

# Junket Stock

## Macau

Macau's gaming operators haemorrhaged funds to keep casinos afloat during the pandemic, and having endured a market decline, coupled with a push for non-gaming activities, they are shouldering soaring costs to secure their seat at the table.

In 2006, Macau surged past Las Vegas as the gambling capital of the world, recording seven times the revenues as Sin City, and over the last couple of decades has enjoyed an unstoppable growth in revenues.

But as Macau's economy revolves around tourism and gambling, it's been an economically challenging few years with revenues for both these sectors at 85 per cent less in 2022 than in 2019.

In addition, a new law this year saw changes requiring the concessionaires to dig even deeper into their pockets for further investment commitments to renew their operational licences whilst watching the junket business all but disappear.

So, has the Golden Goose given up laying or is the best yet to come? All eyes are on Macau as the barometer for the gambling industry's recovery.

### THE ROAD TO RECOVERY

After a tough few years, tourism is slowly picking up and although it hasn't yet returned to pre-pandemic levels it is exceeding expectations.

Golden Week holiday in October saw 932,365 visitors to Macau during the eight day mid-Autumn holiday which ran between 29 September and 6 October. Pre-pandemic levels for the same week saw 974,337 visitors – so almost back on track. The 116,546 per day visitor figure is around 84 per cent of the amount in 2019.

Mainland Chinese visitors accounted for the vast majority of visitors whilst hotel occupancy during the week was at nearly 88 per cent, an increase of 24 per cent year-on-year.

The return to 'normality' has been haltingly slow. Covid lockdowns in early 2020 saw connecting flights at the airport cancelled as well as entry by all non-residents. The Hong Kong-Zhuhai-Macau bridge was also closed to public transport and most other traffic.

Then as things began to re-open and return to some semblance of normality a big Covid outbreak at the end of 2022 saw further restrictions whilst the impact of measures in China also had an effect on tourism and the economy.

Finally, in January 2023 Macau opened its border to foreign visitors and removed all mandatory quarantine requirements whilst

those coming from China, Hong Kong and Taiwan no longer needed to be tested.

In 2020 the number of tourists visiting Macau had dropped from 39.4 million in 2019 (made up of 20.7 million same-day visitors and 18.6 million overnight visitor stays) to just 5.8 million in 2020. This compares to 7.7 million in 2021 and 5.7 million in 2022. The majority of these visitors came from Mainland China (89 per cent), Hong Kong (nine per cent) and Taiwan.

This year has seen some vast improvements. Between January and August 2023 there were 17.6 million visitors – up 363 per cent on the same period the year before (3.8 million visitors). Around 8.5 million were same-day visitors and nine million overnight stay visitors.

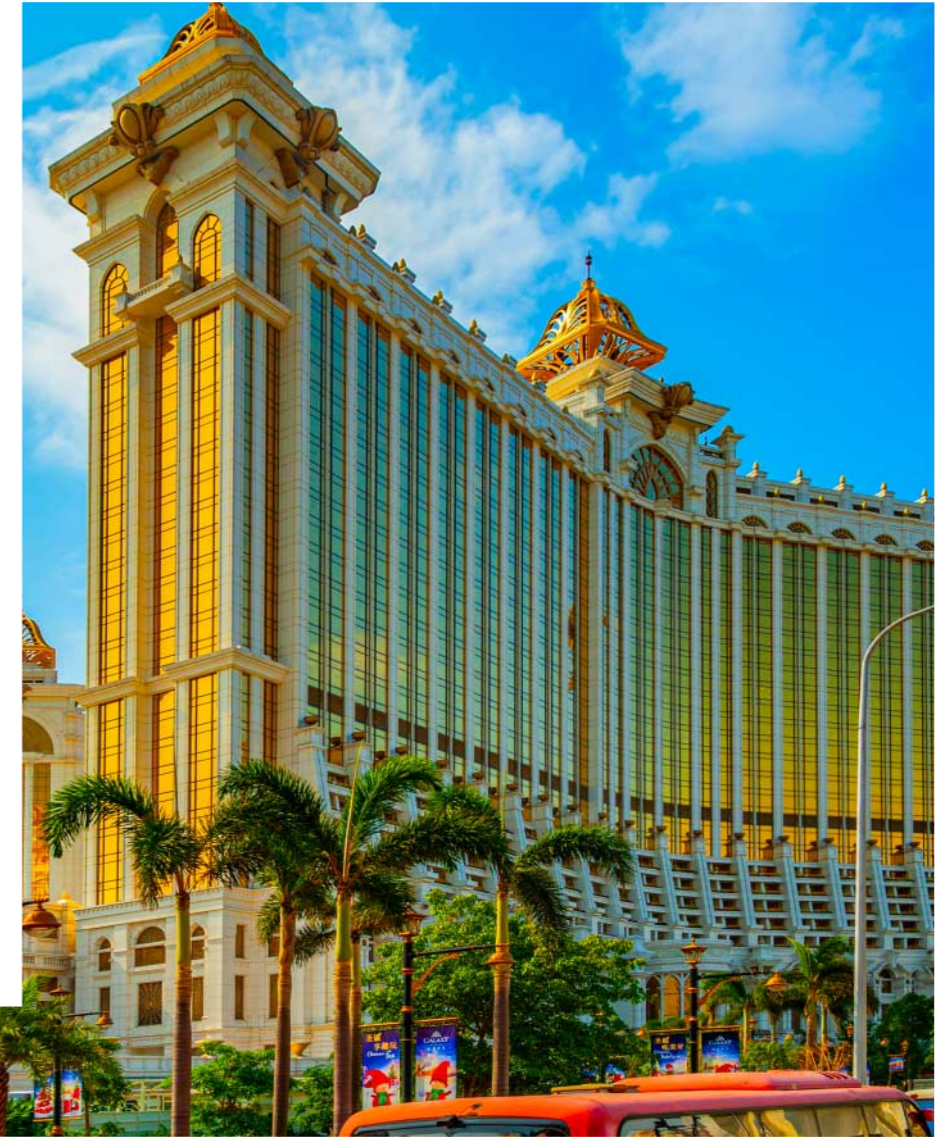
There are currently (August 2023) around 136 hotels in Macau with 44,600 guest rooms available. Occupancy rate is at 80.9 per cent compared to 38 per cent in 2022. There are 520 restaurants and 159 bars.

Macau International Airport handles around 480 flights per week and has recently seen most flight services resumed or expanded over the last couple of years.

Up until 1995 no commercial air services

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*This year saw some increases and passenger numbers between January and July 2023 hit almost two million. July 2023 saw 550,000 passengers (60 per cent of 2019 data) which was 28 per cent higher than June passengers. There was also a 10 per cent rise in flight volume from the previous month with 4,000 aircraft movements (58 per cent of 2019 volume for the same month).*



connected Macau to the rest of the world. Basically if you could afford it you flew by private helicopter or hopped onto the seaplane for short commutes.

Air Macau was established in 1994 and flight services began the following year once Macau International Airport was built.

Within four years Air Macau had 1.1 million passengers annually which rose to an all-time high in 2019 with 9.6 million passengers. The route network covers 43 destinations – 27 in China and 16 internationally – with 28 airlines served at the airport.

Post Covid flight volumes at Macau's airport are standing at around 70 per cent of what they were pre-pandemic. In March 2023 passenger volume was around 300,000 – just 30 or 40 per cent of what it was in March 2019 (781,400).

Numbers have seen dramatic drops over the last three years. Compared to the total number of 9.6 million passengers through the airport in 2019 this had dropped to 1.17 million in 2020, 1.14 million in 2021, and just 600,000 in 2022 when a Covid outbreak prompted the government to implement restrictions again.

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The airport is currently working with the tourism department in Macau to drive the growth of medium and long-haul routes whilst adding new routes.

Macau maintains separate governing and economic systems from those of mainland China and is the most densely populated region in the world. With more than 704,000 residents it has a population density of 23,472 per sq.km.

Pre-pandemic Macau had the third highest per capita GDP in the world, behind Luxembourg and Switzerland. Since its handover to the Chinese, Macau's GDP per capita had been growing significantly and by 2018 had quadrupled from MOP120,000 (US\$14,932) in 1999 to MOP670,000 (\$83,371).

When Covid struck it hit Macau hard and GDP per capita in 2022 was around \$29,369 rising to \$50,570.

Unemployment in 2022 reached 4.3 per cent from an average of 1.8 per cent in 2019 pre-Covid. It is now around 2.5 per cent.

## GAMBLING MARKET OVERVIEW

A Portuguese trading colony dating back to the 16th century, Macau has always had a gambling history. The peninsula just off China's southwest coast has a 3km land boundary with China whilst the islands of Taipa and Coloane are joined together by a strip of reclaimed land (Cotai) which hosts the casino resorts.

The once sleepy backwater attracted Chinese and Hong Kong visitors with gaming houses and



brothels. In 1847 games of chance were legalised and the sector was dominated by games such as Fantan and PaiGow and by the end of that century gambling made up almost 50 per cent of the government's revenues.

Even when Macau came under Chinese rule in 1999 this continued, and it is the only place on Chinese soil where casinos are legal.

Macau operates under the same political model as Hong Kong – 'one country, two systems' rule, which gives the region a high degree of autonomy enabling Macau to have its own government, legal and financial affairs, and its own currency.

Tourism was pushed to work hand in hand with the industry to bring players in and the breakthrough began in 1962 when the late Stanley Ho, gained the monopoly rights to run casinos through a concession granted to his company Sociedade de Turismo e Diversoes de Macao (STDM).

Western-style games arrived and glittering modern casinos opened and this monopoly continued for 40 years. China's economy grew and the wealth of Macau increased.

