

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by CIC (the "CIC Report"). We engaged CIC to prepare the CIC Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

SOURCES OF INFORMATION

CIC was commissioned to conduct an analysis of, and to report on, the gaming industry and the hotel industry in Central Europe, at a fee of approximately USD50,000. The commissioned report was prepared by CIC independent from the influence of the Company and other interested parties. CIC's services include, among others, industry consulting, commercial due diligence, and strategic consulting. Its consulting team has been tracking the latest market trends in multiple business sectors, including the entertainment, internet, environment, industry, energy, chemicals, healthcare, consumer goods, transportation, agriculture, and finance, and has the relevant and insightful market intelligence in the above industries. Our Directors are of the view that, after taking reasonable care, they are not aware of any material adverse change in the overall market information since the date of the CIC Report that would materially qualify, contradict or have an adverse impact on such information.

During the preparation of the commissioned report, CIC conducted both primary and secondary research using a variety of resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analysing data from various publicly available data sources, such as the Ministry of Finance in the Czech Republic, Eurostat, Organization for Economic Co-operation and Development (OECD), Global Business Travel Association (GBTA), etc. The information and data collected by CIC have been analysed, assessed, and validated using CIC's in-house analysis models and techniques.

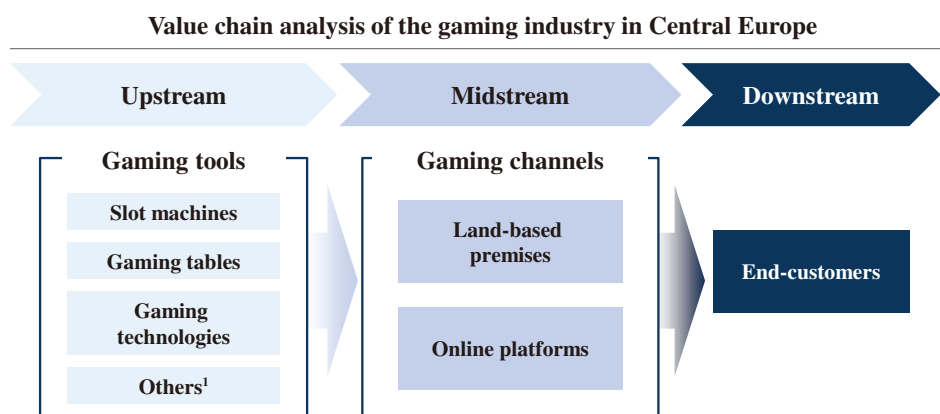
The market projections in the commissioned report are based on the following key assumptions: (i) the overall social, economic, and political environment in Central Europe is expected to remain stable during the forecast period; (ii) the economy in Central Europe is likely to maintain a steady growth trajectory during the forecast period; (iii) relevant key industry drivers are likely to drive the gaming industry and the hotel industry in Central Europe, e.g., consumers' higher consumption expenditure and increased wealth, recovery of both leisure and business tourism from COVID-19, demand from neighbouring countries, and progress in technology; (iv) there is no extreme force majeure or unforeseen set of industry regulations in which the market may be affected in either a dramatic or fundamental way; and (v) global economy will gradually recover from the negative effects of the COVID-19 pandemic.

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OVERVIEW OF THE GAMING INDUSTRY IN CENTRAL EUROPE

The gaming industry refers to the industry that receives licences from relevant state departments to operate online and land-based gambling games, including slot machines, live games, and others. Slot machines refer to electromechanical game machines including mainly traditional slot machines, electromechanical roulettes, electromechanical dices, etc. Slot machines are present in land-based premises or on online platforms. Live games are played by one or more players against a dealer, or against each other at land-based gaming tables or online websites. Gaming tables include tables for roulette, card games, dice games, etc. Others include betting, lottery, bingo, etc.

The upstream of the gaming industry in Central Europe consists of suppliers of gaming tools including slot machines, gaming tables, gaming technologies, and others. The midstream consists of industry players that operate through different gaming channels including land-based premises and online platforms. These industry players purchase or rent gaming tools from upstream suppliers and offer gaming experience to end-customers which are mainly mass individuals.



Note:

1. Others include betting and lottery machines, gaming operational supplies, etc.

Source: China Insights Consultancy

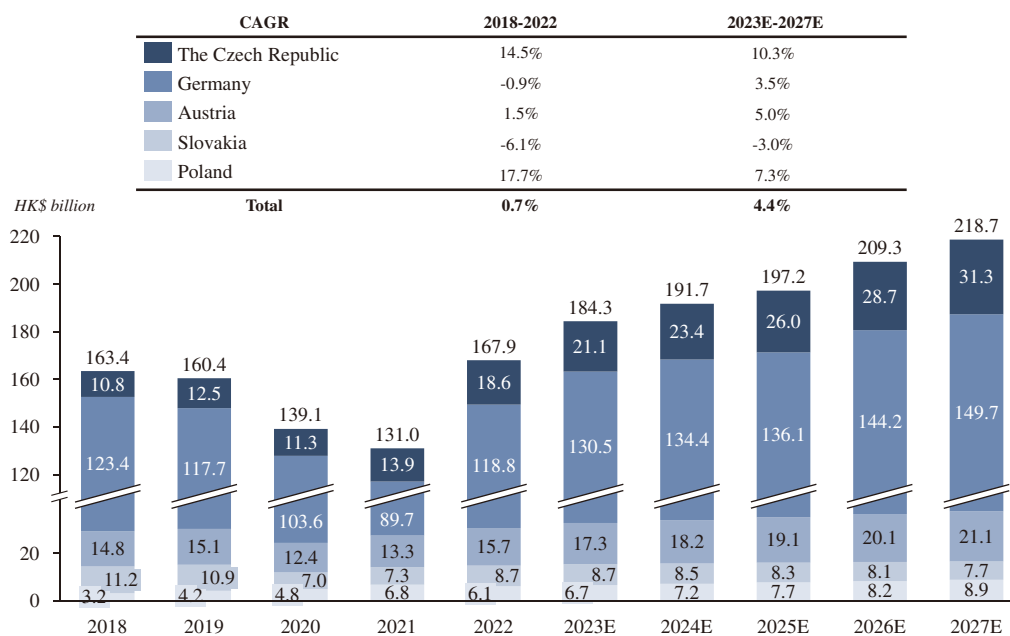
The Central Europe gaming market includes the gaming markets in the Czech Republic, Germany, Poland, Austria, and Slovakia, all of which have different laws and regulations related to gambling. The market size of the gaming industry in Central Europe, in terms of gross gaming revenue (GGR), decreased from HK\$163.4 billion in 2018 to HK\$131.0 billion in 2021 and rebounded to HK\$167.9 billion in 2022, representing a CAGR of 0.7% between 2018 and 2022. In terms of the number of casinos, the Czech Republic and Slovakia do not have restrictions on the maximum number of casinos operated in their territories, while Austria, Germany and Poland do. In Austria, up to 15 land-based casino licences can be granted to up to 15 casinos. By the end of 2022, there are 12 licenced casinos operating in Austria. In Germany, certain state-level restrictions exist to limit the maximum number of casinos in specific states. In the state of Bavaria, a state which shares border with the Czech Republic, a maximum of one casino is licenced for every one million inhabitants in the state. According to the Joint Gambling Authority of the Länder, at the end of January 2024, there are 9 licenced casinos operating in Bavaria. In Poland, the maximum number of casinos is restricted based on population in towns, cities, and provinces. According to the Ministry of Finance in Poland, at the end of 2022, there are

