



NEW TIDE OF GAMING OPPORTUNITIES

A hotbed of activity in the online sector, the announcement that the Isle of Man government is seeking to licence a second 'international' casino is making headlines

The Isle of Man is an intriguing land steeped in myths, legends and fairies and yet by contrast it is also a land with a modern financial and business outlook. It was formed when Ireland's legendary giant Fionn mac Cumhaill ripped off a portion of land from Ireland and threw it at his Scottish enemy. He missed and the chunk of earth landed in the Irish Sea. That, or due to rising water levels around 8000BC, the island was formed after being cut off from the surrounding lands.

Today the Isle of Man is a self-governing Crown Dependency of the United Kingdom stuck in between Great Britain and Ireland. Its name is derived from the Manx Gaelic language and the name Ellan Vannin.

The Isle of Man is a low tax economy and relies upon a small number of taxes mainly income tax, national insurance, property tax and VAT. There is no capital gains tax, wealth tax, stamp duty or inheritance tax.

Although the island is not part of the UK, its foreign relations and defence is the responsibility of the UK Government and although the UK rarely interferes with the island, ultimately it is the responsibility of the Crown.

History of the island dates back to before 6500BC when it was believed the earliest inhabitants arrived. The island has been heavily influenced by Gaelic culture, which also brought the Manx language. Viking settlement of Mann began at the end of the 8th century and they established Tynwald and many land divisions still exist today. The isle was part of the Norwegian Kingdom of the Hebrides until 1266 when it then became a part of Scotland and after a period of

swapping between the two the island finally came under the rule of the British Crown in 1765.

The closest land is southern Scotland whilst the island is just 52 km long and 22 km wide and has 160 km of coastline. There are some nearby smaller islands such as the seasonally inhabited Calf of Man, Chicken Rock, St Patrick's Isle and St Michael's Isle. The latter two are connected to the mainland by roads and causeways.

The extreme north of the island is very flat and there is just one mountain higher than 600m called Snaefell. According to an old saying, from the summit of this mountain you can apparently see the six kingdoms - the Isle of Man, Scotland, England, Ireland, Wales and Heaven.

For a tiny island it also packs in plenty of



attractions from working Victorian railways to world class road racing events and ancient fortresses to the world's largest water wheel.

In 2010 there were a total of 655,566 tourists who visited the island of which 340,000 came by air and 315,000 arrived by sea, whilst the tourists spend on average £85 per head per day. There are some 56 hotels on the island not to mention 88 B&Bs, 20 guest houses, plus a myriad of accommodation from camping to country inns.

The Manx economy has been steadily expanding since the 1970s due to the government's promotion of the island as an International Offshore Financial Centre. With a low population density and plenty of development land the island is in a better position than other smaller International Offshore Financial



Centres to sustain population and economic growth.

In 2011, the Isle of Man reached a higher GDP per capita than the UK. Years of reduced taxation, low unemployment and high cash reserves have all paid off and it has been moving forward as a successful economy.

The Isle of Man is now an established international finance centre with a secure base built on political stability and a firmly established fiscal and regulatory environment, which is independent of the United Kingdom.

Offshore banking, manufacturing and tourism are key sectors of the economy, whilst the government offers low taxes and other incentives to high technology companies and financial institutions to locate on the island.

The result is low unemployment and high income companies. The Isle of Man economy has seen an average increase of over six per cent growth in real terms over the last 27 years. The average weekly pay for full time employees is £601 – a rise of 1.8 per cent from the previous year, whilst the biggest employment sector is the finance industry, banking and fund management, which accounts for 45 per cent of the GDP. There are 1,043 unemployed, a rate of 2.3 per cent (February 2012).

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Income tax is levied at a rate of 10 per cent on the first £10,500 of individual taxable income (or £21,000 for jointly assessed married couples) and maximum 20 per cent on the balance. Individuals receive a £9,300 personal allowance (or £18,600 for jointly assessed). VAT is charged at 20 per cent

In 2005 a zero rate of income tax was introduced for six sectors of the island's economy – manufacturing, film, e-gaming, tourist accommodation, agriculture and fishing. Financial institutions and land or property income pay 10 per cent.