After 1999 when control of Macau reverted to mainland China and the monopoly was due to expire in 2001 the government invited new

bidders to enter the casino market. Three new concessions were awarded to SJM (a subsidiary of STDM), Wynn Resorts and Galaxy followed by three more sub-concessions granted to Melco, Sands China and MGM.

The Gaming Inspection and Coordination Bureau (DICJ) collaborates with the government in terms of gaming policies and operations of casinos and pari-mutuel betting. The government taxes casinos with a direct special gaming tax of 35 per cent on GGR plus an additional five per cent which goes towards social, tourism and welfare purposes.

In May 2004 Sands China opened its first casino. The Venetian was the first ever gaming investment projected by an American company in Asia and cost US\$240m. Galaxy followed with Casino Waldo.

And then the market exploded. From 11 casinos in 2002 casinos there were 41 in 2019. Currently, there are 30 casinos.

Casino revenues also boomed from just over US\$2.7bn in 2002 to a peak of US\$45bn (MOP361.8bn) in 2013. These declined over the following years due to China's restrictions on residents accessing funds for gambling. But by 2019 Macau was welcoming two million visitors a month on average and gaming revenues were around US\$37bn. Then Coronavirus arrived and

this took a huge toll causing revenues to plummet by around 80 per cent (US\$7.48bn in 2020, \$10.7bn in 2021 and \$5.22bn in 2022).

Prior to the pandemic Macau's casino market was said to be six times the size of Las Vegas in terms of gambling revenue. This year the sector has slowly been embarking on a recovery journey after the three-year-long meltdown.

The first half of FY2023 is already at US\$10bn in gaming revenues – an increase of more than 200 per cent compared to the first half of FY2022. Analysts have predicted casino revenue could reach MOP181.5bn (US\$22.6bn) this year – 62 per cent of the 2019 levels.

The Sands China annual report says: "Macau is the largest gaming market in the world and the only location in China offering legalised casino gaming. We believe visitation will return to pre-pandemic levels and will continue to experience meaningful long-term growth. We believe this growth will be driven by a variety of factors, including the movement of Chinese citizens to urban centres in China, the continued growth of the Chinese outbound tourism market, the increased utilisation of existing transportation infrastructure, the introduction of new transportation infrastructure and the continued increase in hotel room inventory in Macau and neighbouring Hengqin Island.



“There has been significant investment announced and recently completed by concessionaires in new resort development projects on Cotai. These factors should help increase the critical mass on Cotai and further drive Macau’s transformation into a leading business and leisure tourism hub in Asia.”

Gaming accounts for 80 per cent of Macau’s tax revenue and employs around 15 per cent of the population in Macau. With Covid and a tighter regulatory grip on the industry the region now however is being forced to look outside of the gambling box.

It is said around ¥1 trillion (US\$149bn) leaves China each year in terms of gambling funds. Beijing already limits annual foreign currency purchases to around \$50,000 per person and has repeatedly pushed Macau to stop relying on

gambling alone and to diversify its income streams.

In 2019, during his 20th anniversary ‘Macau returning to Chinese rule’ speech, President Xi Jinping suggested Macau focuses on ‘appropriately diversifying its economy and further improving its people’s wellbeing.’

#### CHANGES IN THE LAW

And Macau listened. In July 2022 the Law 7/2022 amended the Macau Gaming Operations Law 16/2001 bringing in several changes.

Firstly, it limited the number of casino concessions to six but also halved their gaming licences from 20 years to 10 years, with a possible extension of three years. All six operators had reapplied for licences, plus an

application from Genting which failed to make the mark, and gaming licences were renewed until January 2033.

The number of slots and tables has been reduced so the total number of gambling tables are now capped at 6,000 (previously capped at 6,925) whilst slots have been reduced from 12,387 to 12,000 – a 13 per cent reduction in tables and three per cent reduction in slots.

Some operators fared better than others. MGM was the only company to see an increase in its allocation whilst SJM saw a big drop mostly down to the closure of many of its satellite casinos in Macau.

The law states the Managing Director of each concessionaire must be a Macau permanent resident and hold at least 15 per cent of the concessionaire’s registered share capital (previously 10 per cent). Share capital must be a minimum of MOP5bn (US\$625m).

Having local partners gives the impression that profits stemming from joint venture casinos are not flowing out of Macau to foreign soil. Despite the huge debt operators have faced keeping their casinos afloat during the pandemic American operators are still keen to commit to Macau.

Sands has been selling off its Las Vegas property and has been shelling out serious money on its

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# Macau

## Essential information and facts

Capital	N/A
Total Area	28sq.km
Population	704,150
Median Age	40.8 years
Religion	Folk religion (59%), Buddhist, Christian
Ethnic Groups	Chinese (88%), Portuguese, other
Languages	Cantonese (80%), Mandarin, other
Currency	Patacas (MOP)
Government type	Executive-led limited democracy
Chief of State	President of China XI Jinping (since 2013)
Head of Government	Chief Executive Ho Iat Seng (since 2019)
Elections	President elected by National People's Congress for five-year term. Last election was in March 2023 and next due in 2028. Chief Executive chosen by Election Committee for five-year term. Next due in 2024.
Unemployment	2.5% (March 2022)
Tourism	39.4m (2019)



## Gaming Tables/Slot Allocation

Concessionaire	Previous Table Allocation	New Table Allocation	Previous Slot Allocation	New Slot Allocation
<b>Sands China</b>	1,685	1,680	4,035	3,700
<b>SJM</b>	1,993	1,250	2,468	1,700
<b>Galaxy</b>	1,079	1,000	1,298	1,700
<b>MGM</b>	552	750	1,351	1,700
<b>Melco</b>	946	750	2,245	2,100
<b>Wynn</b>	670	570	990	1,100
<b>TOTAL</b>	<b>6,925</b>	<b>6,000</b>	<b>12,387</b>	<b>12,000</b>



Macau properties including US\$2.2bn on a makeover of its Londoner Macao resort creating a replica of the Big Ben and Houses of Parliament.

The law also introduced a policy goal to ensure the gambling industry would be under tighter scrutiny and concession contracts can be terminated on grounds of a threat to national security.

Included under this umbrella of national security is the prevention of illegal cross-border flow of capital and anti money laundering which is estimated to be around US\$150bn per year.

This links up with an amendment of China's Penal Code which now criminalises the promotion of overseas gambling in China – as such VIP rooms will see a change in their business model and there is a phase-out of satellite casinos.

Of the 30 casinos in Macau, 11 are satellite casinos that continue to work under the new 10-year gaming concessions from 2023. In mid-June 2022 there were 18 satellite casinos in the market. Nine of the 11 operate under SJM's licence, one is via Galaxy (Casino Waldo) and one via Melco (Grand Dragon in Taipa).

Under the law, satellite venues have "three years to transition to a management company where

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such an entity will not be allowed to share in the gaming revenue, but only receive a management fee from a concessionaire."

Meanwhile, operators terminated their VIP junket agreements in late 2021 after increased regulatory oversight by authorities towards promoters and the arrest of two junket bosses.

Influential junket king Alvin Chau, who headed Suncity Group Holdings, was jailed for 18 years this year for illicit gambling, fraud, and criminal association.

The focus of the investigation was on 'under the table' betting. Apparently, since 2013 Chau's group made HK\$21.5bn in illegal profit resulting in HK\$8.26bn in lost tax revenue for Macau.

Another junket operator Chan Weng Lin, former chairman of Tak Chun Group, has also been

jailed for 14 years for charges involving organised crime, illicit gaming activities, fraud, and money laundering.

The new law also now limits promoters and management companies to provide services to only one concessionaire whereas previously junkets could work with more than one operator.

In addition, the commission rate for VIP junkets is capped at 1.25 per cent of rolling chip turnover, with junket operators required to pay a five per cent tax on their commissions monthly. Previously the commission tax was waived.

The junket market which was once responsible for around 70 per cent of Macau's gaming revenues all but died during the last three years during the pandemic.

In 2020 there were 95 licensed junkets. By early



2022 Macau's gaming regulator approved 46 junket licences, which is just over half the number approved in 2021. This year there were 36 licensed junkets according to the DICJ with only seven registered collaborators in the Macau market in September 2023. Most have shifted from the mainland Chinese source market to Hong Kong.

The regulator has established a cap of 50 for junket licensees in 2024. Sands China and SJM have been given permission to partner with up to 12 junkets in 2024. MGM and Melco can team up with eight junkets while Galaxy and Wynn have a cap of five junket partners next year.

After years of big business within the junket sector, the crackdown, the pandemic, and Macau's bid to stop capital flight from China means thousands have also lost their jobs. The unemployment rate which sat at two per cent for the last 10 years reached 4.6 per cent in March last year, the highest reading since 2009.

### A SHIFT IN OPERATIONS

Casinos are now shifting their focus to mass market gaming. On the plus side the win per player is up significantly and the mass gaming revenue which dropped drastically during the pandemic is now up to almost 2019 levels. The second quarter of 2023 (to end June 2023) market wide mass gaming revenue was 87 per cent of Q2 2019.

The amendments are pushing for the development and promotion of non-gaming elements. As part of their licence agreement the concessionaries had to each collectively commit to spending around MOP16bn in additional non-gaming projects aimed at increasing international tourism, specifically looking at developing MICE business, maritime tourism, sporting events, entertainment, and themed amusements.

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One of the problems with this process however is the lack of available land in Macau.