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51 licenced casinos operating in Poland. The Czech Republic is one of the European countries where most of the modern types of gaming are completely legal and has a more developed online gaming market than Austria and Germany. The number of new gaming licences granted (including gaming licences for online gaming, land-based gaming, lottery, etc, and relevant licence renewal) in the Czech Republic in 2020, 2021, 2022, and 2023 are 7, 21, 14, and 62, respectively.

On 13 March 2020, World Health Organization (WHO) announced that the COVID-19 pandemic officially outbreaked in Europe. Actions were taken by different government authorities to prevent the virus from spreading including (i) closed the border; (ii) imposed stay-at-home order and adopted working from home; (iii) prohibited social gathering and closed public places including schools, restaurants, theatres, casinos, etc. According to the Ministry of Finance in the Czech Republic, in year 2020, the operation of the land-based premises in the gaming industry was ordered to be suspended for certain months. Governments approved several subsidy programmes to support businesses affected including tax relief, loan support, etc. In the Czech Republic, the Ministry of Finance together with the Ministry of Industry and Trade prepared a guarantee program for commercial banks for loans to large companies. The total amount of guarantees is up to CZK150 billion. The gaming industry in Central Europe recovered in 2022 and is expected to grow to HK\$218.7 billion in 2027 in terms of GGR.

**Market size of the gaming industry in Central Europe,
in terms of GGR, by country, 2018-2027E**



Source: The Ministry of Finance in the Czech Republic, UN Global Compact Network Poland, Institute of Economic and Social Studies, Gambling Laws and Regulations Report Germany, European Gaming & Betting Association, and China Insights Consultancy

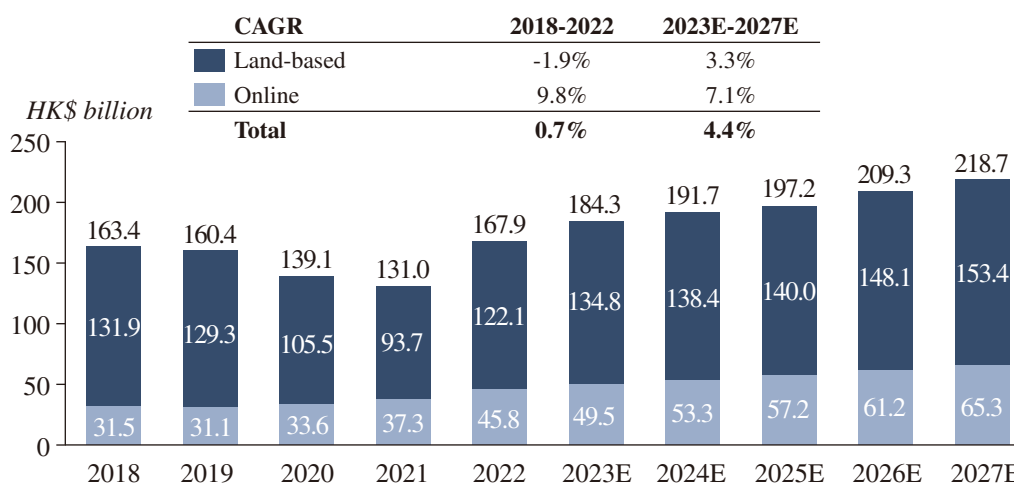
The market size of the online gaming industry in Central Europe increased from HK\$31.5 billion in 2018 to HK\$45.8 billion in 2022, registering a CAGR of 9.8% between 2018 and 2022. The online gaming industry in Central Europe is highly regulated with less than 40 operators permitted to operate online gaming and the type of games is regulated as well. The regulatory regimes for different countries in Central Europe are different. In

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the Czech Republic, most of the gaming types operated land-based can be operated online after acquiring relevant licences. For other countries in Central Europe, online gaming is legal but is mostly the monopoly of the state-owned operators.

As for Malta, it has a well established online gaming regulation as it is one of the first countries in Europe to legalise and regulate the online gaming industry. At the end of 2022, there were over 180 online gaming licences active, which authorise an entity to offer the gaming service from Malta, to a Maltese person or through a Maltese legal entity. These companies offering online gaming in Malta target not only Malta market, but other jurisdiction outside of Malta. Malta has enjoyed a reputation as one of the most important hubs for the online gaming industry. The stable regulatory regime, efficient Malta gaming licence application process, and established infrastructure that Malta offers resulted in the continued development of the sector. According to the Malta Gaming Authority, the total Gross Value Added (GVA), an economic productivity metric that measures the added value generated in an economy by the production of goods and services, generated by the gaming industry in Malta during 2022 stood at EUR1,495 million, representing around 9.6% of the total economy's GVA in Malta.

**Market size of the gaming industry in Central Europe,
in terms of GGR, by channel, 2018-2027E**



Source: The Ministry of Finance in the Czech Republic, UN Global Compact Network Poland, Institute of Economic and Social Studies, Gambling Laws and Regulations Report Germany, European Gaming & Betting Association, and China Insights Consultancy

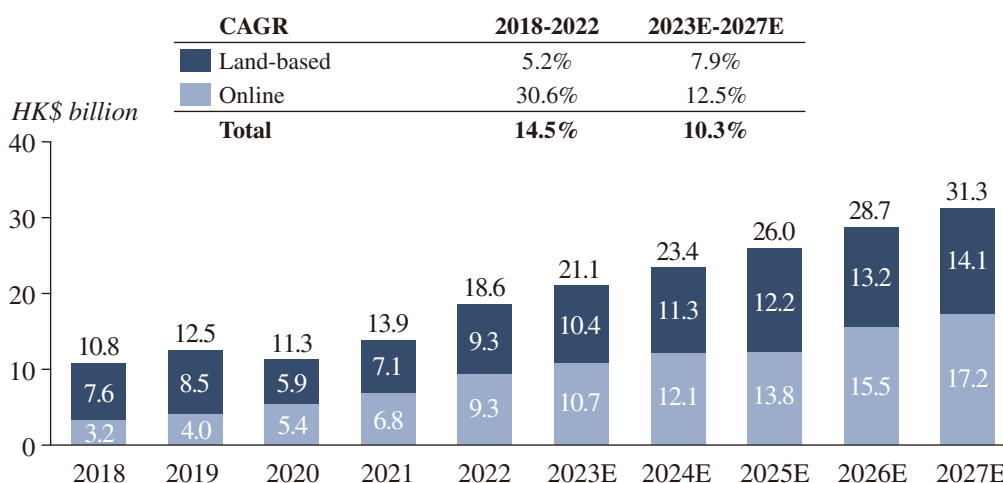
Overview of the gaming industry in the Czech Republic

