

Keynote Speech at The Hong Kong Polytechnic University: The Synergy between the HK and Macau Hotel and Tourism Industry

9 October 2006

The honourable President Poon Chung-kwong, Professors and Students:

First of all, I must thank the organising committee of The Hong Kong Polytechnic University for inviting a pleasant company of esteemed guests to attend today's ceremony. As a hotel operator who has been in the hotel and tourism business for more than 25 years, I have always considered the nurturing of young guns in the business my own mission. So I am very honoured to have been given a chance to make humble contributions towards the educational resources of your university, and to meet you all in person.

Over the years, my faith in the tourism industry has never been shaken. Hong Kong and Macau have always been the favourite destinations for tourists from worldwide origins, despite the absence of any well-known landscapes or unique historical monuments similar to those found in other parts of the globe. In 2005, Hong Kong was named among 14 must-see tourist destinations in the world by the *National Geographic*. In the meantime, Macau has been included in the UNESCO World Heritage List, while rising in prominence as an international centre for gaming and entertainment within a few years' time, standing ready to take over Las Vegas as the leader in this category. The key to the successes of Hong Kong and Macau is the cities' ability to build tourism brands with worldwide fame. We can only build an outstanding brand name by offering premium quality in services, and the delivery of premium quality is only possible if you have some very high-calibre personnel.

Today, I would like to investigate the new trends in tourism and the regional developments of Hong Kong and Macau, and explain K. Wah Group's investment in Macau through its subsidiary Galaxy Entertainment Group ("GEG") in the light of the above. I think the synergy arising between practical business experiences and academic theories would make an interesting topic.

I. New trends in tourism – diversity in travelling interests

Thanks to the rapid developments in transportation and information technologies, all-roundedness and diversity has become a global trend for tourism in the 21st century with a due emphasis on regional consolidation and planning, as opposed to the pattern of visiting individual tourist spots. Many traditional tourist attractions have been upgraded with the construction of new facilities catering to changing consumer tastes and preferences. New categories such as themed tourism, business tourism, family tourism with sight-seeing and educational elements and cultural tourism, etc, have also been introduced to meet purposes other than sight-seeing, vacationing and leisure-seeking, taking into account the cultural backgrounds of tourists.

China driving growth of the Asian tourism market

The Asian tourism market has enjoyed thriving development as a direct result of China's robust economic growth. According to a recent survey, China has become the largest source of tourists in Asia. In 2005, China had 31.03 million outbound travelers, more than 80% of which being private tourists. The implementation of CEPA and the Individual Visit Scheme, coupled with substantial growth in national income and robust development of small businesses and private companies, has resulted in rapid growth in family tourism and MICE tourism.

MICE tourism and business travel as new growth drivers

It is worth mentioning that family tourism and MICE tourism, the new model of business travelling derived from the MICE concept (Meetings, Incentives, Conventions and Exhibitions), have currently become the major trends in the international tourism market. The customer base for these two models comprises mainly high-net-worth and well-informed middle-class individuals who have discerning demands for quality. The governments of neighbouring countries such as Singapore, Thailand, Korea and Japan, who are well aware of the potentially enormous economic benefits that could be generated from this group, have implemented favourable measures to develop new tourist attractions and improve ancillary facilities, in order to secure a share in this lucrative market.

Hong Kong and Macau: distinctive positioning and competitive edge

In view of the intense competition from other countries in the region, the Chinese Government has emphasised on the development of tourism in the Pearl River Delta region and the collaboration of Guangdong, Hong Kong and Macau in tourism. In this connection, a comprehensive plan was drawn up when CEPA was implemented. In its 11th Five-Year Plan, the Central Government clarified the direction and positioning of Hong Kong and Macau in economic development. Hong Kong will continue to be an international financial, trade and shipping centre, while Macau shall develop into a city with a wide range of tourist interests. Each of Hong Kong and Macau is competitive in its own right under such well-defined objectives and positioning.

II. Investing in Macau: a new opportunity

I know that many people have been curious why we are investing in Macau's gaming and entertainment industry. Let me take this opportunity to explain how Macau has been transformed from a casino city in the traditional sense in response to the changing trends in tourism, how we, as a member of the tourism sector of Hong Kong and Macau, have been involved in this development, and what challenges we have faced.