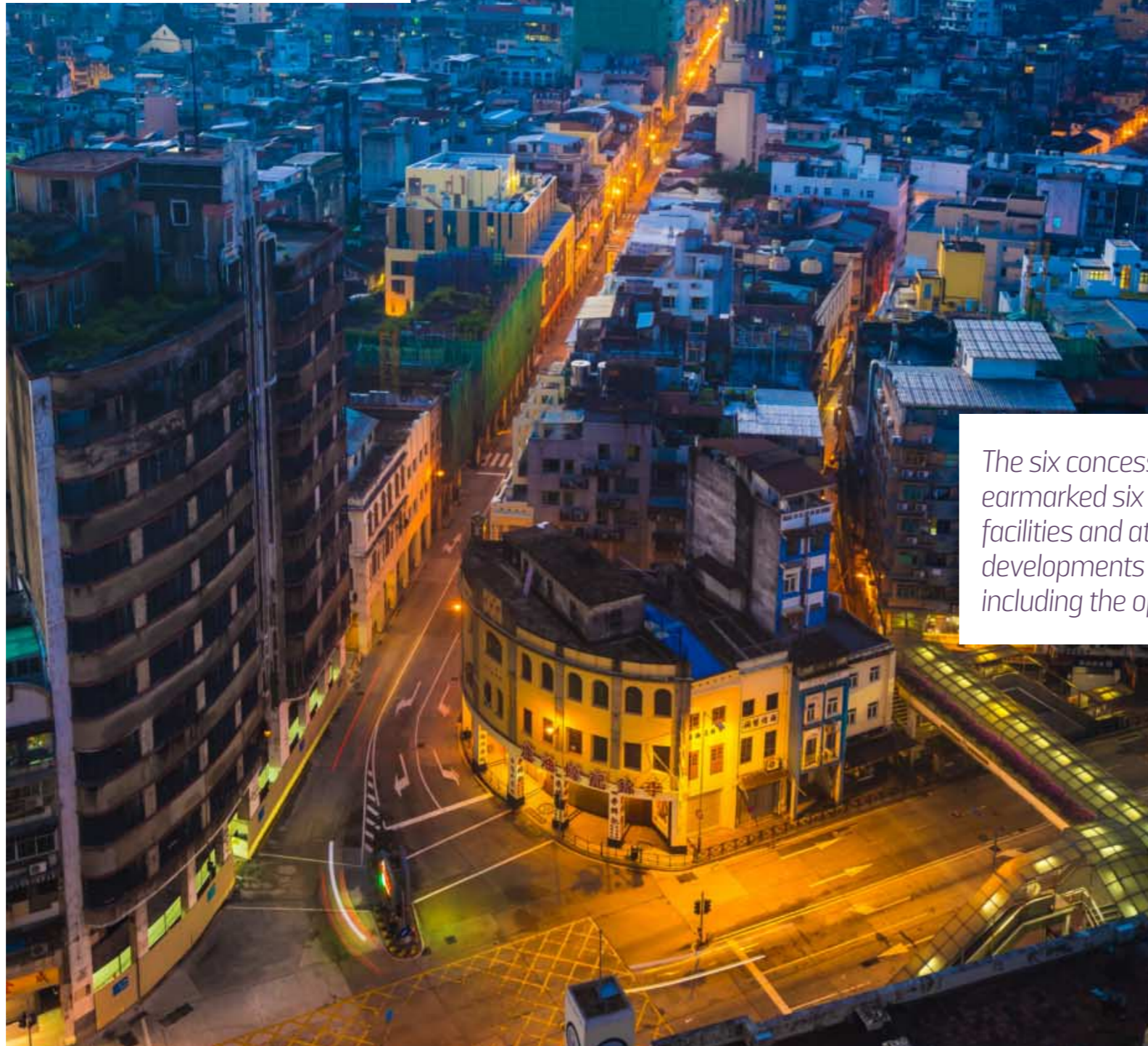
To solve this, Hengqin, an island three times the size of Macau, has now been identified as a special zone and is to be leased and administered by Macau to help cater for the bottleneck of non-gaming entertainment facilities.

Pre-2009, Hengqin was an undeveloped island inhabited by around 5,000 fishermen. The original 48sq.km of land was extended by land reclamation and now covers 106sq.km and has changed from a rural area to a modern city with various resorts and parks including the Chimelong Ocean Kingdom amusement park which opened in 2012 and sees around 11 million visitors annually.

The aim is to create the Hengqin-Guangdong-Macau cooperation zone by 2030. Still under Chinese rule gambling is prohibited but MICE and luxury hotel brands are moving in and there are already 8,000 hotel rooms with the potential to reach 100,000 rooms within 10 years.

The push is to provide more budget-friendly hotels to offer an alternative to the expensive luxury hotel rooms in Macau. Of the 43,400 hotel rooms in Macau nearly 60 per cent belong to five-star category and 20 per cent are four-star category. Only five per cent are more budget friendly two-star inns or guesthouses.

The Hengqin port opened in 2020 and is the first 24-hour border between Macau and mainland China. Galaxy Entertainment is planning a leisure resort development on the island on the



### SJM Financial Overview (US\$m)

	2023 H1	2022	2021	2020	2019
Total group net revenue	9,362	6,679	10,076	7,507	33,875
Net gaming revenue	8,695	6,092	9,608	7,304	33,159
Adjusted EBITDA	461	(3,095)	(1,581)	(2,089)	4,213



2.7sq.km of land it already owns whilst Sands China has voiced an interest in projects and set up a back office on the island.

Meanwhile the six concessionaires have also announced a rejuvenation project each and earmarked six old run-down districts for their plans. This includes enhancing facilities and attractions and promoting community tourism.

Several other developments also point to an optimistic long-term growth plan for Macau.

Infrastructure continues such as the opening of the Hong Kong-Zhuhai Macau bridge – a 55km

line. The extension of the LRT to Hengqin Island will consist of 2.2km of track over a viaduct, an underwater tunnel and with two stations starting at Lotus Bridge in Macau.

Meanwhile the 'bullet train' – the China High Speed Rail – which takes about an hour from Guangzhou to Zhuhai is also being expanded to include more routes to Zhuhai from key cities in mainland China.

This is seen as a gateway into Macau as from Zhuhai station the Gongbei Border crossing is a 10-minute walk enabling visitors to cross over into Macau through customs.

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bridge-tunnel connecting the three regions and reducing travel time from Hong Kong to Macau from three hours to half an hour.

Macau Airport is also set to expand this year with a project due to begin in the second half of 2024. The plan is to reclaim 129 hectares from the sea to increase the physical size which should be completed by 2029 enabling the airport to handle 13 million passengers per year which is three million more than its current capacity.

The Macau Light Rapid Transit system (LRT) is also underway and is the first rapid transit system in the city being developed. It carries on average 9,000 passengers per day on the Taipa

### THE CONCESSIONAIRES

#### SJM RESORTS

SJM Resorts is owned by SJM Holdings Ltd and is the only casino gaming concessionaire with its roots in Macau.

The company was set up in 2002 and began operations a year later with 11 casinos. The company currently owns 13 casinos including its flagship, Grand Lisboa Palace Resort which opened in mid-2021. SJM operated 23 casinos in 2021 but closed down several of its satellite casinos in 2022.

The Grand Lisboa Palace Resort is located near

**Wynn Financial Overview (US\$m)**

	2023 H1	2022	2021	2020	2019
Total group net revenues	10,738	5,643	11,725	7,612	36,161
Net gaming revenue	8,271	3,695	8,973	5,538	30,850
Adjust EBITDA	2,764	(1,948)	383	(2,063)	9,568

**Galaxy Financial Overview (US\$m)**

	2023 H1	2022	2021	2020	2019
Total group net revenues	15,715	11,474	19,695	12,876	51,902
Net gaming revenue	13,724	7,516	17,333	11,516	59,356
Adjusted EBITDA	4,380	(553)	3,537	(1,020)	16,479



the Macau East Asian Games Dome and offers a total of 1,900 rooms and suites via three luxurious hotel towers – the Grand Lisboa Palace, the Karl Lagerfeld Macau and Asia's first Palazzo Versace Macau. The gaming floor covers 521,435sq.m. The other SJM casinos include: Casino Grand Lisboa, Casino Lisboa, Casino Oceanus at Jai Alai, Casino Ponte 16, Casino Casa Real, Casino Emperor Palace, Casino Fortuna, Casino Grandview, Casino Kam Pek Paradise, Casino Landmark, Casino Le Royal Arc and Casino Legend Palace.

SJM has an 11.8 per cent share of Macau's gaming revenue including almost 15 per cent of mass market table gross gaming revenue and 3.5 per cent of VIP gross gaming revenue. Net gaming revenue for the first half of 2023 was HK\$8.69bn compared to HK\$3.81bn for the same half year in 2022. Net gaming revenue in 2022 was HK\$3.6 billion less compared to 2021 (a drop of 37 per cent).

The Grand Lisboa Palace Resort reported gross revenues of H\$687m in 2022. For the first half of 2023 GGR was HK\$1.43bn compared to HK\$417m for the first half of 2022. Hotel occupancy was almost 84 per cent compared to 34 per cent for the first half of 2022.

SJM's half year report said: "Since around the end of 2022 Covid-19 related travel restrictions were materially relaxed for visitors from the Mainland, Hong Kong and Taiwan, and subsequently for other areas. Currently there are no requirements for health tests, vaccines or quarantine for visitors to Macau. After almost three years of severely inhibited travel, visitation to Macau showed a robust recovery in the first half of 2023.

"Under the new gaming concession SJM has committed to invest an aggregate of MOP14bn during the life of the new concession period. The total amount of non-gaming investment obligations is obliged to further increase when the overall gross gaming revenue in Macau exceeds MOP180bn before 2027."

**WYNN RESORTS**

Wynn Resorts operates two casino resorts. The first, Wynn Macau, opened in 2006 in the heart of the peninsula and was Macau's first Las Vegas style resort and Wynn's first foray into Asia. It offers more than 1,000 rooms across two hotel towers – the Wynn Tower and Encore Tower – plus 14 dining options, retail, and leisure facilities. There is 294,000sq.ft of casino space with 276 tables and 567 slots.