The market size of the Czech Republic's gaming market, in terms of GGR, increased from HK\$10.8 billion in 2018 to HK\$18.6 billion in 2022 with a CAGR of 14.5% between 2018 and 2022, and is expected to further increase to HK\$31.3 billion in 2027, representing a CAGR of 10.3% between 2023 and 2027. The GGR of the land-based gaming industry in the Czech Republic reached HK\$9.3 billion in 2022 with a CAGR of 5.2% between 2018 and 2022. The land-based gaming industry include the land-based slot machines, land-based live game, and others. Others include lottery, betting, etc. Online gaming in the Czech Republic has witnessed huge increase between 2018 and 2022 from HK\$3.2 billion to HK\$9.3 billion, with a CAGR of 30.6% and is projected to gradually increase to HK\$17.2 billion in 2027, with a CAGR of 12.5% between 2023 and 2027 owing to: (i) the lockdown

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and restrictions caused by the COVID-19 pandemic, which prohibited people from gaining access to land-based gaming premises and encouraged these people to shift to online channel during the lockdown period temporarily; and (ii) increasing penetration of mobile gambling activities and the enhancement of the infrastructure used in the development of online gaming.

**Market size of the gaming industry in the Czech Republic,
in terms of GGR, by channel, 2018-2027E**



Source: The Ministry of Finance in the Czech Republic, China Insights Consultancy

Market landscape of casinos in the Czech Republic among Central Europe

The market size of the gaming industry in the Czech Republic increased at a CAGR of 14.5% between 2018 and 2022, and is expected to further increase at a CAGR of 10.3% to 2027. The growth and expected growth are higher than that in Central Europe, which have a CAGR of 0.7% between 2018 and 2022 and an expected CAGR of 4.4% between 2023 and 2027. In particular, the market size of land-based gaming industry in Czech Republic is forecasted to increase at an expected CAGR of 7.9% between 2023 and 2027, which is also higher than that in Central Europe (that has an expected CAGR of 3.3% between 2023 and 2027).

Background of the development history of casinos in the Czech Republic, Germany and Austria

Historically, there were limited services offered and different players targeted in the casinos located in Austria and Germany, when compared to that of the Czech Republic, particularly for those at the borders. For example, not until 2017, casinos in the Czech Republic were allowed to provide free food and drinks to players, and smoking was allowed in the casinos in the Czech Republic, while food and beverage is normally charged in casinos in Austria and Germany and smoking in casino is not allowed since 2012 in Germany and 2019 in Austria. Meanwhile, casinos in Austria are subject to state monopoly, and casinos in some states in Germany, for example in Bavaria, are state-owned, which are facing less competition in the country or the state and has less imperative to improve customer satisfaction.

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In addition, the casinos located in Austria and Germany back then strategically positioned themselves to attract high net worth and customers looking for an exclusive and superior experience, but not mass market. Back in the days, the casinos in Germany and Austria were known for their formality and exclusivity, which was illustrated by their rules on formal dressing and exclusive memberships. Even to this day, visitors are recommended to adhere to a smart casual dress code, rather than opting for casual wear or sportswear. This emphasis on elegance, sophistication and exclusivity has been a defining characteristic of casinos in Austria and Germany. On the contrary, the casinos located in the Czech Republic, particularly for those located in the border, offered a relatively casual and pleasant customer experience, which provided a diversity of gaming activities and created a relaxing and leisure gaming environment. Players who opted for such gaming experience are willing to travel to the casinos of the Czech Republic in the border which were able to capitalise on its proximity to these neighbouring countries and opportunity presented by these players.

Furthermore, the gaming landscape in the Czech Republic has demonstrated a tendency to flourish at the borders. This is due to the contrasting regulatory environments on different side of the borders. For example, casinos are state-owned and there are restrictions as to maximum number of licenced casinos in Austria and in specific states of Germany, but not in the Czech Republic. Also, smoking ban was introduced in Austria, Germany and the Czech Republic in different years. This disparity in legislative frameworks resulted in the creation of economic opportunities for casino operators located at the borders in the Czech Republic as they can capture the opportunities and demand from players from Austria and Germany.

The contrast in historical positioning, services offered, and the regulatory frameworks generally shaped the image of and players' perception to the border casinos in the Czech Republic over the years as premises offering leisure gaming activities.

Driving force for players to visit the border casinos in Czech Republic over the casinos in Austria and Germany

- (i) *good value-for-money catering players with different spending power*: the comparative price level indices for the Czech Republic, Austria and Germany are 69, 96 and 96, respectively in 2022, indicating that the spendings in Czech Republic has relatively higher purchasing power in general than that in Austria and Germany. The higher purchasing power per money spent in the Czech Republic can attract more players from the mass market, as individuals in Austria and Germany are able to take advantage of this to participate in gaming and enjoy other ancillary services offered in the Czech Republic with generally lower costs. It is worth noting that the casinos located on the borders of the Czech Republic typically offer lower minimum bets (as determined by the operators) than those in Austria and Germany in general. For instance, some border casinos offer a minimum bet of €1 for roulette, €5 for Blackjack tables, and €5 cents or even €1 cent for slot machines in the Czech Republic. Conversely, most licenced casinos in Austria offer minimum bets starting from €1 for roulette, €10 for Blackjack tables, and €50 cent for slot machines. In Bavaria, a state in Germany that shares border with the Czech Republic, casinos offer a minimum bet of €1 to €2 for roulette, €5 for Blackjack tables, and €30 cent to €50 cent for slot machines. Lower minimum bets have the effect of rendering games more accessible to a diverse range of players.

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This in turn attract casual or budget-conscious gamblers who may not be inclined to wager larger amounts in each game. Furthermore, by reducing the barrier to game entry, players can extend their time spent on games and in the casino, and players tend to dine or stay overnight to enjoy other amenities in the casino during their extended stay. This enhances their casino experience and provides a diversified entertainment experience not limited to gaming. Consequently, players from neighbouring countries are attracted to the casinos in the Czech Republic for the enhanced experience that they offer.

