

MACAU: BEYOND JUNKETS

MINING TITANS, MOVIE MOGULS: MACAU'S JUNKET OPERATORS ARE NOW BRANCHING OUT, FINDS **FARAH MASTER** OF REUTERS

ADDITIONAL REPORTING BY **RANAJIT DAM**

When junket operator Suncity opened its first high roller baccarat table at Steve Wynn's Macau casino in 2007 to lure China's wealthiest punters, the firm had fewer than 30 employees and no computers or equipment other than pen and paper.

Five years later, Suncity has emerged as the dominant junket in the Chinese territory. It is planning to open its own resort, independent of casino stalwarts such as Las Vegas Sands, and is expanding into everything from mining to films.

Macau's booming revenues that totalled \$38 billion last year - six times that of the Las Vegas strip - are indebted to its unique VIP junket system, where licensed middlemen

act on behalf of the casinos to attract "big whale" spenders by arranging their travel and accommodation and handle their gambling credit. Now the transformation of the former Portuguese colony from a hotbed of crime into a playground for China's nouveau riche has spawned a new breed of junkets, eager to shed the industry's shady image and establish themselves as multinational conglomerates.

"Suncity is a young and very energetic corporate. There is a need to be diversified," says YM Choong, a senior executive at the company. "For future investments, we would look to expand in different areas, particularly property, finance and media. We would look to list other parts of the business."

According to Julia Brockman, partner at

DSL Lawyers in Macau, since junket operators became subject to licensing by the government in 2002, she has observed three major trends - concentration, closer cooperation with the gaming operators, and institutionalisation. "Traditionally, there were many different operators running their business as junkets in Macau and nowadays, that has evolved to a number of them having been acquired or having come under the same ownership or under the same group," she says.

Secondly, she sees much closer cooperation with the casino operators, the concessionaires that have been granted a gaming concession by the government to run casinos in Macau. "Although junkets have always been decisive to the operation of the gaming industry in Macau, for many years, they were only working closely with SJM from the empire of Stanley Ho," says Brockman. "Only more recently, when the new gaming operators started their businesses and reached a certain level of growth, they became increasingly aware of the importance of these junkets, resulting in a much closer operation between those casino operators and the junkets." She adds that this has led to a cap determined by the government on the commissions that can be paid to the junket operator, precisely to tackle a commission dispute that started a few years ago between Melco and the other operators in Macau.

Finally, Brockman notes that junket operators today are more institutionalised and are now being run as proper corporations. "A few have been listed on the stock exchange - usually through black listings because it is quite difficult to get a proper licence to the direct listing of the junket operations," she says. "Even for those that have not yet been listed,



A limousine featuring the company logo of Suncity Group is parked outside Macau Galaxy resort in Macau June 23, 2013. Suncity has emerged as the most dominant junket in the Chinese controlled territory. It is planning to open its own resort, independent of casino stalwarts such as Las Vegas Sands, and is expanding into everything from mining to films. REUTERS/Paul Yeung



Visitors look at a model of Galaxy Macau resort inside Galaxy Macau in Macau June 13, 2013. Francis Lui, Deputy Chairman of the Galaxy Entertainment Group, who formally took over last year from his father, has helped build Galaxy into Macau's No. 2 casino operator by stock market value. He has drawn on both his China and overseas experience to expand in the booming Chinese gambling hub and compete with rivals. REUTERS/Paul Yeung

it is obvious in the way they are structuring the business that they have plans to list it in the future."

The evolution of the junkets is welcomed by the authorities, who are eager to reposition Macau as an all-round international travel destination, but could shake up the dynamics of the world's largest gambling market.

The junkets have traditionally worked for the casinos, which rely on them for more than two-thirds of their revenue. Now, leveraging their extensive customer databases and sophisticated resources, they could one day start competing with them.

"Macau's junket operators are fully aware that their network and database of high net worth VIPs is valuable," says Edmund Lee, a partner at PwC in Hong Kong who focuses on the gaming sector.

Suncity, headed by 39-year-old Alvin Chau, is one of more than 200 junket operators

licensed in Macau on China's southern coast, the only place in the country where locals are allowed to gamble in casinos.

The biggest operators, which include Neptune, Golden Group, Jimei and Dore, account for more than half the monthly junket turnover of \$75 billion.