The second resort, the Wynn Palace, opened in 2016 in Cotai. This location is currently being redeveloped to include further amenities such as theatre, event space, interactive entertainment installations, dining, and non-gaming offerings.

The casino is currently 468,000sq.ft with 287 tables and 560 slots. The hotel offers 1,700 rooms plus there are 14 dining options and retail outlets plus leisure facilities including cable car.

The first half of 2023 saw casino revenues of HK\$8.2bn compared to HK\$2.2bn for the same half year in 2022.

Total operating revenues in 2022 decreased by more than 50 per cent from HK\$11.7bn in 2021 to HK\$5.64bn in 2022 resulting in a decrease in gaming volumes due to Covid restrictions mostly relating to travel.

Casino revenues saw a drop of 65 per cent partly due to the knock-on effect as the casinos were shut in July that year for a 12 day period.

In 2019 casino revenues were at HK\$30.8bn and a year later they had dropped by 73 per cent due to Covid closures and travel restrictions. VIP table games revenue decreased by 86 per cent.

Total VIP table game turnover in 2022 dropped by more than 62 per cent. Hotel occupancy for Wynn Palace was just 38 per cent last year and Wynn Macau was at 41 per cent compared to 98 per cent on average for the two hotels in 2019.



**GALAXY CASINO**

Galaxy Entertainment Group operates three flagship destinations in Macau under the Galaxy Macau brand and a city club called Waldo Casino. Two city clubs closed down last year taking their number of total operations from six to four.

Galaxy Macau is a large integrated resort which opened in 2011 on Cotai and included three hotels the Banyan Tree Macau, Hotel Okura Macau and Galaxy Hotel. In 2015 it expanded and doubled in size to include three new hotels – the Ritz Carlton, JW Marriott and Broadway Hotel – also linking up to the Broadway Macau. There are a total of 4,000 rooms across the six hotels.

Then in 2023 it was expanded further with the opening of the Galaxy International Convention Centre, Galaxy Arena and 450 all-suite Raffles at Galaxy Macau.

The Galaxy Macau's 75,000sq.m Grand Resort Deck features the world's longest Skytop Adventure Rapids and largest Skytop Wave Pool plus beach. The resort also offers 120 dining options and retail outlets.

The Broadway Macau connects to the Galaxy Macau via a link bridge and opened in 2015 whilst the Starworld Hotel on the peninsula is a 39-storey hotel which opened in 2006 and offers more than 500 rooms.



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### Sands China Financial Overview (US\$m)

	2023 H1	2022	2021	2020	2019
Total group net revenues	2,895	1,605	2,874	1,687	8,808
Net gaming revenue	2,161	947	1,987	1,169	7,018
Adjusted EBITDA	939	(323)	341	(428)	3,193

### Melco Resorts Macau Financial Overview (US\$m)

	2022	2021	2020	2019
Total operating revenues	844	1,660	1,426	4,988
Adjusted EBITDA	(170)	144	(135)	1,412

### MGM Grand Financial Overview (US\$m)

	H1 2023	2022	2021	2020	2019
Operating revenues	10,649	5,268	9,410	5,095	22,765
Casino revenue	9,602	4,438	8,223	4,384	20,423
Adjusted EBITDA	3,160	(1,274)	187	1,371	6,183

There are further plans to develop the Cotai footprint with six high-end hotel brands plus 4,000 seat theatre and more retail and non-gaming facilities.

Total net revenue for the group for H1 2023 amounted to HK\$15.7bn compared to HK\$6.5bn for the same period in 2022 which is a 141 per cent increase. Mass table drop for the same period was HK\$46.9bn compared to HK\$14bn for the 2022 first six months. Total group net revenues in 2022 were down year-on-year from HK\$19.6bn to HK\$11.4bn.

Galaxy Macau is the primary source of revenues and net revenue in 2022 for this venue dropped by 44 per cent from HK\$13.2bn (2021) to HK\$7.4bn whilst five hotels recorded an occupancy rate of 31 per cent that year.

Starworld saw a drop of 68 per cent in its net revenues in 2022 with an occupancy rate of 38 per cent.

#### SANDS CHINA

Sands China owns five casino resort properties in Macau – the Casino Sands Macao, The Venetian, The Plaza, The Parisian and The Londoner. The group also owns the Cotai Expo, one of the largest convention halls in Asia, the Cotai Arena, Venetian Theatre, Parisian Theatre and Londoner Theatre.

In FY 2022 in total the group had 12,392 hotel rooms and suites, 2.1m sq.ft of retail malls with 146 restaurants and food outlets, 1.7m sq.ft of MICE space, four theatres and two arenas.

The Sands Macau was the first to open in 2004 on the peninsula and was the first Las Vegas style casino in Macau and offers 159 gaming tables, 563 slots and 238 hotel rooms. Visitors in 2022 were 0.9 million compared to 5.7 million in 2019.

Venetian Macao opened in 2007 on the Cotai Strip and is the group's anchor property. There is a 39-storey hotel with 3,000 rooms and suites, 632 gaming tables and 1,176 slots. The Venetian saw 9.7 million visitors compared to 36 million in 2019.

*Sands China owns five casino resort properties in Macau – the Casino Sands Macao, The Venetian, The Plaza, The Parisian and The Londoner. The group also owns the Cotai Expo, one of the largest convention halls in Asia, the Cotai Arena, Venetian Theatre, Parisian Theatre and Londoner Theatre.*

The Plaza Macao opened in 2008 and is adjacent to the Venetian and consists of the Four Seasons Hotel with 649 rooms and suites. The gaming area offers 142 table games and 98 slots. Visitors were 8.6 million in 2022 compared to 24.3 million in 2019.

The Parisian opened in 2016 and is connected to the Venetian and Plaza Macao. It has a half scale Eiffel Tower structure and the resort has 2,500

rooms and suites with a gaming area of 273 tables and 796 slots. Visitors were 3.3 million in 2022 compared to 13 million in 2019.

Finally, the Londoner opened in phases throughout 2021 and 2022 and is also on Cotai and the largest of Sands China IR resorts on Cotai. Formerly the site was Sands Cotai Central which opened in 2012 but has since been rebranded, renovated, and expanded. Today there are four hotel towers with almost 6,000 rooms and a gaming area of 479 tables and 858 slots. Visitors in 2022 were 8.3 million compared to 19.2 million in 2019.

Total net revenues for the group amounted to HK\$12.51bn in 2022, a drop of 44 per cent compared to 2021 which saw HK\$22.42bn

First half year of 2023 saw total net revenues of US\$2.9bn (HK\$22.69bn) an increase of 216 per cent compared to the same period in 2022 with US\$915m (HK\$7.18bn).

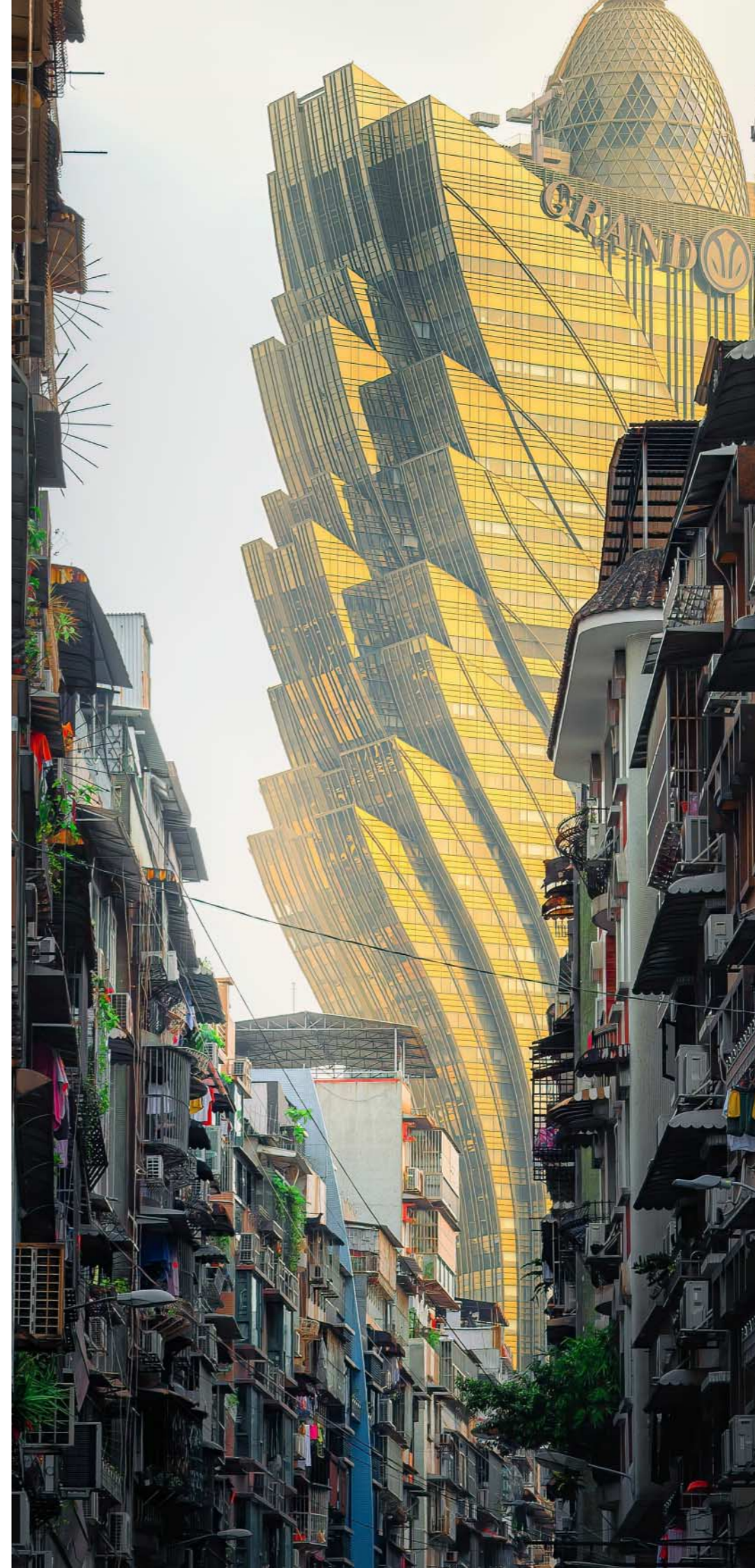
Chairman Robert Goldstein said in the annual report: "The company's operations in Macau in 2022 were directly impacted by the reduction in visitation to Macau. Total net revenues for the company were approximately 18 per cent of the year 2019. Net revenues decreased approximately 44 per cent compared to 2021."