Traditional gambling versus the new idea of gaming and entertainment

Traditionally, the "gambling" business has been stereotyped and associated with criminal activities, gangsters and even prostitution: gambling has been regarded as an undesirable activity under social and cultural norms. However, as the movement of goods and people has become increasingly convenient with the achievement of technological advances and the development of shipping and other means of transportation, Las Vegas, the world-class casino city, has been developing during the

past decade a diverse range of new elements in tourism in addition to “gambling”, and has evolved into a mega tourism city bringing artistic performance, gaming and entertainment, culture and art, leisure, holiday resort, shopping, dining, trade and exhibition under one roof. “Gambling” is only one of the components in the new form of gaming and entertainment business.

Macau’s development as a city of diversified tourism

In 2002, the Macau Government ended the monopoly of gambling rights and issued three new concessions through tendering. By bringing into international casino groups with professional management know-how and industry expertise, the government was trying to dispel the archaic image of gambling and introduce the elements of entertainment, holiday resort and convention and exhibition to a modernised gaming industry. The ultimate aim was to transform Macau into a peaceful, stable and prosperous city focused mainly on the gaming and entertainment industry and a centre of tourism, leisure, convention / exhibition in Asia thriving in cultural activities, artistic performances, fine dining, trade and exhibitions.

The gaming industry has a long history in Macau, China’s only city where gaming entertainment is legally permitted, as the largest sector in the territory’s economy. Since 2002, Macau has been reporting double-digit annual growth for its gaming revenue. According to market analysts, gaming revenue for Macau is estimated to reach USD10 billion by 2010. Given this figure, some have questioned whether Macau’s longstanding image as a “casino city” in the past has hindered its development in multi-purpose tourism.

Personally, I believe that the “gambling” industry alone is no longer a powerful appeal as far as tourism is concerned. Our future investment in Macau should be focused on supporting the city’s development as a centre for tourism, gaming and entertainment in the 21st century and planning for the creation of a “global centre for tourism, trade, convention and exhibition” characterised by Chinese, Macanese and European art and culture while also donning ethnic Asian features.

Standing ready to embrace new challenges

Compared to Hong Kong, Macau is currently at a stage of rapid development, though it probably started late. Macau is well-positioned for development in terms of geographic location, cultural background, customer base, financial resources and infrastructure. As far as funding and hardware are concerned, Macau is in fact more than ready to take on the new challenge.

Let us take a look at the figures displayed: foreign investments increased from MOP27.23 billion in 2002 to MOP31.91 billion in 2004, representing strong annual growth. The amount of foreign investments in Macau for the next five years is estimated at over USD20 billion. Apart from their gaming businesses, gaming concessionaires have also participated in the development of large-scale infrastructure projects and tourism attractions, which has created massive job opportunities and driven the growth of Macau’s building, tourism and property sectors, and its business and trade activities in general.

Imagine, 5 to 10 years from now, when Macau's major developers would have invested billions in tourism, entertainment, performance, meeting and exhibition facilities, and large-scale infrastructure projects such as the monorail, Hong Kong-Zhuhai-Macau Bridge and jet ferry terminal would have been completed. With its new look in the future, Macau will offer tourists of different age groups from around the world a yet more refreshing experience, which could have a greater appeal than Las Vegas.

Massive customer base providing a natural advantage

Some may doubt whether the Macau market can sustain such growth in the hotel and gaming industries. Since Macau is such a small city, will there be enough visiting tourists to fill up the new entertainment facilities? Well, I don't think it is impractical to expect as such.

Like Hong Kong, Macau enjoys a distinct geographic advantage through its proximity to a potential massive market of 1.3 billion people in Mainland China. The business opportunities available are simply boundless, whether in tourism, trade, dining, shopping, or property development. According to relevant statistics, there are 1.3 billion people living in neighbouring Asian countries who could arrive in Macau via a three-hour flight. Given China's continuous economic growth and the general economic resurgence in Asia, approximately 3.1 billion potential customers could arrive via a five-hour flight. If we look at Las Vegas, the city currently boasts a 90% occupancy rate for its 126,000 hotel rooms, which are mainly taken up by patrons who come for family holidays. Macau, in the meantime, had only approximately 12,000 hotel rooms as at the end of 2006.

Moreover, thanks to the Individual Visit Scheme, the number of Mainland tourists has increased, accounting for 55.9% of the total number of tourists visiting Macau which exceeded 14 million for the first eight months of the year. By 2010, visitors to Macau are expected to exceed 3.5 billion.