- (ii) *proximity and ease of travel*: the Czech Republic's location at the heart of central Europe, coupled with its well-developed road transportation network, render it easily accessible and popular for travellers from neighbouring countries like Germany and Austria. This is especially the case for those casinos which are near the border with good road transportation connection, as these border casinos might be more convenient to reach for individuals who live close to the border (especially for those within one-hour drive which is a comparatively short travel distance in European standard) but far from other casinos within their own countries.
- (iii) *limitation on gaming and the operators in neighbouring countries*: restrictions on gaming in neighbouring countries may potentially drive players to the border casinos in the Czech Republic. including, among others, (i) in Austria, poker can only be played within the premises operated by licenced operators starting in 2020, causing private poker clubs in Austria to close down and potentially driving poker players to nearby casinos, including those on the Czech-Austrian border that have more flexibility in gaming offerings; (ii) casinos in Austria are subject to state monopoly, and casinos in some states in Germany, for example in Bavaria are state-owned, which are facing less competition in the country or the state. They may have less imperative to improve customer satisfaction, and the state-owned casinos do not open 24 hours. As such, they tend to be less responsive to customer needs, market changes and slower to adopt new technologies due to bureaucratic layers when compared to casinos operating in the private sector. These limitations in neighbouring countries presented a good opportunity for the border casinos in the Czech Republic to absorb this potential pool of customers.

Considering the factors above, together with the historical background and development history of casinos in the Czech Republic and the unique positioning of border casinos in the Czech Republic in Central Europe, it has demonstrated the advantages and business growth potential to the gaming industry in the Czech Republic, in particular for border casinos.

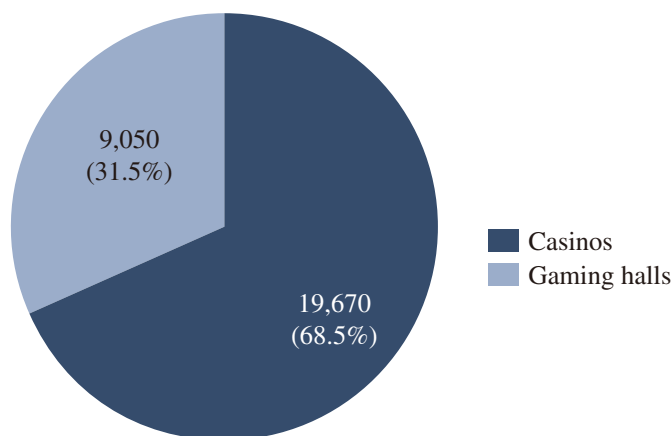
There are two types of gaming premises in the Czech Republic including casinos and gaming halls. Casinos refer to standalone, structurally separated premises on which live games and slot machines are operated. Gaming halls refer to standalone, structurally separated premises on which slot machines are operated. At the end of 2022, there are 472 casinos and 362 gaming halls in the Czech Republic.

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Overview of the land-based slot machine and land-based live game industry in the Czech Republic

Land-based slot machines can be played at both casinos and gaming halls. According to the Czech Gambling Act, a minimum of 15 certified slot machines shall be available for operation in a gaming hall. A minimum of 30 certified slot machines and 3 gaming tables shall be available for operation in a casino. In a casino where slot machines are operated, for each additional table above the minimum number specified in the Czech Gambling Act, there can be a maximum of 10 slot machines. This restriction does not apply for a casino where at least 10 tables are in operation. The distribution of slot machines by premise type in 2022 is as below:

**The distribution of slot machines,
by premise type, the Czech Republic, 2022**

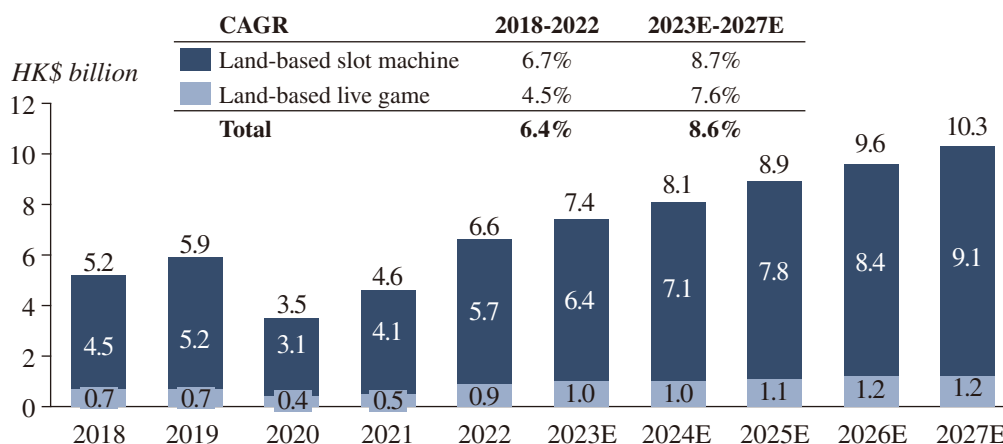


Source: The Ministry of Finance in the Czech Republic, China Insights Consultancy

The land-based slot machine segment dominated the land-based gaming industry in the Czech Republic in 2022. The market size of the land-based slot machine segment, in terms of GGR, increased from HK\$4.5 billion in 2018 to HK\$5.7 billion in 2022, and is expected to increase to HK\$9.1 billion in 2027, representing a CAGR of 8.7% between 2023 and 2027. In 2022, the average slot win per machine per day was HK\$540 and the slot machine hold percentage was 6.6% in the Czech Republic. Land-based live games can only be played at casinos. The GGR of the land-based live game industry increased from HK\$0.7 billion in 2018 to HK\$0.9 billion in 2022, representing a CAGR of 4.5% between 2018 and 2022, and is expected to increase to HK\$1.2 billion in 2027, with a CAGR of 7.6% between 2023 and 2027. In 2022, the average daily gross win per table was HK\$552 and the table hold percentage was 12.2% in the Czech Republic.