#### MELCO RESORTS

Melco Resorts and Entertainment operates four locations in Macau.

The City of Dreams on Cotai opened in 2009 and includes four hotels, 40 restaurants, 170 retail outlets, entertainment, and gaming area with 430 tables and 637 slots. Operating revenues in 2022 was US\$559.7m which is more than 40 per cent of the company's total operating revenues.

Studio City opened in 2015 on Cotai with the



iconic figure eight Ferris wheel ride which straddles the two towers. There is also a water park, entertainment and shopping. The casino has 246 tables and 670 slots. Revenues in 2022 were US\$176m. Phase 2 of Studio City was completed this year which consists of two hotel towers with 895 rooms plus a waterpark.

Casino Altira is a luxury resort in Taipa with a 38-storey hotel tower with 220 rooms. The casino has 45 tables and 153 slots operating under the brand Mocha Club at Altira Macau. At the end of 2021 Altira was repositioned to cater to the premium mass market segment and shut down its VIP rolling chip operations. Revenues amounted to US\$32.6m in 2022.

The Grand Dragon Casino focuses on mass market table games and is located on the ground floor and level one of the Grand Dragon Hotel. This comes under the Mocha Clubs section which began operating in 2002. At the end of 2022 there were six clubs open with a total of 875 slots and these were mostly located in four and five-star hotels offering electronic tables and slots. Two Mocha Clubs closed last year. They pull in day-trip customers and generally focus on mass market gaming. Revenues in 2022 amounted to US\$76.4m.

Total operating revenues for first half of 2023 for Melco (including City of Dreams Manila and Mediterranean) were US\$947.9m – an increase of 220 per cent from the same period in 2022 of US\$296.1m.

#### MGM GRAND PARADISE

MGM Grand via MGM China Holdings operates two casinos in Macau.

The MGM Macau opened in 2007 and is a Forbes Five Star luxury integrated resort. The hotel comprises of a 35-storey tower with 585 rooms plus eight restaurants, spa and convention space. The casino floor covers 23,283sq.m and has 354 tables and 892 slots. The resort's focal point is the signature Grande Praça.

The MGM Cotai opened in February 2018 and the hotel with two towers – M Tower and Emerald Tower – and has 1,400 rooms in total plus there are 12 restaurants, retail outlets and meeting space. The MGM Cotai also features The Mansion, an ultra-exclusive resort within a resort available to selective guests plus the Emerald Villas, 28 luxurious villas which was developed recently. The casino floor covers 24,549sq.m and has 1,028 slots and 396 gaming tables.

The two casinos' mass market operations accounted for 84 per cent of the company's GGR for the first half of this year.

Casino revenues for the first half of 2023 amounted to HK\$9.6bn (MGM Macau with HK\$4.5bn and MGM Cotai with HK\$5.1bn) compared to HK\$2.7bn for the same period in 2022.

Operating revenues amounted to HK\$10.6bn for H1 2023 which was 231 per cent higher than the same period in 2022 and 5.7 per cent lower than the same period in 2019.

# Laws of the Game

## Macau

Managing Partner, Pedro Cortés of Macau-based law firm, Rato, Ling, Lei & Cortés – Advogados | Lektou, details the specifics of Macau Gaming Law (Law 16/2001) and makes his conclusions on the ramifications for market protagonists.

### INTRODUCTION

The Macau Gaming Law (Law 16/2001) was enacted to overhaul the previous casino gaming operation model, which was monopolistic in nature. This law introduced an oligopoly system, allowing a maximum of three casino gaming concessions, which were awarded through an international tender in 2001. The Macau government had authorised three sub-concessions by 2006, a model that remained in place until the end of 2022.

The 2022 international tender marked a shift in the gaming landscape, with the introduction of a model that statutorily allowed for six casino gaming concessions. This change was facilitated by amendments to the Macau Gaming Law, as outlined in Law 7/2022, published on June 22, 2022. The enactment dates of these provisions varied: some took effect immediately, while others were only implemented after January 1, 2023, to cope with the 2023 tender, where the six concessions were awarded to the incumbent casino gaming operators.

### BRIEF LEGISLATION HISTORY – PUBLIC CONSULTATION AND DRAFT LAW

In September 2021, the Macau government initiated a public consultation that spanned 45 days. On December 23, 2021, the results of the consultation were released, focusing on several key aspects:

1. Number of concessions for operating casino games: The consultation sought input on the appropriate number of concessions granted for operating casino games in Macau.
2. Term of concessions: The duration of the concessions was another point of consideration, with discussions on whether to extend or modify the existing terms.
3. Increased legal requirements for concessionaire supervision: The consultation aimed to gather opinions on strengthening the legal requirements for supervising concessionaires, ensuring proper oversight and compliance.
4. Local employment benefits and protection: The consultation addressed the issue of promoting local employment opportunities and safeguarding the rights and benefits of local workers within the gaming industry.
5. Strengthening review mechanisms: The consultation sought suggestions on enhancing review mechanisms for concessionaires, gaming promoters, and their employees, ensuring accountability and integrity.



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Rato, Ling, Lei & Cortés – Advogados | Lektou is a law office established in the Macau Special Administrative Region with its roots in the law office Gonçalves Pereira & Rato which started its operations on October 2, 1985.

Based on this outcome, it was evident that the majority of the main points outlined in the consultation paper would be integrated into the amendments to the Gaming Law, demonstrating the government's commitment to incorporating public feedback and ensuring that the revised law reflects the concerns and suggestions raised during the consultation process.

After a period of discussion, on June 21, 2022 the Legislative Assembly unanimously approved the final version of Law 7/2022, which was published the day after in the Official Gazette.

6. Introduction of government representatives: The inclusion of government representatives in the gaming industry was discussed to enhance governance and regulatory measures.

7. Development of non-gaming elements: The consultation explored the potential development of non-gaming elements within the industry, aiming to diversify Macau's offerings beyond traditional casino gaming.

8. Corporate social responsibility: The consultation emphasised the importance of corporate social responsibility, encouraging concessionaires to contribute positively to the local community and environment.

9. Explicit stipulation of criminal liability and administrative penalty regime: The consultation addressed the need for clear and explicit regulations regarding criminal liability and administrative penalties for any violations within the gaming sector.

These points were considered and analysed based on the feedback received during the public consultation process.

On January 21, 2022, the Macau government presented a draft law proposal to the Legislative Assembly with the aim of amending the Gaming Law. The proposal was intended to enhance the legal framework and address emerging external and internal trends in the industry.

Following its submission, the draft law proposal underwent the first reading in the Legislative Assembly on January 24, 2022. It received significant support, with 30 votes in favour and only one vote against.

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### LAW 7/2022 REGIME

#### Public Policy

Several important amendments were introduced to the previous regime, with a particular focus on the public policy statement outlined in Article 1-A. These amendments reflect the government's commitment to various objectives, which are of utmost importance.

Firstly, the exploitation and operation of casino games of chance should now be carried out with the primary goal of safeguarding national security and that of the Macau Special Administrative Region. This emphasises the government's dedication to ensuring a secure and stable environment for the gaming industry within the national policies.

Secondly, the amended law emphasises the



promotion of adequate diversification and sustainable development of the Macau SAR's economy. This highlights the government's intention to move beyond sole reliance on gaming and encourage the growth of other sectors, contributing to the overall economic stability and prosperity of the region.

Thirdly, the operation of casino games of chance is required to be conducted in a fair and honest manner. This underscores the importance of maintaining integrity and transparency within the gaming industry, ensuring a level playing field for all participants.

Furthermore, the amended law places a strong emphasis on preventing criminal influence in the operation of casino games of chance. It aligns the industry with the Macau SAR's policies and mechanisms for combating the illegal flow of cross-border capital, as well as preventing money laundering and terrorism.

The dimensions and operation of casino games of chance, along with the practice of such games, are subject to legal restrictions. This ensures that the industry operates within the boundaries set by the law, promoting responsible gaming practices and protecting the interests of both operators and players. It is in line with the Region's absolute reserve nature of the casino gaming activity.

Additionally, the amended law emphasises the importance of having suitable individuals involved in the supervision, conduction, management, and operation of casino games of chance. This ensures that those responsible for the operation of the industry possess the necessary qualifications and integrity to carry out their functions effectively.

Lastly, the interests of the Macau SAR in collecting taxes and other duties resulting from the operation of casinos are duly protected. This highlights the government's commitment to ensuring that the region receives its fair share of revenue generated by the gaming industry, contributing to the overall development and welfare of the Macau SAR.

The public policy statement reflects the government's dedication to creating a secure, transparent, and sustainable gaming industry in Macau, aligning it with the broader objectives of national security, economic diversification, fairness, integrity, and fiscal responsibility.