Hong Kong and Macau joining forces to develop the "MICE City"

For any tourist, a trip to Hong Kong won't be complete without a visit to Macau, and vice versa. It only makes sense to visit Macau after touring Hong Kong. While Hong Kong is famous for shopping and dining, as well as a favourable location for conventions and exhibitions, Macau is also showing strong momentum in its development towards a "Resort Destination". Just imagine a trip that starts with a business meeting followed by shopping in Hong Kong, before connecting to Macau for a short stay at a resort with a variety of entertainment facilities. This highly complementary itinerary is simply too perfect to be resisted.

In the long run, I believe Macau could remain a favourable tourist destination under new tourism trends, although "gambling" would no longer be the sole attraction for visiting tourists. If Hong Kong and Macau could work together to capitalise on the latter's unique character as a casino city and the strength of the former as a centre for convention / exhibition tourism, as well as to draw on the tourism resources of the larger Pearl River Delta region, we could surely develop into a spectacular 'MICE

City' second to none in Asia.

III. Rationale of Galaxy Entertainment's investment in Macau

Galaxy Entertainment Group ("GEG") has been the most significant investment of K. Wah Group since recent years. GEG has been officially involved in the development of Macau's tourism industry after obtaining a gaming concession from the Macau Government in 2002.

As a company established in Hong Kong for 50 years and involved in the territory's hotel and tourism industry for more than 25 years, K. Wah Group aims to create a resort destination with Asian features, focused mainly on "sight-seeing entertainment", trade and exhibition, and family leisure and complemented by gaming facilities. We also aim to provide world-class entertainment facilities and services as well as nurture top-notch personnel in the business for Macau, leveraging our proven experience in the hotel, property, construction materials and construction sectors.

In particular, as Macau is committed to the diversification of tourism products, we would also use our best endeavor to work with the Macau Government, promoting cross-sector cooperation and close liaison among the gaming, tourism and conference / exhibition sectors as a facilitator. During the past two years, GEG has achieved solid results in areas such as business expansion, management and technology, human resources and marketing.

Our Group has the following advantages:

- (1) Our parent company, K. Wah Group, is a reputed company that has been in business for more than 50 years
- (2) We are proficient in a management approach that blends Chinese and Western cultural characteristics
- (3) We boast strong business connections and networks in Mainland China developed over the past 30 years.
- (4) We operate an excellent corporate governance system, having been listed in Hong Kong for 20 years
- (5) Our quality and cost control measures are highly efficient, built upon 40 years' experience in property development
- (6) We have received numerous international and domestic awards for building projects, interior design and hotel services
- (7) We pioneered in the introduction of franchised five-star hotel in Hong Kong in 1980.
- (8) We own 22 hotel properties in the United States and Hong Kong, including Hilton, JW Marriott, Sheraton and Intercontinental, with full management and operation rights, and were ranked the 12th largest hotel property operator of the United States in 1999.
- (9) We are familiar with the tastes of Chinese and Asians and we design unique market products appealing to a wide spectrum of customers and catering to the needs of Asian traveler.

Principles of development: conservation, upgrade and innovation

Based on the investment rationale and strengths described above, GEG's development in Macau is governed by three principles: "conservation", "upgrade" and "innovation". First of all, GEG will be committed to the "conservation" of Macanese and Chinese cultural heritage and attract tourists with the unique cultural features Macau. Next, we propose to "upgrade" the efficiency of existing corporate operations and services through the employment of advanced information technologies, based on a management philosophy blending Chinese and Western characteristics. Meanwhile, in line with the Group's persistent emphasis on "innovation", we seek to build a mega-size World Resort Entertainment and Convention / Exhibition Destination that cater to the needs of Asian tourists while bringing delightful surprises to Western tourists.

Driving urban development by employing advanced technologies

In a short span of two years, GEG has opened five casinos and one five-star hotel, while a mega-size integrated holiday resort occupying a site of 4.70 million square metres in Cotai is also under development.

GEG has demonstrated exceptional abilities in building technologies and the speed of development. The StarWorld Hotel, our flagship five-star hotel, will operate next Thursday. Prestigiously located in the centre of the city, it is the tallest hotel in Macau offering 570 guest rooms across 38 floors and equipped with a full range of entertainment and leisure facilities. Interior design and construction was completed within 20 months, as we adopted the fast track construction approach – building while designing and vice versa. As a result, The StarWorld Hotel outperformed its peers in quality and cost control and in construction speed.