Despite robust mass market demand, a crackdown on corruption and pervasive graft has seen the supply of millionaire VIP players to Macau decline over the past year, prompting junkets to seek to diversify their income streams.

"Because of the growth that junket operators have been able to induce in their businesses in the last few years, they are now diversifying their activities and investing in businesses that are parallel or accessory to their main activity," says Carlos Simoes, also a partner at DSL Lawyers. "That includes restaurants, bars, travel agencies and car rent-

als. But above all is real estate investment."

Suncity, which makes around HK\$135 billion (\$17 billion) in monthly gaming turnover, according to Choong, has expanded into mining with iron ore operations in Indonesia.

It has also branched out into financial services in Hong Kong with 24-hour securities, forex and commodities trading, real estate in China, food and beverage, film and media. The company has two listed arms, Sun International Resources Ltd and Sun Century Group Ltd.

Golden Resorts Group, headed by Hong Kong billionaire Pollyanna Chu, has been invested in financial services through listed arm Kingston Financial Group since 2011.

But the trend for larger junkets, flush with cash from the gambling boom over the past decade, to diversify as a hedge against the volatile VIP gaming sector has accelerated over the last year.

NEW IMAGE?

Large junkets such as Jimei, which operates casinos in the Philippines and hosts golf tournaments, have moved into wealth management and securities which complement their VIP clientele base.

Neptune, which also uses the name Guangdong Group, sponsored a high-profile poker tournament last month, while Dore Holdings announced it was buying a majority stake in a Chinese pawn loan business.

Macau's junket system was created in the 1970s with the rise of Stanley Ho, an influential local businessman who opened the gaudy egg shaped Casino Lisboa.

Ho gave the junkets control of the casinos' VIP rooms, sparking a turf war in the late 1990s as rival gangs fought to dominate.

Since the liberalisation of Macau's casino market in 2002, which marked the entry of

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JULIA BROCKMAN, DSL Lawyers

foreign players such as Las Vegas moguls Steve Wynn and Sheldon Adelson, the junket industry has been a subject of scrutiny from U.S. regulators, who allege the operators have ties to organised crime and facilitate illicit money flows.

To combat this image, Emilie Tran, a professor at the University of Saint Joseph Macau, says junkets are trying to associate with more wholesome activities such as organising community and youth events.

“Working for a junket is now seen as respectable and a job like any other,” says Tran.

The shift to sophisticated corporate entities with sizable business development, accounting and marketing teams is clearly visible. Shabby junket storefronts at the Hong Kong-Macau ferry terminal have been replaced with marble offices in prime business districts, while customised Hummer limou-

Q&A:**Macau's new Pre-Sale Law and its possible impact**

Macau's enacted its Pre-Sale Law on May 27, and since then transactions in the property market, particularly in the residential property sector, have seen a significant slowdown. **Ranajit Dam** speaks to **Carlos Duque Simoes**, managing partner at DSL Lawyers, on the impact of this new law.

What are the most important aspects of the new Pre-Sale Law?

The first notable aspect is that the pre-sale of properties now requires prior authorisation from the Macau government. Secondly, such authorisation can only be obtained when the construction process has achieved a certain stage, namely the completion of the foundations. Thirdly, besides requiring an authorisation for pre-sale, the contracts to be signed at the pre-sale stage (for buildings under this authorisation) must comply with several requirements from which the developers were exempted until now. Now there are rules for the terms and payment of price, timing of installments, nature of disclosures required from the developer, details and obligations that are required to be inserted in these agreements, and inclusively the commitments of the developer in the longer term.

Thus overall, the contents of the agreements for pre-sale units are now very well regulated by the law, with a substantial degree of detail that did not exist before. Because of this, there have been extreme efforts made by the local developers in order to comply with these new requirements - although it is only possible to achieve them if construction has already reached the stage of completion of foundations. Therefore, developers now substantially depend on the licences to be obtained from the Public Works Department in relation to the construction process for the pre-sale of properties. Most importantly, all the developers that

have not obtained such licences are now virtually cut off from the market and they will not be able to put the properties for sale until works are licensed, construction partially completed, and pre-sale authorised.

How do you think it will impact the local real estate industry?