#### Structural changes

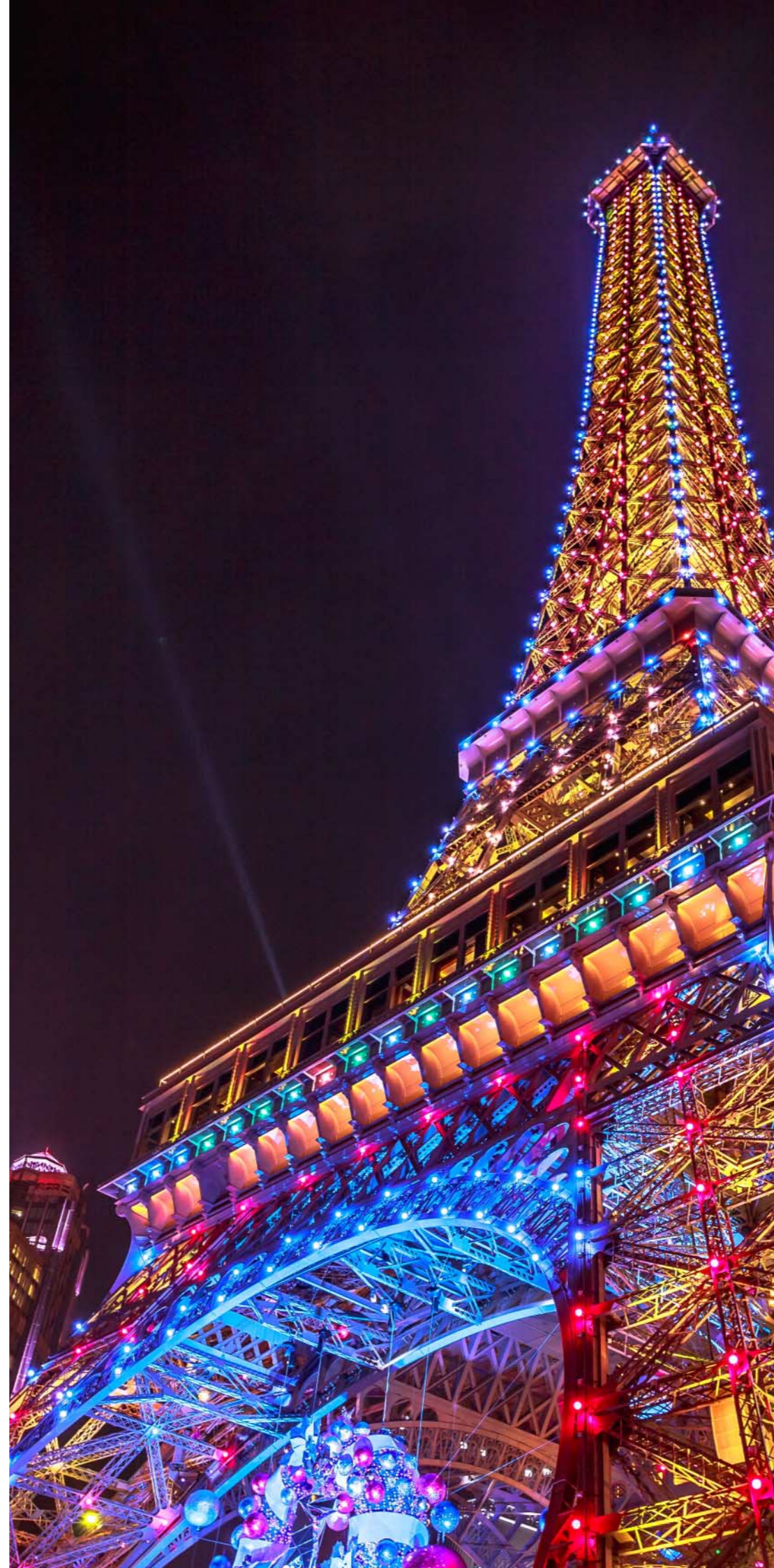
But Law 7/2022 introduced several other important features to the gaming industry in Macau. These features include:

1. Increase in the number of concessions: The number of concessions for operating casinos increased from three to six. This expansion copes with the previous model of six de facto operators, promoting competition and potentially diversifying the offerings available to visitors.
2. Maximum term of concessions: The maximum term for these concessions is now set at ten

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The new suitability assessment criteria introduced by Law 7/2022 are a significant addition to the regulatory framework of the gaming industry in Macau. These criteria are designed to ensure that only entities that meet high standards of integrity and responsibility are allowed to operate. Failure to comply with these criteria may lead to the termination of the concession contract.

The operation of casino games of chance is required to be conducted in a fair and honest manner. This underscores the importance of maintaining integrity and transparency within the gaming industry, ensuring a level playing field for all participants. Furthermore, the amended law places a strong emphasis on preventing criminal influence in the operation of casino games of chance.



years (the previous regime stated a maximum of 20 years).

3. Enhanced supervision of casino operators: The amended law includes several legal requirements that aim to increase the supervision of casino operators.
4. Emphasis on corporate social responsibility: Corporate social responsibility is now an important duty for casino operators. This highlights the industry's commitment to contributing positively to the local community and promoting sustainable practices.
5. Link between the number of tables and non-gaming elements: The number of tables authorised for each casino is now directly linked to the development of non-gaming elements. This encourages operators to invest in and promote non-gaming attractions, diversifying the overall entertainment options available in Macau.
6. Responsible gaming initiatives: The amended law includes responsible gaming initiatives and plans as key obligations for concessionaires. This underscores the importance of promoting responsible gambling practices and ensuring the well-being of players.
7. Stipulation of criminal and administrative offences: The amended law explicitly stipulates criminal and administrative offences related to the gaming industry. This provides a clear framework for addressing any violations and ensures that appropriate penalties are in place to maintain the integrity of the industry.

#### Suitability and financial capacity

Indeed, the new suitability assessment criteria introduced by Law 7/2022 are a significant addition to the regulatory framework of the gaming industry in Macau. These criteria are designed to ensure that only entities that meet high standards of integrity and responsibility are allowed to operate. Failure to comply with these criteria may lead to the termination of the concession contract. The criteria include:

1. Risk Assessment: Entities are now evaluated based on whether they take excessive risks in regard to the manner in which they conduct business or the nature of their professional activity.
3. Source of Funds: There should be no grounded suspicion about the source of the entity's funds. Entities must be able to demonstrate that their funds come from legitimate sources.
4. Connections to Organised Crime: Entities should not have any unsuitable operations with organised crime, ensuring that the gaming industry is free from criminal influence and maintains a high level of integrity.
5. Criminal History: The entity should not have been sentenced or indicted for a crime

punishable with three or more years of imprisonment. Those involved in the gaming industry must have a clean criminal record and be of good character.

In addition to the suitability assessment criteria, the amended Gaming Law maintained the requirement for assessing the 'financial capacity of the concessionaires'. This is a crucial aspect of the regulatory framework, as it ensures that the concessionaires have the necessary financial resources to operate effectively and meet their obligations.

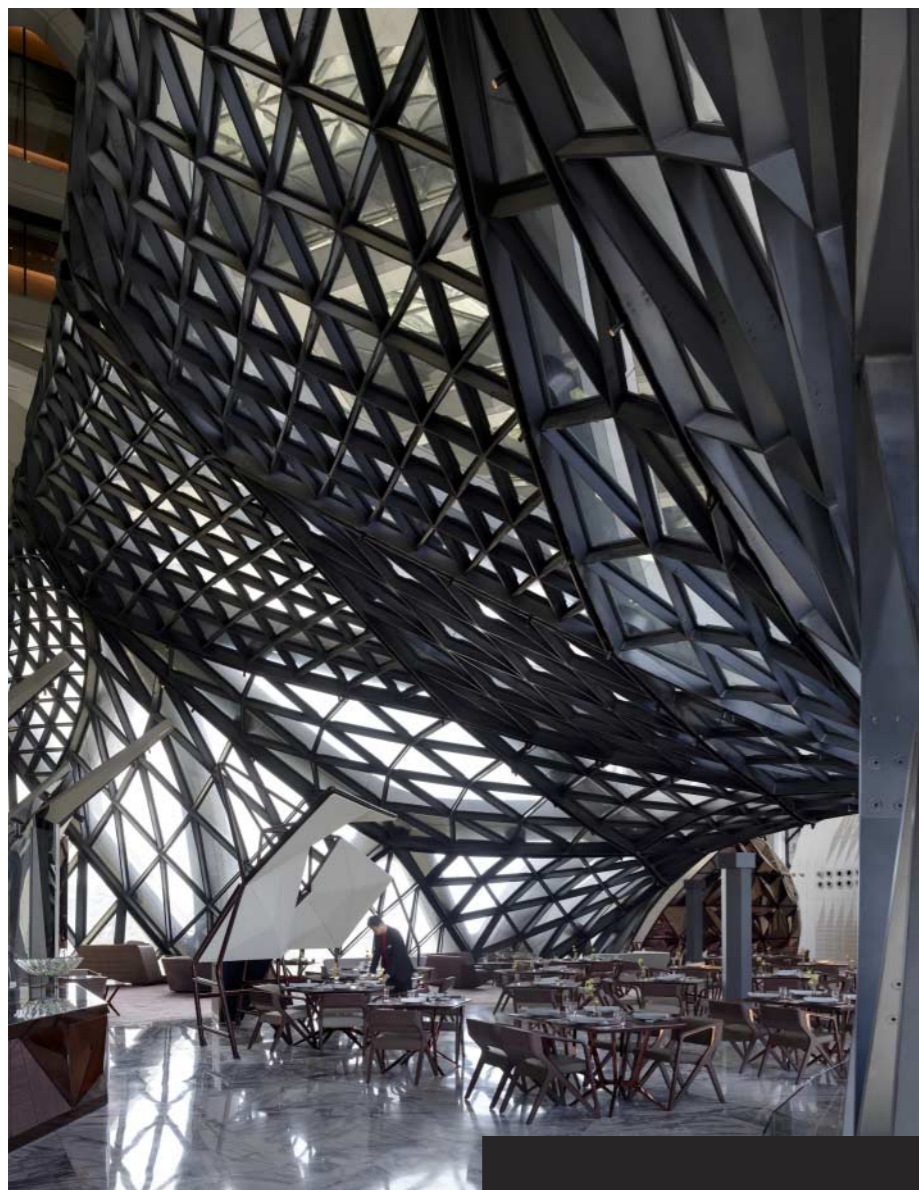
Under this provision, the government may request the dominant shareholders, or qualified shareholders, to provide a guarantee for the fulfilment of the commitments and obligations of the concessionaires. This guarantee serves as a form of financial security, ensuring that the concessionaires are able to meet their obligations under the concession contract.