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Market size of the land-based slot machine and land-based live game industry in the Czech Republic, in terms of GGR, 2018-2027E



Source: The Ministry of Finance in the Czech Republic, and China Insights Consultancy

Key market drivers of the gaming industry in Central Europe

Higher disposable income and consumption expenditure: As personal financial resources expand, individuals are endowed with augmented discretionary funds, leading to an upswing in consumption expenditure. In 2018, Austria, Germany, and the Czech Republic had annual household disposable income per capita of HK\$298,219.8, HK\$321,481.7 and HK\$209,044.2, respectively. By 2022, annual household disposable income per capita had grown to HK\$352,366.3, HK\$375,377.0, and HK\$255,636.9 in Austria, Germany, and the Czech Republic, with CAGRs between 2018 to 2022 showing 4.3%, 4.0%, and 5.2%. On the expenditure side, the total consumption expenditure of Austria, Germany and the Czech Republic stood at HK\$1,774.1 billion, HK\$14,790.2 billion and HK\$902.2 billion, respectively in 2018. These figures increased to HK\$1,977.8 billion, HK\$16,658.9 billion and HK\$1,139.3 billion in 2022, reflecting CAGRs of 2.8%, 3.0% and 6.0% between 2018 to 2022. Projection for the period between 2023 and 2027 envisage a continued rise, as the total expenditure of Austria, Germany and the Czech Republic increase to HK\$2,267.6 billion, HK\$18,843.0 billion and HK\$1,419.7 billion in 2027, respectively, with CAGRs of 2.5%, 2.3% and 4.1%. The rising affluence of people in Austria, Germany and the Czech Republic encourages higher expenditure in recreational activities. Consumption expenditure of these three countries on recreation and culture activities, including expenditure on gambling, arising from HK\$177.4 billion, HK\$1,609.6 billion and HK\$78.3 billion in 2018 to HK\$198.1 billion, HK\$1,661.0 billion and HK\$103.9 billion in 2022, respectively. This provides favourable conditions for the gaming industry to grow, especially for gaming operators located at the border of these three countries.

Supportive policy to encourage tourism in the Czech Republic: Tourism in the Czech Republic is recovering from COVID-19, and is expected to continue growing. The total amount of tourism income in the Czech Republic was HK\$40.8 billion in 2022, increased by 76.6% from 2021. In terms of tourists, the number of tourists from abroad reached 7.3 million in 2022 compared to 2.6 million in 2021, with most of them from neighbouring countries such as Germany, Slovakia, Austria, etc. The Czech Republic government introduces initiatives aiming for more inbound tourists, for instance offering discounts to EU citizens on entertainment activities in the Czech Republic, delivering marketing campaigns to promote city holidays, spas, etc. to neighbouring countries. These initiatives can attract tourists seeking entertainment activities, which can lead to a greater number of

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potential customers to the gaming premises, especially those premises that offer a variety of entertainment options such as bars, restaurants, spas, and more. The Czech Republic Destination Strategy 2021 to 2025 initiated by the Czech Tourism Agency also aims to attract visitors worldwide. These initiatives can bring in more potential customers to the gaming industry in the region. For example, Excalibur City, a shopping and entertainment complex located at the border of the Czech Republic and Austria, offers shopping outlet, a theme park, as well as several catering and accommodation offerings. There are also several casinos strategically located in this area. The entertainment complex, together with the entertainment offered by the casinos on the borders, can offer comprehensive entertainment and hospitality experiences to attract visitors as a whole.

Advancement of technology as a catalyst: Technological progress is a cornerstone of the gaming industry's development. It enhances customer engagement, introduces inventive gaming experiences, and facilitates efficient operations. The innovation from gaming machine and software suppliers provides gaming operators with wider choices of gaming products, which adds to the appeal of gaming operators to players. Meanwhile, technological advancement furnishes gaming operators with an expansive repertoire of digital tools, such as casino management systems (CMS), cashless payment systems, etc., that are engineered to optimise management efficiency, magnetise consumer interest, and provide players with a fair gaming environment. By embracing these advancements, operators can institute streamlined workflows, leading to efficient resource allocation, cost optimisation, heightened profitability, and solid reputation.

Future trends of the gaming industry in Central Europe

Integration of hospitality and gaming for complete getaways: While individuals are looking for all-inclusive vacation packages, resorts that combine hotels and gaming facilities would gain more popularity. This setup offers guests the ease of having all their desired experiences in one location, avoiding the hassle of moving around for gaming and leisure activities. Resorts that combine lodging and gaming tap into this convenience factor. This approach also has an international appeal when resorts are located in cross-border regions or scenic spots. Integrated casino resorts that provide gaming and non-gaming mass-entertainment services fulfil multiple requirements of international travellers, amplifies revenue streams and prolongs profitable life cycle.

Increasing demand for enhanced land-based gaming experience: The increasing demand for better gaming experiences is pushing the industry towards a more customer-centric approach. The enhanced experiences can be achieved by increased gaming categories, different game themes incorporated in slot machines, well-furnished casino facilities, etc. Gaming, especially land-based one, has inherent social and sensory aspects where players seek an immersive and interactive environment from offline gaming experiences. As various forms of gaming activities emerge, the competition within the industry intensifies, which necessitates a strategic move to retain players, propelling gaming operators to refine and differentiate their physical offerings. Therefore, improving land-based gaming experiences becomes a means of differentiation.

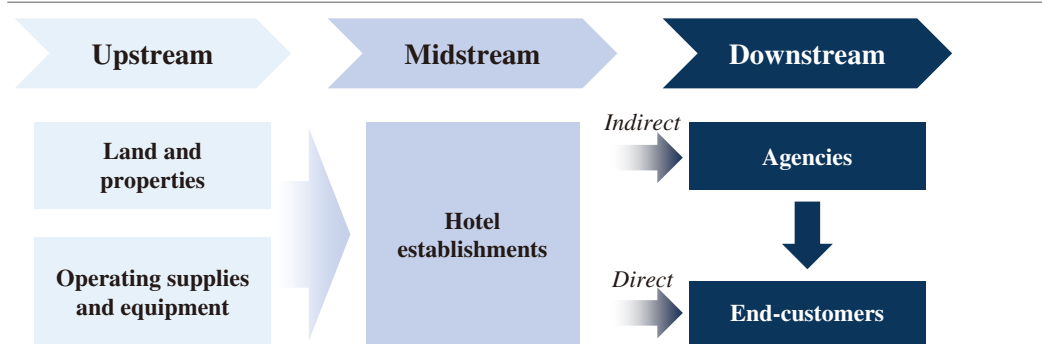
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Digitalisation of gaming activities: The internet's influence has reshaped traditional gaming practices by extending them to online platforms. With the development of internet, players are allowed to access gaming activities online through various terminal devices. The convenience and accessibility offered by online gaming have fueled its prominence across Central Europe. However, the rise of online gaming is not anticipated to be in the detriment of land-based gaming, as customers of land-based gaming and online gaming seek different experiences. Online gaming and land-based gaming offer two different playing experiences. They complement each other and create a flourishing business environment for continuous growth. Online gaming provides convenience and accessibility, while land-based gaming provides an exciting gaming atmosphere and more social interaction with people. Due to their unique characteristics, both forms of gaming can coexist and cater to different players' preferences. The development of both types of gaming boosts the overall growth of the gaming industry.