TRADITIONAL GAMING

The Isle of Man is a unique gambling jurisdiction and is governed by the Gaming Supervision Commission which is responsible for licensing and controlling all areas of the island's gaming industry. It is headed by Chairperson Claire Milne.

The commission was established in 1962 and in addition to licensing and regulation of land based operations including the casino, amusements, slots, betting offices and lottery sector, it also regulates online gambling activities. It has very strict and finite regulations that have long made it a favourite gambling jurisdiction for the online gaming industry.

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The Palace Hotel was first built on the



THE PALACE IS ONE OF THREE HOTELS OWNED BY THE MANX COMPANY, THE SEFTON GROUP, ON THE ISLE OF MAN.

site back in 1887 with the opening of what was then the largest ballroom in Europe. The roof was damaged by fire in 1902 and then repaired and in 1913 the ballroom was connected by a footbridge to a 3,500 seat theatre.

Both were destroyed by fire in 1920 and rebuilt one year later and it then became known as the White Palace and then the Hilton Isle of Man. The theatre was demolished in 1965 and made way for the existing Palace Hotel and Casino. The ballroom was later demolished in 1994.

The first British public casino licence was issued in 1963 in Douglas and was opened in the Castle Mona Hotel and was initially government run. On May 6 1966 the casino was moved overnight from the Castle to the Palace Hotel and was officially opened by Sean Connery.

Then in 2007 the Sefton Group acquired the Gala Hilton Hotel and entered into a franchise agreement with Hilton UK Hotels Limited, which came to an end in November 2010. At this time the group changed the hotel back to its original name and began to operate it as an independent hotel within the Sefton Group.

The Sefton Group is a Manx company that operates in the hospitality, leisure and property sectors. The Palace is one of three hotels it owns on the Isle of Man. Today, the Palace is heralded as the island's leading entertainment and leisure complex as the only licensed casino and also boasts a large night club and bingo hall and is adjacent to the main cinema complex which has seating for a total of 438. The hotel has 136 bedrooms plus a health club, gym and indoor swimming pool and the Paragon Restaurant.

In November last year the Palace Hotel adopted the Best Western brand despite remaining under the operational control and ownership of the Sefton Group. As such it is now the only branded hotel on the Isle of Man.

The casino is open 24 hours a day (previously from 6pm to 5am) and has 150 jackpot slots and 10 gaming tables. The Kursaal houses the bingo hall and has facilities for 320 players and can be played from Wednesday through till

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Sunday with special Monday and Tuesday night events.

Casino games permitted are roulette, blackjack, pontoon, punto banco, bingo, casino brag, poker, dice, baccarat and chemin-de-fer, backgammon, keno, slots and wheel of fortune.

The casino is controlled under the 1986 Casino Act and the last regulations introduced were back in 1997. Since this time of course land-based gaming has come under substantial competition from the growth of the booming online gaming sector and the smoking ban. Regulations governing the online sector are not seen to be as strict as casino regulations.

In 2010, in a bid to help the land-based sector become more competitive, the GSC issued a proposal to rewrite the regulations to ensure administrative fairness across the board and the new regulations are now expected to modernise the current regulations which will then replace the 1997 regulations.

A consultation process was set up and ran until May 2011 and the new Casino Regulations 2011 were approved by Tynwald in July 2011 and came into operation the following month.

The main effect of these new regulations was to remove some of the bureaucracy from the old regulations. The opening



hours were also extended to allow the casino to become a 24 hour operation, which has also now allowed the casino the opportunity to host a live dealing studio for use by online operators. Additional games such as the Wheel of Fortune were added, whilst the Commission also now has more flexibility to give them the authority to approve games.

The island still continues to be part of the UK government's white list, which enables operators to advertise their business and products to markets in the UK and to have UK based players without obtaining a UK licence.