There has been a very substantial reduction in the number of transactions and we are seeing now a consolidation of the industry, because given the requirements under this new law, not all the developers will be able to compete on the same footing. Therefore, there will be a clear segmentation of the property market between first, second and third tier developers. Naturally, it is also unclear what will be the long-term effects of this new law, which is clearly aimed at cooling down the property market and bringing more transparency and clarity to market practices. So far, however, this law seems to be achieving those objectives.

How do you think it will impact foreign investment?

As this new Pre-Sale Law is tied to a number of changes to the Stamp Duty Law, which makes the acquisition of properties in Macau by foreign companies much more onerous, we are going to see a period where Macau may become less attractive to foreign investors who are going to be concerned with the difficulties in entering the market and completing developments. On the other hand, once there is a perception of how these rules work and how they are applied by the government, it is possible that some of those investors will come back, because the new law will also make returns more stable and assure that there is not much competition for developers that have been able to comply with the law, and to bring properties to the market. **ALB**

sines owned by the operators are frequently seen parked outside Macau's newest casinos.

BIG AMBITIONS

Politics is the next phase of the junkets' makeover, says Tran, who cites the example of Suncity's Chau, who joined the Guangdong provincial committee of the Chinese People's Political Consultative Conference (CPPCC), China's parliamentary advisory body, this year.

Chau, with his dapper appearance, is often likened to a famous Hong Kong movie star. An avid tennis player and gym goer, he is frequently pictured in the local tabloids at parties.

Pollyanna Chu of Golden Resorts Group, ranked by *Forbes* as the 35th richest billionaire in Hong Kong, sits on the CPPCC national committee, while Hoffman Ma, deputy chairman of the Success Universe Group, sits on the Chongqing Committee of the CPPCC.

Manuel Neves, head of Macau's gaming body the DICJ, says junkets diversifying into other industries fitted into the government's attempts to wean the territory, home to

600,000 people, off the gambling industry that accounted for more than 80 percent of government revenues last year.

"For the government, when people talk about Macau, we want them to not talk about gaming. We are doing a very big effort to push the diversification. It's not an easy task," says Neves.

Despite the move to diversify, the role of the junket is likely to remain critical to Macau's gaming sector over the coming years, as gambling debts are not legally enforceable in China. Junkets bring in gamblers from the mainland, and then find their own ways to collect debts.

Suncity is massively expanding its gaming division, having doubled its workforce to 1,200 over the past year, but it is still short staffed.

DSL Lawyers' Simoes believes that the increasing prominence of these junket operators will have two basic results: They will compete more and become intertwined with the casino operators and, with time, they will be as important to the gaming industry as the casino operators themselves. "The listings

that they have been able to obtain are a sign of that," he says.

"Secondly, they will have to grow into proper corporations and will be more carefully structured due to their greater role in the economy. That will also raise the thresholds to be met in terms of reporting, governance and transparency," he adds.

As major junkets move from operating one or two VIP rooms in Macau's flashy casinos to owning their own properties, Macau's licensed concessionaires Sands, Wynn, MGM, Melco Crown and Galaxy may have to find new ways to lure customers.

Meanwhile, Simoes believes that the future of junket operators remains bright, especially for those that have achieved a certain scale. "There will be no more casino operators in the near future as the government is not going to change gaming law. But there will be no limit to the number of junket promoters that could be in operation in Macau," he says.

"However, even with that increased competition, they will still be able to grow their business and remain as the primary factor of growth for the VIP segment of the market," he adds. **ALB**

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Photos of yuan (top) and U.S. dollar banknotes are displayed at a money exchange in Hong Kong. REUTERS/Bobby Yip

HONG KONG: FUND AMBITIONS

THE HONG KONG GOVERNMENT'S PROPOSED INCENTIVES LOOK TO SERIOUSLY BOLSTER THE CITY'S POTENTIAL TO BECOME A REGIONAL PRIVATE EQUITY CENTRE, FINDS **RANAJIT DAM**

In February this year, Hong Kong Financial Secretary John Tsang Chun-wah announced that the government would propose changes in the city's investment laws to allow private equity funds to enjoy the same tax exemption as offshore funds. He added that he planned to allow Hong Kong funds a more flexible structure by amending the current law that requires investment funds established in Hong Kong only to take the form of trusts.