This mechanism aims to protect the interests of Macau SAR and the public, but also contributes to the stability and integrity of the gaming industry. By ensuring that the concessionaires have the necessary financial capacity and backing, the government can help prevent financial difficulties that could disrupt the operation of the casinos and negatively impact the overall gaming industry in Macau.

#### Other relevant amendments

Law 7/2022 introduced other several significant changes to the gaming industry in Macau such as:

1. Share Capital and Managing Director: it increased the concessionaires' share capital from MOP200m to MOP5bn. The managing director, who must be a Macau permanent resident, is now required to hold at least 15 per cent (up from the current 10 per cent) of the concessionaires' share capital.
2. Corporate Social Responsibility (CSR): the importance of CSR is emphasised stating that the gaming operators shall support the development of small and medium-sized enterprises, local industries, labour rights and interests, and hire disabled or rehabilitated individuals. They are also expected to support activities of public interest and activities of an educational, scientific, technological, environmental, cultural, and sports nature.
3. Annual Premium: the number of gaming machines will also be assessed in addition to the existing criteria: number of casinos, number of tables, games operated and location of the casinos.
4. Special Premium: the introduction of this premium ensures that the government's revenue from the gaming industry is not adversely affected by underperforming gaming tables or machines or by external economic and geopolitical factors, being the special premium calculated as the difference between the special gaming tax that would be due if the annual minimum gross revenue per table or gaming machine was met, and the

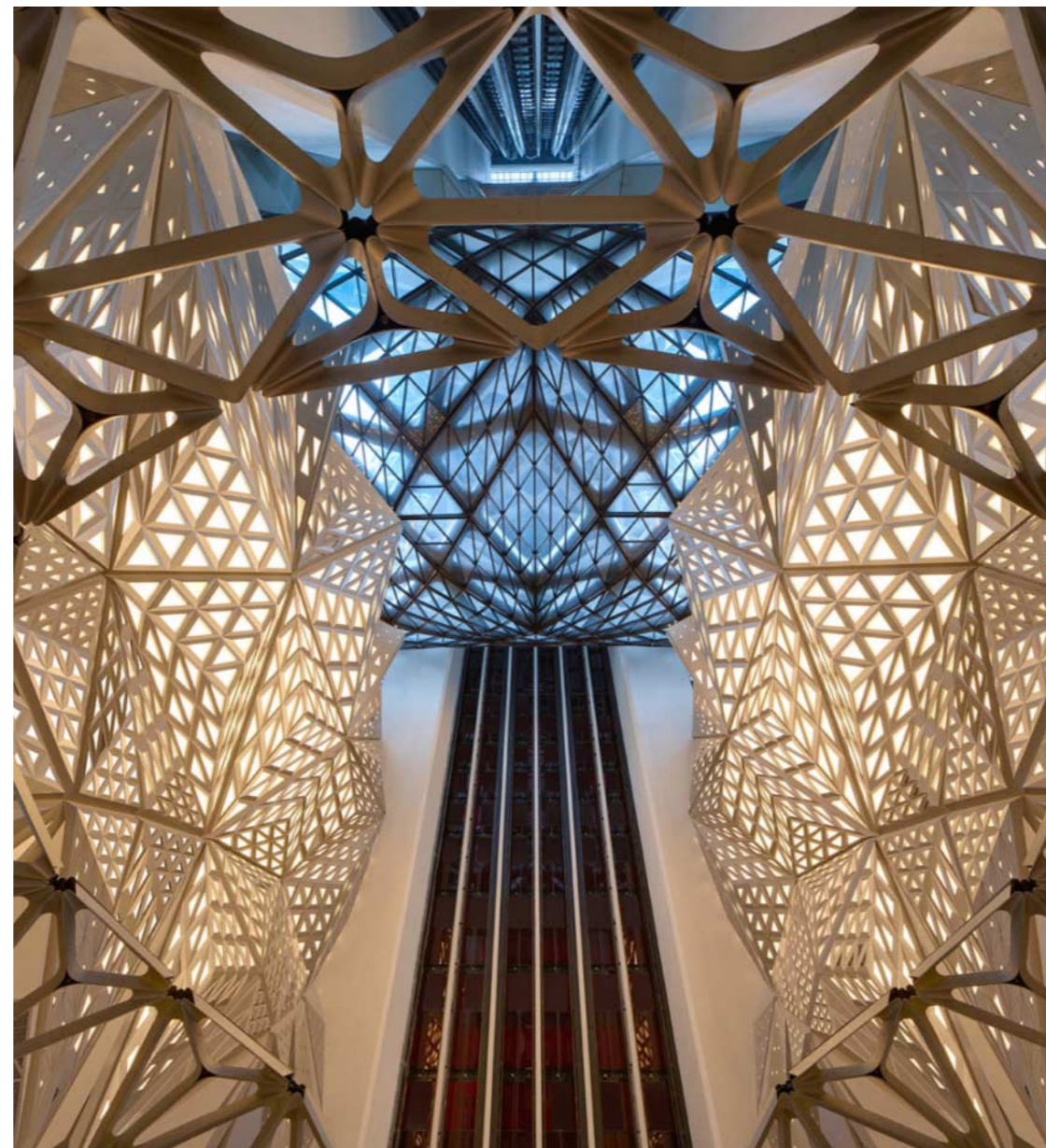


actual tax due based on the lower gross revenue achieved. This means that if a gaming table or machine does not generate the expected minimum gross revenue, the concessionaire will be required to pay the difference as a special premium. Subsequently, on August 26, 2022, Chief Executive Dispatch 162/2022 set the annual minimum limit of gross revenues for each gaming table and gaming machine at MOP7m and MOP300, respectively.

There were no changes in the special gaming tax, which was kept at 35 per cent on the gross gaming revenue with special contributions set at five per cent, with casino concessionaires required to contribute to two separate funds based on their annual gross gaming revenue. The first fund is for the promotion, development, or study of cultural, social, economic, educational, scientific, academic, and philanthropic initiatives. It receives an annual contribution of two per cent of the GGR. The second fund is allocated to urban development, tourism promotion, and social security, and it receives an annual contribution of three per cent of the GGR.

Nonetheless, the Chief Executive has the authority, as stated in Chief Executive Dispatch No. 216/2022 issued on August 26, 2022, to

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reduce or exempt the special contributions under certain circumstances. These circumstances include the expansion of customer markets by the casino concessionaires and the occurrence of extraordinary, unforeseen events or force majeure that negatively impact the overall economy of the Macau Special Administrative Region (MSAR) and the operation of the casino concessionaires. The referred Dispatch states that a reduction or exemption takes into consideration the calculation of the gross gaming revenue generated by the expansion of foreign customers' markets by casino concessionaires.

Additionally, the Chief Executive has the power to establish a maximum number of gaming tables and machines. He has done so with the Dispatch 161/2022, setting the annual maximum limit at 6,000 and 12,000, respectively.

Any changes to this number must be authorised by the Secretary for Economy and Finance, who considers several factors, including:

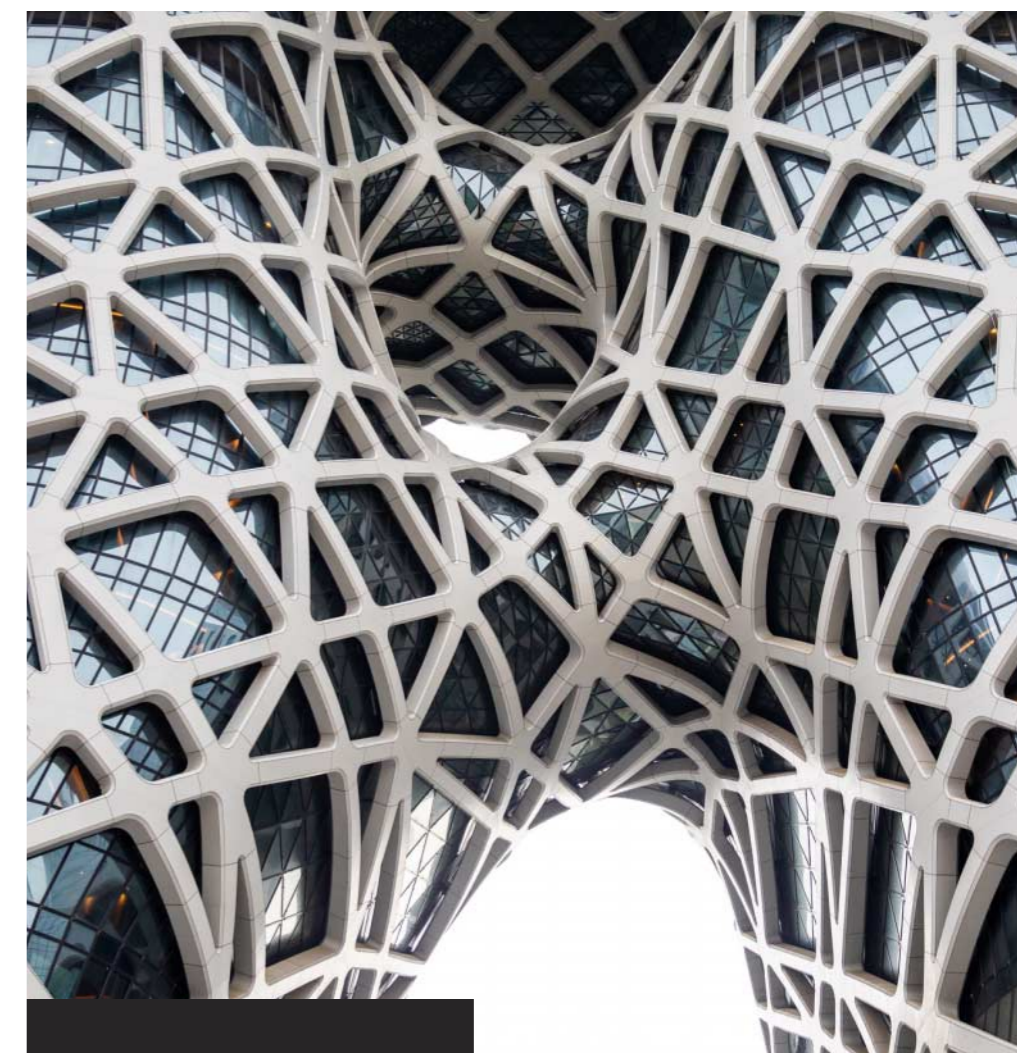
1. The overall economic situation of the Macau SAR.
2. Government policies related to the development of the gaming industry.