Outside of the casino there are currently around 250 to 300 slots operated on the island, which are located in the three or four seasonal gaming halls or within clubs and bars. LBOs can also operate a limited number of Fixed Odds Betting Terminals on their premises.

The LBO sector offers across the counter betting operations and fixed odds machines offer roulette and number games. There are currently three permit holders – Bet a Bet Ltd, Joe Jennings Ltd and Willstan Ltd - with 11 LBOs on the island.

In addition the Isle of Man government lottery operated from 1986 to 1997. Since 1999 they have participated in the UK

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National Lottery. In fact the island is the only jurisdiction outside of the UK where it is possible to play the National Lottery in the UK.

Society lotteries are permitted and are considered low risk and high volume. In 2011 the sector saw a modernisation of the advertising regulations for this sector and this now permits them to advertise their draws more widely in the media by using Internet, radio and newspapers.

A SECOND CASINO

Manx Gaming legislation has always provided for a second casino licence once the first one was completed and initially this was proposed as a basis around which the Crescent Cinema could be redeveloped. This never received approval and so then the Palace Ballroom changed

its name to the Palace Lido and opened its doors for gaming. However, dwindling tourists meant two casinos were too big for the number of customers and the Lido closed in 1992 and the building was demolished two years later.

Then two years ago the decision was made that the timing was right to go forward with the second casino licence and a proposal was put into place to ask for an "expression of interest". The idea was sent to both national and international hotel and casino companies and at the end of January this year the period of enquiry closed and the result was seven interested parties.

It is thought that by allowing a new casino/hotel complex onto the isle this could also provide the island with a much needed venue to host online poker tournaments for example. Although the law permits this already, the Palace casino is considered too small to host such an event with around 800 delegates at such tournaments.

The second casino initiative is headed by the Isle of Man's Department of Economic Development, which believes there is an opportunity to build on and complement existing gaming facilities on the island, whilst also creating jobs, diversifying the economy and providing tourists and residents with extra leisure facilities such as a spa and conference service.

Analysis

ISLE OF MAN

Isle of Man: Vital Statistics

Capital: Douglas

Population: 85,421

Land Area: 572 sq.km

Median age: 42.6 years

Languages: English, Manx Gaelic

Ethnic Groups: Manx (Norse-Celtic descent), Britons

Currency: Manx Pounds (IMP)

Government:

Parliamentary Democracy

Chief of State:

Lord of Mann Queen Elizabeth II (represented by Lt Governor Adam Wood)

Head of Government: Chief Minister Allan Bell (since 2011)

Elections:

Monarchy is hereditary. Lt Governor is appointed by the Monarch. Chief Minister elected by the Tynwald for a five year term.

Casinos: 1 (licence for a second)

Casino slots: 150

Gaming tables: 10

Gaming halls: 2-3

Slots: 250-300

LBOs: 11

Tim Craine, Director of the Isle of Man Government's Business Development Agency said: "The idea is this is not to be in competition to the first casino, but offer a level of business that the island does not currently benefit from."

One aim is to appeal to more tourists and tournament gamblers rather than cannibalise domestic gamblers from the Palace Hotel whilst targeting new players.

There are currently seven companies interested in the new £45.6m five star apart-hotel and casino complex. Lack of gaming duty on terrestrial casinos and no limit on the number of slots is expected to appeal to interested parties. However at this stage the department is reluctant to reveal any information about the interested parties or whether this development will be a brand new project or a development of an existing hotel site.

It is thought Mount Murray Hotel and Country Club on the island, which submitted an application for a casino and three storey apart-hotel back in 2009, is one such interested party.

The department is now talking to the various parties about their proposals and



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after this stage a decision will be taken to invite formal tenders. If all goes through it could be another two years before the casino is anywhere near open.

The government, however, is keen to insist that it is vital to try and avoid any adverse impact on the existing casino licence holder and the government says it will only consider awarding a second licence if the proposed new development is significantly different to the existing

one. Sefton, however, has already warned that there is no realistic prospect of two casinos operating profitably.