OVERVIEW OF THE HOTEL INDUSTRY IN CENTRAL EUROPE

The upstream of the hotel industry in Central Europe consists of suppliers of land and properties and operating supplies and equipment, including tableware, linens, toiletries, cleaning supplies, kitchen utensils, guest room accessories, etc. The midstream of the hotel industry is the accommodation establishment which provides accommodation and catering services to end-customers. The downstream of the industry consists of agencies and end-customers. End-customers include both corporate customers and mass individuals, and agencies include traditional travel agencies and online travel agencies, such as Booking.com or the hotels' own websites.

Value chain analysis of the hotel industry in Central Europe



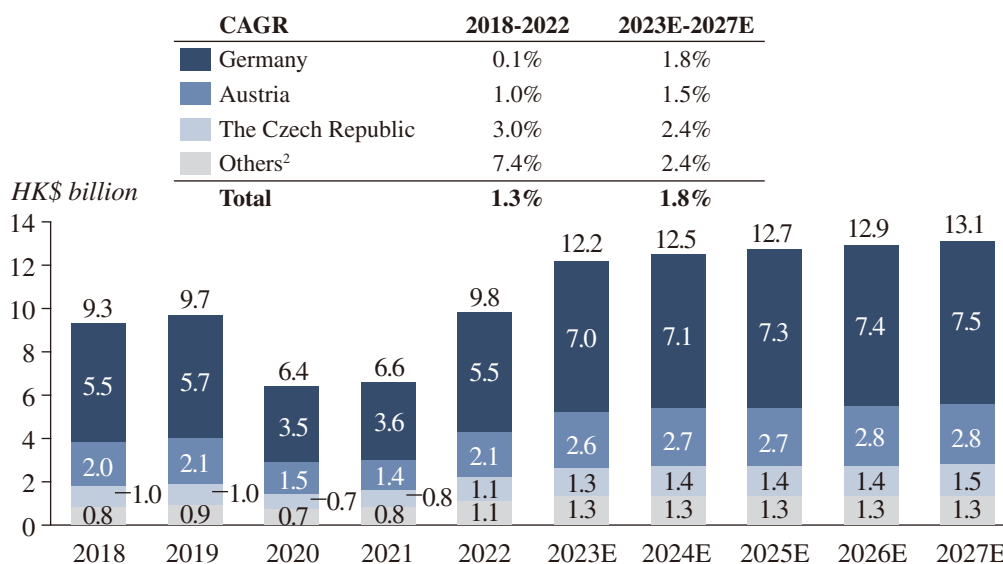
Source: China Insights Consultancy

Central Europe is a popular destination for domestic and overseas travellers. The market size of the hotel industry in Central Europe, in terms of revenue, increased from HK\$9.3 billion in 2018 to HK\$9.7 billion in 2019 and decreased to HK\$6.4 billion and HK\$6.6 billion in 2020 and 2021, respectively, due to the lockdown and restriction of travelling caused by the COVID-19 pandemic. With the global ease of the travel restriction starting in 2022, the hotel industry in Central Europe started to recover and is expected to rebound in 2023, reaching a market size of HK\$12.2 billion. The occupancy rate in Germany, Austria, and the Czech Republic, in terms of bed-places and bedrooms, increased from 39%, 32%, and 28%, respectively, in 2021 to 55%, 50%, and 38%, respectively, in 2022. As the global hotel industry gradually returns to normal, the hotel industry in Central Europe, in terms of revenue, is expected to increase to HK\$13.1 billion in 2027, representing a CAGR of 1.8% between 2023 and 2027. Germany contributed to

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approximately 56.1% of the market in Central Europe in 2022 and is expected to maintain a stable share during 2023 and 2027. There is no restriction as to the number of hotels that can be operated in the country in Central Europe.

**Market size of the hotel industry in Central Europe¹,
in terms of revenue, by country, 2018-2027E¹**



Notes:

1. The market size of the hotel industry includes revenue from accommodation and catering while accommodation includes hotel, motel, tourist camp-site, etc.;
2. Others include Poland and Slovakia.

Source: Czech Statistical Office, German Federal Statistical Office, Central Statistical Office of Poland, Statistics Austria, Statistical Office of Slovakia, and China Insights Consultancy

Key market drivers of the hotel industry in Central Europe

Greater demand for business travel and corporate events: Europe is the third largest business travel region in the world, with its spending in business travel accounting for about 20% of global business travel spending in 2022. It is forecasted by the Global Business Travel Association (GBTA) that after travel restrictions were eased and borders were reopened, business travel spending in Europe will continue to recover and grow another 25.3% in 2023 compared to 2022. Germany and Austria have earned recognition as leading corporate travel markets. The International Congress and Convention Association (ICCA) has performed research on the Destination Performance Index (DPI) of countries around the world to measure the overall performance of these destinations on conducting international association meetings. European countries accounted for 70.0% of the top 20 countries in 2021 in terms of DPI. Among European countries, Germany and Austria ranked second and seventh respectively. Apart from business conferences, other types of corporate events, such as corporate team building, integrating weekends and holidays into business trips, etc., are creating opportunities to hotels in these regions.

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Recovery of tourism in Central Europe from COVID-19: Tourism to Austria, Germany, and the Czech Republic recovers rapidly in 2022 from COVID-19. In Austria, the number of international tourist arrivals reported a 106.3% increase from 12.7 million in 2021 to 26.2 million in 2022. Similarly, Germany witnessed an uptick in international tourist arrivals, recording an increase of 143.6% to 28.5 million in 2022, compared to 11.7 million in 2021. The Czech Republic has also witnessed increase in tourists from abroad, with a year-on-year increase of 185.8% from 2.6 million in 2021 to 7.3 million in 2022. Promoting tourism to Central Europe through targeted campaigns and government initiatives serves as another catalyst for attracting visitors to the region. The German National Tourist Board (GNTB) and Austria National Tourist Office (ANTO) market the countries as destinations for both holiday tourism and business travel. The Czech Tourism Agency have developed Czech Republic Destination Strategy 2021 to 2025 to attract visitors worldwide. The increase in number of visitors will increase the demand for hotel services in Central Europe. Resulting from increasing tourists, the number of arrivals from international tourists at hotels and similar accommodations rose by 109.6%, 141.7%, and 187.1% in Austria, Germany, and the Czech Republic from 2021 to 2022.

Increased number of wealthy people: The number of high-net-worth-individual (HNWI), defined as people whose net wealth exceeds USD1.0 million (HK\$7.8 million), is increasing globally, potentially leading to larger number of travellers with greater wealth, as travel is one of the important areas that HNWIs allocate their wealth to. Global HNWI population was about 70.0 million in 2022, and is expected to rise to around 109.0 million in 2027 with a CAGR of about 8.9% between 2023 and 2027. Europe has been a popular destination for global tourists, and 10.4% of all international visitors to Europe visit Germany, Austria and/or the Czech Republic. Wealthier visitors tend to have higher willingness to spend more on accommodation, which may facilitate the growth of the hotel industry in Germany, Austria, and the Czech Republic.

