inherited by Sociedade de Jogos de Macau from STDM commenced operation. Meanwhile, Henry Fok Ying-tung, one of the major shareholders of STDM, announced that he was withdrawing from STDM and promised that after the equity transfer was complete, he would donate all proceeds to a non-profit fund established in his name to support Macao's development.

Macao operates a capitalist economic system and the Government has always respected market

forces. It believes that with the opening-up and healthy development of the gaming industry, Macao can attract more interested parties to invest in the three provisional concessionaires. These companies may also raise funds from the stock market, so future equity transfers and changes are inevitable. Chief Executive Edmund Ho has clearly pointed out that the SAR will not interfere in equity transfer issues relating to the concessionaires and that related issues will be settled in accordance with due legal procedures. The Government's clear attitude guarantees further development latitude for the gaming industry.

The Government Signs Contracts with Three Concessionaires

On 28 March, 24 June and 26 June respectively, following negotiations between the Casino Concessions Committee and the three concessionaires, the Government signed the Concession Agreement on Operating Games of Luck and Other Games in Casinos in the Macao Special Administrative Region with Sociedade de Jogos de Macau, Wynn Resorts (Macau) and Galaxy Casino Company. The 18-year concession contract for Sociedade de Jogos de Macau is valid from 1 April 2002 to 31 March 31 2020, and the 20-year concession for Wynn Resorts and Galaxy Casino is valid from 27 June 2002 to 26 June 2022.

Under the contracts, the concessionaires must pay a legally stipulated special casino tax to the MSAR Government. According to the Gaming Industry Regulatory Framework, this tax should be 35 percent of their gross revenue and is to be paid monthly. The financial liabilities of the concessionaire also include an annual payment of 1.6 percent of the gross gaming casino revenue to a government-appointed public foundation for the promotion and development of cultural, social, economic, educational, scientific, academic and charitable activities.

Furthermore, Sociedade de Jogos de Macau must pay an annual 1.4 percent of gross casino revenue for urban development and construction, promotion of tourism and social security. Wynn Resorts (Macau) and the Galaxy Casino Company must pay an annual 2.4 percent of gross casino revenue for urban development, tourism promotion and social security.

During the valid concession period, each concessionaire is also liable for an annual premium in return for the Concession Contract on Operating Games of Luck and Other Games in Casinos in the Macao Special Administrative Region. The premium consists of two parts. The first part is a fixed amount of 30 million patacas, which can be adjusted according to the SAR's average consumer price index. The second part is a variable amount generated from the number of gaming tables and gaming machines, such as slot machines owned by the concessionaire.

Under the contract, Sociedade de Jogos de Macau is obliged to make a projected investment of over 4.737 billion patacas in major projects that include Macau Fisherman's Wharf, the reconstruction of the Inner Harbour and three expansion projects for the Hotel Lisboa. The concession for Sociedade de Jogos de Macau allows the operation of gaming businesses at 11 venues, namely Casino Lisboa, Jai Alai Casino, Casino Oriental, Casino Kingsway, Diamond Casino, Casino Taipa, The Legend Club, Marina Infante Casino, New Century Casino, Casino Kam Pek and Casino Macau Palace.

Wynn Resorts is obliged to fulfil a projected investment of four billion patacas within a period of seven years, and Galaxy Casino is obliged to fulfil 8.8 billion patacas within 10 years, including two resort-style hotels, a casino complex (with a "Venetian" theme) and a conference centre to be opened before the end of 2006.

The three concessionaires have already announced their investment proposals, and the construction of some projects and staff recruitment is already underway.

By-law for Regulation of Gaming Promoters Passed

In order to further regulate gaming promoters, the Government launched the "Regulations for the Conditions of Entering and Carrying out Gaming-Promotion Activities in Macao's Casinos" (By-law No. 6/2002), effective from 1 April. The by-law primarily regulates the verification of the essential qualifications and obligations of gaming promoters, sets out the licensing process and requires that promoters register with the relevant gaming concessionaires.

The by-law also stipulated that in order to promote games of luck in casinos or other forms of gaming, promoters could provide gamers with services such as transportation, accommodation, catering and entertainment in return for commissions or other compensation from gaming concessionaires.

Improving the Business Environment for the Gaming Industry

In conjunction with the opening-up and development of the gaming industry, the Government made great efforts in 2002 to improve the business environment for Macao's gaming industry. It formulated a whole new set of proposals, including the restructuring of the Gaming Inspection and Coordination Bureau, the establishment of the Gaming Committee and the drafting and revision of relevant by-laws and laws. These efforts were designed to further standardise Macao's gaming industry and ensure the healthy development of the sector.

The liberalisation of the gaming industry means new opportunities and challenges for Macao. Gaming employees will be required to deliver a higher quality of service and be more professional. In light of this, the Government is both supporting and encouraging the three concessionaires to provide professional training for their employees and to conduct various courses in cooperation with colleges and universities to improve current staff quality and provide employment opportunities for people intending to enter the gaming sector.

Memorandum of Understanding Signed

In order to facilitate the smooth transfer of employees at the former STDM to the Sociedade de Jogos de Macau, the Government has made a concerted effort to facilitate communication between the relevant parties. On 19 July 2002, after months of effort and negotiations, the Labour and Employment Bureau, the Sociedade de Jogos de Macau, the Associacao da Uniao de Amizade dos Trabalhadores da STDM (STDM Workers Friendship Union Association) and the Macao General Labour Unions Association signed the Memorandum of Understanding on transferring employees from STDM to Sociedade de Jogos de Macau.

The main content of the Memorandum restricts employees from leaving to work for other casino operators before their labour contracts with Sociedade de Jogos de Macau S.A. have expired. The Memorandum also entitles the employer to adopt flexible measures and adjust conditions where appropriate.

Furthermore, after discussions between the Labour and Employment Bureau and the Macao

General Labour Unions Association, the employer agreed to roll out the draft of the pension scheme and begin implementing it by the end of June 2003. The Sociedade de Jogos de Macau also agreed to establish a voluntary retirement system for aging workers. During a designated period, eligible employees who retire voluntarily can obtain compensation in accordance with labour laws, as well as other extra gratuities offered by the company.

In addition, if significant decreases are observed in tips after a period of six months, Sociedade de Jogos de Macau has agreed to negotiate new terms with the employees with the help of the Government and the Macao General Labour Unions Association.