The concern is the second casino could become a Super Casino, therefore providing tough competition against the Palace casino. The question is, how financially viable is such a casino on the Isle of Man?

Sefton Group's Chief Executive Brett



proximity without a local area population of at least 250,000.

Sefton is already struggling. It reported overall losses in 2010 of £8.6m, which have been blamed on the Icelandic Ash cloud and severe weather conditions. It announced last year that it was ready to move the Palace Casino/Hotel to a new location, but the second casino proposal left them in limbo wary of further investment at the time. The idea was to replace the hotel with a new hotel, casino and family leisure complex with the favoured location of the group's Middlemarch site in Douglas town centre.

THE CONCERN IS THAT THE SECOND LICENCE COULD ALLOW A 'SUPER CASINO' PROVIDING TOUGH COMPETITION FOR THE PALACE.

"Trading conditions within the Isle of Man hospitality sector as a whole are challenging. Lower visitor numbers and reductions in the disposable income of island residents mean that we now have to work harder to win a bigger proportion of a smaller overall market." said Chairman Miles Walker at the beginning of last year.

Although the company's Sefton Hotel has performed well the Palace Hotel and Casino has suffered as it moved from a Hilton brand to an independent operation with independent marketing and reservation functions. Bookings suffered and the group was left re-promoting its hotel. It has of course since taken on the Best Western brand.

Gaming activities at the Palace Casino saw a turnover in 2010 of £3.6m compared to £3.9m in 2009. Hotel operations (for all three Sefton hotels on the island) amounted to a turnover of £9.9m compared to £10.1 the year before.

One boost meanwhile is the recent news that the casino has begun working with online gaming provider VueTec, to provide a live feed from its casino. Roulette and Punto Banco tables will be streamed live from the casino's 'Live Play' zone from 4pm daily via a selection of websites.

The exclusive partnership with VueTec Ltd is via its local subsidiary company regulated in the Isle of Man. VueTec already operates several online sites including Dublinbet.com, LuckyLiveCasino.com, GlobalLiveCasino.com and Atlaslivecasino.com.

Adrian Brockhouse, Director of Hotels and Leisure at the Sefton Group said: "We believe this is a truly exciting development for the Palace Casino. Online gaming is already hugely popular and is certain to keep growing as the technologies which support it continue to advance and develop.

"Live Play area adds another dimension to the casino where the emphasis is placed on fun and excitement. Investing in these facilities shows we are committed to building on our excellent reputation while looking towards and embracing modern technologies."

The software used in the Distance Gaming and Live Play zone will eventually increase to add more games such as Blackjack and Poker and the latest electronic gaming facilities.

Meanwhile, the Department of Economic Development has issued a proposal for live gaming tournament legislation which will issue a Temporary Premises Certificate.

Presented at the end of last year this could solve the question of how to bring live tournaments onto the Island in the interim period, whilst waiting for a larger scale hotel/casino to be built. Although the Palace Casino can host a tournament it does not have the facilities to host large scale events and as such would have to turn such an opportunity down. As a huge revenue earner the GSC has agreed to offer other locations the chance to stage the event.

The change will be added to the Casino Act to allow other premises to be temporary venues for gaming tournaments, which will last for the duration of the tournament. Villa Marina in Douglas is one such large venue in mind.

A consultation period was opened last year and closed in February and this received a small response and no negative responses. The proposal has now gone through into a draft bill and has gone before parliament's approval stages. If all goes to plan this should be in place before summer recess.

PART II - ISLE OF MAN - ONLINE GAMING FOLLOWS NEXT MONTH.

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BRETT MARTIN,
Chief Executive,
Sefton Group.

Martin said: "The process is being pushed forward without a proper assessment and understanding of the local market. We will be asking the government to reconsider this approach and undertake the financial due diligence before proceeding further."

Sefton says the UK gaming sector works on a population of approximately 400,000 per casino and there are no instances where two casinos operate in close