The announcements have been wholeheartedly welcomed by hedge funds and PE firms who see them as a way for Hong Kong, which currently has more than HK\$9 trillion (\$1.16 trillion) of fund assets under management, the second in Asia, to so-

lidity Hong Kong's potential to become a regional private equity centre. According to PricewaterhouseCoopers, Hong Kong is home to less than 1 percent of funds globally, but industry watchers say that the new policy along with the ongoing internationalisation of the yuan is expected to catapult Hong Kong into second place by 2020.

"This is great news since this would, for sure, encourage more private equity funds to come to Hong Kong," says Terence Chiu, partner at Li & Partners. "We know for a fact that fund managers in Asia are all based in onshore financial centres like Shanghai, Hong Kong, Singapore and so on. Where funds are resident largely depends on tax. This move will put Hong Kong in a very strong position to

become 'Asia's asset-management centre.'"

While Hong Kong has been an ideal distribution centre for fund managers looking to sell their fund products to Asian investors, insiders expect more hedge funds and private equity firms to set up in the SAR. Of the roughly 1,700 funds in Hong Kong, only about 300 are domiciled there, with many of the rest domiciled in Luxemburg and Dublin because of favourable tax regimes.

In 2006, Hong Kong granted a tax exemption to offshore funds investing in stocks and futures, and the region is now looking to expand the tax exemption to offshore PE funds that invest directly in companies. Tsang also wants funds domiciled in Hong Kong to be established as companies, instead of trusts, which is how they are currently required to be set up as.

THE CHINA FACTOR

As an added benefit, the tax incentives are also expected to lure over large numbers of investment houses from the mainland to

raise their first offshore PE funds in the city, a reversal of what happened a few years ago, when PE firms were heading to the mainland to raise yuan funds, attracted by reform promises by Beijing.

This is expected to greatly benefit both mainland PE firms as well as Hong Kong. Mainland firms will find it easier to raise money for their Hong Kong-based private equity funds from their China connections, and this will help Hong Kong's long-term development and its position as a major global asset management centre.

The HK government is also in talks with mainland authorities on a possible mutual recognition agreement that would mainly pave the way for cross-border selling of fund products between the two sides. "It would be advantageous for HK-based funds to participate in cross-border transactions which will no doubt enhance their competitiveness and performance," says Lin Lei, partner at Chinese firm Zhong Lun W&D.

The internationalisation of the yuan also adds to the allure for PE firms. "The ongoing financial liberalisation by mainland authori-

ties will attract more overseas private equity capital into the mainland, and mainland enterprises will also use Hong Kong private equity fund managers to seek more private equity opportunities overseas," says Chiu. "The law and regulations shall strike for the balance of interests between the fund houses and the investors."


According to Lin, the "offer of more flexibility and diversification in fund industry operations is likely to bring more investment into Hong Kong, including schemes and products denominated in RMB." However, he says that it will also bring with it "problems such as insufficient investment products and a lack of experienced fund managers."

HONG KONG POTENTIAL

Lawyers generally rate Hong Kong's potential to become a regional private equity centre highly. "Hong Kong is currently among top-tier destinations attracting worldwide funds due to its legal system, geographical advantage and talent pool," says Lin. "It is likely to become the biggest and most competitive private equity centre in the coming years,

ahead of other regional competitors."

Chiu agrees. "I rate Hong Kong highly on its potential to become a regional private equity centre," he says. "Hong Kong has so many positive factors: its physical proximity to China, being the gateway to [the] mainland China market and the largest offshore RMB bond market, having [a] well-established system of rule of law, a low and simple tax regime, a stable currency with no foreign exchange control, being a free economy, world-class infrastructure, the strong and highly liquid Hong Kong IPO market, and so on."

And reforms like the ones proposed by Tsang are cementing Hong Kong's place. "The recent change in regulatory and banking law in enhancing investor protection and the proposed changes to the Companies Ordinance for better corporate governance further put Hong Kong ahead of other places to become Asia's asset-management centre," says Chiu. Lin foresees "the demand for suitable and sustainable regulations in connection with the private equity fund industry in order to keep up with the pace of the development of funds in Hong Kong." 

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