Future trends of the hotel industry in Central Europe

Expanded offering of services to broaden revenue streams: Hotels are moving beyond their traditional roles as mere accommodation providers, venturing into a realm where they offer multifaceted experiences. Hotels can diversify their revenue streams through a spectrum of services, including offering of spas, fitness services, and other entertainment and wellness programs. The availability of such services enables hotels to target a wider market, attracting both business travellers seeking a balanced work-life experience and leisure travellers looking for a comprehensive stay experience, and in turn bolsters occupancy rates and revenue.

Increasing utilisation of online platforms: Hotels in Central Europe are embracing technologies to improve their service quality, such as mobile apps, hotel management systems, etc. Digitalisation of the hotel industry can provide guests with more convenience. Mobile apps, for instance, allow guests to manage bookings, access keyless room entry, request services, and gain insights into local attractions. Online platforms also offer discounts to guests, and enable them to compare various accommodation options to find satisfying places to live within budget, leading to greater popularity of these online platforms. In Germany, Austria, and the Czech Republic, there were 51.7 million overnight stays booked via leading online travel agencies in 2018. Such number increased to 59.3 million in 2022 at a CAGR of 3.5% between 2018 and 2022. Meanwhile, the number of overnight stays booked via these platforms as percentage of the total number of nights spent at tourist accommodation establishments increased from 8.6% in 2018 to 10.5% in

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2022. It is predicted that the penetration rate of online booking will continue to grow as the use of online platforms are being more widely recognised.

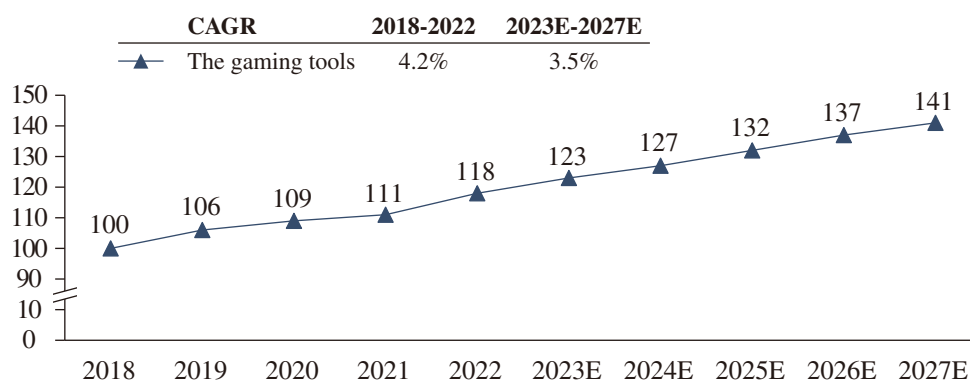
Focus on sustainability: With an increasing awareness on environmental issues, hotels in Central Europe are integrating sustainable practices into their operations to achieve sustainable development. More and more hotels are implementing energy-efficient technologies and initiatives, such as installing solar panels, LED lighting, water saving campaigns, to reduce their carbon footprint, minimise environmental impact, increase their operation efficiency, and establish a socially responsible image.

COST ANALYSIS OF THE GAMING INDUSTRY AND THE HOTEL INDUSTRY IN CENTRAL EUROPE

In general, the cost structure of the gaming industry and the hotel industry consists of the following: (1) labour costs, including wages, salaries, and social security contributions paid to employees; (2) utility costs, such as electricity, water, heating, etc.; (3) material costs, including food and beverage; and (4) other costs, including marketing costs, maintenance costs, etc. Gaming tool costs, which include costs related to purchase and rental of gaming equipment, gaming software, etc., is also a key cost item for gaming business. In 2018, the annual average inflation rate in Germany, Austria, and the Czech Republic were reported at 1.9%, 2.1%, and 2.1%, respectively. The inflation rate then followed an increasing trend and reached 8.7%, 8.6%, and 15.1% in Germany, Austria, and the Czech Republic in 2022. The increase partly influences the change of related costs during the same period.

The price of the gaming tools, including rental of gaming tools, increased steadily during the year of 2018 and 2022. Due to the variety of gaming tools used in the gaming industry, a price index is used here to demonstrate the pricing trend of gaming tools in the Czech Republic. Using 2018 as the base year for the price index, the price increased by 18% in 2022 as compared to 2018, and is expected to increase by 14.6% from 2023 to 2027.

Price index¹ of the gaming tools, the Czech Republic, 2018-2027E



Note:

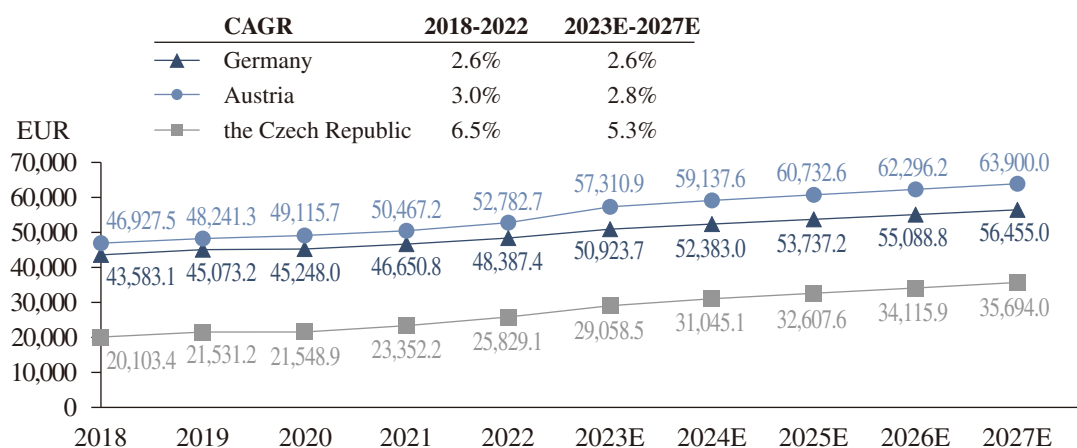
1. 2018 is used as the base year for the price index.

Source: China Insights Consultancy

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Together with the increase in inflation rate over the year 2018 to 2022, the compensation per employee is growing steadily in Germany, Austria, and the Czech Republic. The annual compensation per employee in Germany, Austria and the Czech Republic increased from EUR43,583.1, EUR46,927.5 and EUR20,103.4, respectively, in 2018 to EUR48,387.4, EUR52,782.7 and EUR25,829.1, respectively, in 2022 with CAGRs of 2.6%, 3.0% and 6.5%, respectively, between the same period. Annual compensation per employee is expected to reach EUR56,455.0, EUR63,900.0 and EUR35,694.0 in 2027 in Germany, Austria, and the Czech Republic, growing at CAGRs of 2.6%, 2.8%, and 5.3%, respectively, between 2023 and 2027.