Moreover, our mega-size integrated entertainment and holiday resort in Cotai will be developed into a premium vacation resort with a wide range of entertainment facilities that suit every member in the family. It will consist of 6 to 8 hotels with varying star-ratings supplying 12,000 guest rooms; a 1 million square metre upscale shopping centre, a 500,000 square metre convention and exhibition venue, and two performance halls each with a capacity of 2,500, alongside other leisure facilities such as spa and massage centres, more than 100 diners offering a wide variety of international cuisines, the largest musical fountain in Macau, and an artificial beach.

The performance of our hotel and entertainment facilities has exceeded expectations whether in terms of decoration and design, technically advanced M&E installations and operational management. Our brand name is gaining reputation as all our entertainment venues and hotels have been widely acclaimed for their high standard of management. The extent of our achievement is unprecedented in the world market for gaming and entertainment.

Highlighting the brand name of Macau through regional marketing

A successful campaign in image promotion is crucial to brand name development. In order to enhance the international image of Macau as Asia's premium tourism city and broaden our customer base, GEG has been engaged in active cooperation with the Macau Sports Bureau to sponsor major international sporting events. We have

sponsored for two years in a row the Women's World Volleyball Grand Prix, a tournament featuring the likes of the Chinese, Brazilian and United States national women's volleyball teams that have attracted more than 12,000 spectators. GEG has also acted as sponsor for major events such as the International Marathon of Macau, the Macau Grand Prix and the Community Chest Walk for Millions. We have also launched large-scale tourism promotion campaigns and hosted related seminars in Taiwan, Beijing, Shanghai and Guangzhou.

Vocation training to nurture local talents

Talents are always the most important assets of a company, wherever it operates and whatever business it is doing. Having been engaged in the hotel business for nearly 30 years, I have always firmly believed the hotel and tourism businesses are essentially about service quality, and service quality can only be achieved through sound management. Without satisfactory services, a place could hardly appeal to any tourists even if it is equipped with the best infrastructure and lays claim to the most spectacular tourist attractions.

Currently, the trickiest problem for Macau is the supply of talents. In particular, if Macau intends to focus on the development of convention and exhibition tourism, there would be a pressing demand for high-calibre professionals in the tourism, hotel, dining, logistics, public relations, cultural and entertainment sectors. While engaged in vigorous business development, GEG is also mindful of the nurturing of talents. We have established the largest ever training centre of Macau not operated by the government with a GFA of over 22,000 square feet. So far, several thousand individuals have enrolled with training courses at the centre.

To ensure world-class standards of services offered by our staff at The StarWorld Hotel, we have conducted systematic training for employees based on international hotel management experience. Senior managers at the Group's hotels in the United States, as well as experienced personnel of InterContinental Grand Stanford Hotel in Hong Kong, including the general manager, head chef, public relations officers and front-desk officers, have been transferred to Macau to conduct staff training using a management approach that blends Chinese and Western characteristics. At The StarWorld Hotel alone, we have trained more than 600 hotel professionals who are local Macau citizens. We have hired over 10,000 employees in Macau through the hotel and other large casinos.

In the future, our project at Cotai will require the service of more elite professionals in various categories. With proper training, these professionals will become a new force for the tourism industry and very valuable human resources for Macau.

IV. Concluding remarks

To conclude, I believe that Hong Kong and Macau must leverage their geographic advantage to enhance cooperation with neighbouring Mainland cities and develop joint marketing and reception outlets in Asean countries to strengthen regional promotion, if they wish to seize new opportunities and drive further developments as tourism cities. We should establish regional strategic alliances with the Pearl River

Delta region, while developing diversified tourism markets with the unique characteristics of Hong Kong and Macau.

Furthermore, emphasis should be put on the development of both infrastructure and operating systems. Our success would be dependent on our ability to improve not only our infrastructure, but also our service quality, and the standard of service quality would be dependent on the calibre of our people. Over the past 30 years, I have always wished to groom hotel and tourism managers that meet international standards and that can cater to the new demands of present times. This also underlines my greatest commitment to the community, and I sincerely hope that it will prosper and grow. Thank you.