3. The operational condition of the concessionaires.
4. The overall state of investment by the concessionaires, including non-gaming projects.
5. The utilisation of gaming tables and machines.

Furthermore, the Secretary for Economy and Finance has the authority to reduce the number of tables if the annual gross gaming revenue fails to reach the minimum amount set by the Chief Executive for two consecutive years. Additionally, if the authorised number of gaming tables or machines is not fully utilised within the specified period without a valid reason, the Secretary for Economy and Finance may also reduce the number.

Under law 7/2022, casino gaming concessionaires are now required to seek authorisation from the Gaming Inspection and Coordination Bureau (DICJ) when putting into circulation gaming chips, being the number of gaming chips in circulation is subject to the approval of the Secretary for Economy and Finance.

Furthermore, the concessionaires have a legal

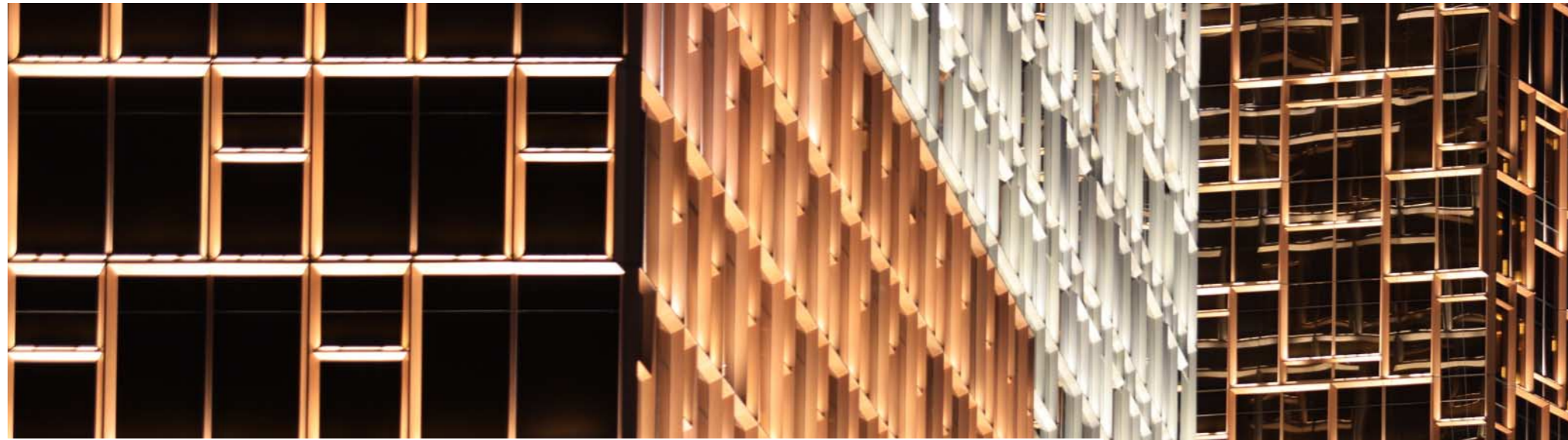


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obligation to ensure that there is sufficient cash or other forms of credit to cover the value of the chips in circulation, enhancing the financial stability and integrity of the gaming operations and ensuring that the concessionaires can honour the value of the gaming chips issued to players.

Finally, an important feature was also introduced by Law 7/2022, requiring casino concessionaires to develop and implement a comprehensive responsible gaming plan. This plan should encompass various elements, including:

1. Information on responsible gaming and problem gambling behaviours, providing educational materials and resources to raise awareness about responsible gaming practices and the potential risks of problem gambling.
2. Measures to prevent minors and legally incapacitated individuals from entering the casinos: with casino concessionaires required to establish strict protocols and procedures to verify the age and legal capacity of individuals entering the premises, ensuring that only eligible individuals are allowed to gamble.



3. Promotion of exclusion from casinos, including initiatives to encourage individuals who recognize their gambling problems to voluntarily exclude themselves from the casinos, providing them with the necessary support and resources.
4. Creation of a specialised responsible gaming team, with casino concessionaires required to establish a dedicated team or department responsible for overseeing and implementing responsible gaming measures. This team will provide assistance, support, and guidance to individuals who may be experiencing gambling-related issues.
5. Training for employees, being casino concessionaires required to provide comprehensive training programmes for their employees to ensure they are equipped with the knowledge and skills to identify and address responsible gaming concerns. This training will enable employees to provide appropriate assistance and support to customers who may need it.

#### Termination tools

Law 7/2022 introduced an important tool for the Chief Executive who now holds the authority to "annul" a concession based on various grounds. These grounds include:

1. Threat to national security and the security of the Macau SAR.
2. Agreement with the concessionaire.
3. Redemption, whenever the concessionaire requests it.
4. Non-compliance with the terms of the concession contract, where the concessionaire fails to comply with the terms and conditions specified in the concession contract.
5. Public interest, if the Chief Executive deems it to be in the public interest to do so.
6. Lack of suitability of the concessionaire, whenever it is found to be unsuitable or fails to meet the suitability criteria set forth in the concession contract.

Additionally, Law 7/2022 introduces a new ground for termination, which is non-compliance with the investment amount and criteria specified in the concession contract. If the termination is based on a threat to national security, the security of the MSAR, or lack of suitability, it triggers the reversion of the concession, including any ongoing or planned gaming investment projects associated with the concession. This means that if the concession is terminated for these reasons, any ongoing or planned gaming investment projects linked to the concession will be reverted or cancelled.

#### CONCLUSION

Law 7/2022 was not merely a short lifting legislative exercise. It introduced several changes and amendments that aim to achieve the public policy objectives for the gaming industry.

After its enactment, different laws, regulations and other secondary legislation that apply to gambling in Macau were introduced in a true legislative reform that is still ongoing. In fact, in 2022 there were different pieces of legislation approved and published, such as (i) the Regime of operation of casino games of chance, which regulates the activity of the gaming promoters and management companies and the Regulation of the regime of operation of casino games of chance (ii) the definition of whom are the key employees of the operators, among others.

Furthermore, Macau Gaming Law must be considered in conjunction with another important tool for the industry: the casino gaming concession contracts executed between the Macau Special Administrative region and the six concessionaires (Wynn Resorts (Macau) SA, MGM Grand Paradise, SA, Galaxy Casino, SA, SJM Resorts, SA, Venetian Macau, SA, and Melco Resorts (Macau), SA) on December 16, 2022, effective from 1 January 2023 for a duration of 10 years. These contracts outline the rights and responsibilities of the casino concessionaires in accordance with the relevant legal and regulatory framework.

The amendments introduced by Law 7/2022 into the Macau Gaming Law, along with subsequent legislative acts, establish a more structured and regulated framework for the gaming industry

players. These changes enable them to operate with a focus on corporate social responsibility, responsible gaming practices, ensuring compliance with investment commitments, and upholding legal and regulatory obligations.

Additionally, these amendments strengthen the authority of the government by providing enhanced tools for supervision and regulation of gaming activities, further promoting transparency and accountability within the industry.

Considering the investment plans that operators have committed to for the next nine years, with a part of the 10-year concession period already underway, the government of Macau seems determined to expedite the region's return to prosperity by "skipping stages."

In this pursuit, the corporate social responsibility obligations of casino gaming concessionaires are expected to play a crucial role in achieving sustainable development and the desired goals.

However, it is important to recognise that gaming remains the primary driver of Macau's economy, and transitioning to a new economic engine requires time and patience. Drawing a parallel to Las Vegas in the 1980s, when it underwent a similar shift from gaming to entertainment, it took several years, and the support of favourable conditions provided by the Nevada Government.

Macau's gaming operators have demonstrated their ability to tackle the challenges of transitioning towards a more non-gaming focused approach in an innovative manner. Yet, for them to successfully meet the government's demands, it is crucial to establish the necessary tools, such as pioneering laws and regulations, to facilitate this transition.

It is worth noting that operators can only achieve what the government demands if bureaucratic hurdles do not impede their execution and if there is adequate availability of human resources and other necessary structures to fulfill these demands. By addressing these factors, Macau can pave the way for a successful transition and sustainable growth in the future.



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