**Annual compensation per employee¹, Germany, Austria,
and the Czech Republic, 2018-2027E**



Note:

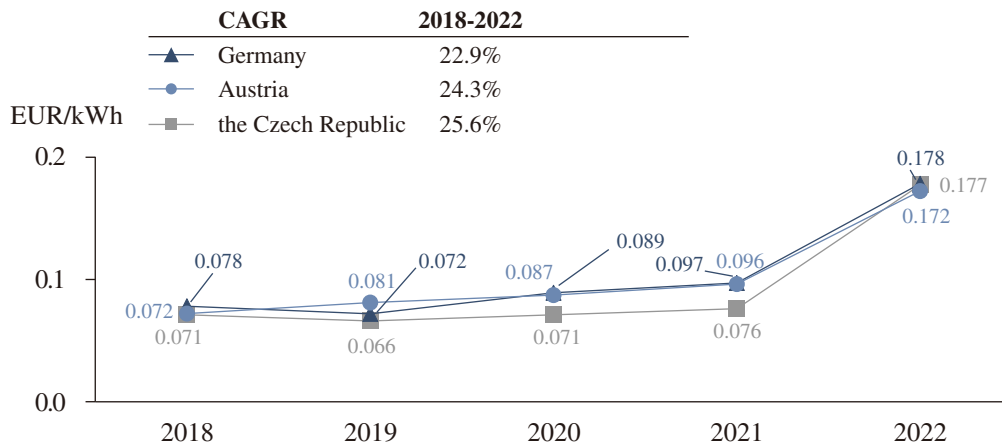
1. Compensation of employees consists of (i) wages and salaries in cash or in kind; (ii) employer's actual and imputed social contributions.

Source: Eurostat, and China Insights Consultancy

Utility expenses include costs of electricity, which usually accounts for the largest portion of the total utility expenses of a casino or a hotel. The electricity prices for non-household consumers in Germany, Austria and the Czech Republic increased with CAGRs of 22.9%, 24.3%, and 25.6% from 2018 to 2022, respectively. The increase in energy prices in Europe started from 2021, and resulted from a comprehensive set of factors. During the military conflict between Russia and Ukraine, there was a decision made by the Russian government to suspend deliveries of gas to some EU member states, which has heightened the prices for gas and electricity accordingly. Increasing inflation rate in EU has led to higher utility expenses as well. High temperature during the summer of 2022 as compared to previous years has also contributed to a higher demand of energy for cooling, which serves as another factor to push the energy prices higher.

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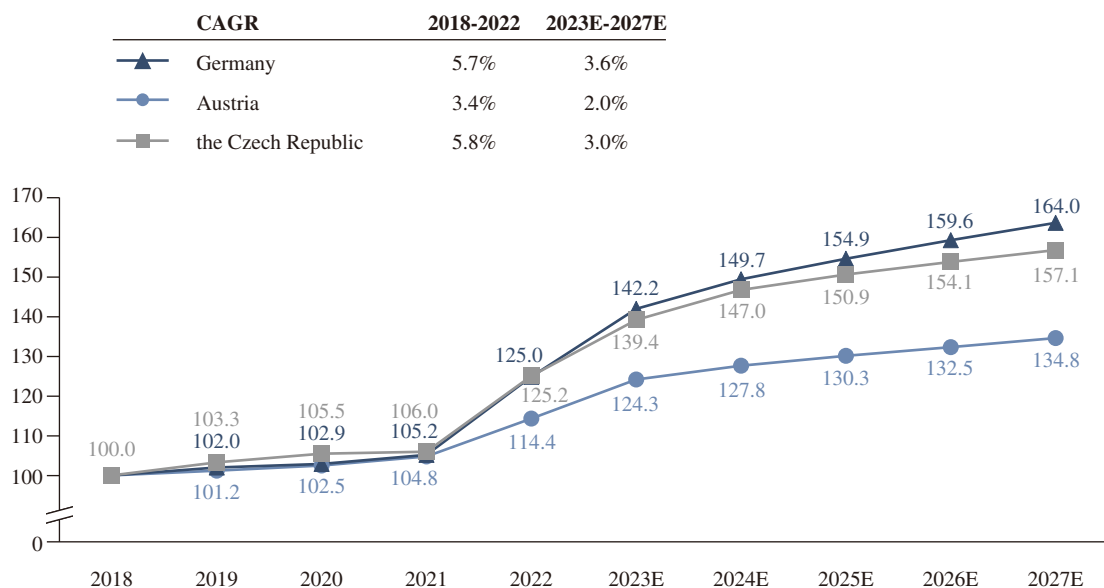
Electricity prices for non-household consumers, Germany, Austria and the Czech Republic, 2018-2022



Source: Eurostat, and China Insights Consultancy

Material costs, particularly costs of food and beverage, is an important part of a casino's or a hotel's operating expenses if dining services are provided. The producer prices index (PPI) on manufacturing of food products and beverages reflects the cost of dining services. The PPI in Germany, Austria and the Czech Republic experienced an increase from 2018 to 2022 with CAGRs of 5.7%, 3.4% and 5.8% respectively. The increase was steady during 2018 to 2021, with a sharper increase starting from 2021. One of the major reasons for the increase lies in the rise in energy prices that contribute to the increase in cost of food production, transportation, and storage, resulting in an increase in food and beverage prices. From 2023 to 2027, the PPIs on manufacturing of food products and beverages in Germany, Austria, and the Czech Republic are expected to grow at CAGRs of 3.6%, 2.0% and 3.0%.

PPI¹ of manufacture of food products and beverages, Germany, Austria, and the Czech Republic, 2018-2027E



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Note:

1. 2018 is used as the base year for PPI of each country.

Source: Eurostat, and China Insights Consultancy

COMPETITIVE LANDSCAPE OF THE GAMING INDUSTRY AND THE HOTEL INDUSTRY IN CENTRAL EUROPE

Competitive landscape of the land-based casino industry in the Czech Republic

In the Czech Republic, there were 37 companies licenced to operate land-based slot machines and 33 companies licenced to operate land-based live games with 472 casinos in operation at the end of 2022. There are approximately 15, 10, and 15 casinos, respectively, within one-hour driving distance from *Palasino Excalibur City*, *Palasino Wulowitz*, and *Palasino Furth im Wald*, respectively. The land-based casino industry in the Czech Republic is relatively fragmented with the top three casino operators, in terms of total number of slot machines in casinos, accounting for around 35.4% of the total number of slot machines in casinos and the rest casino operators each accounted for less than 5% of the share. According to the Ministry of Finance, the total number of premises (including casinos and gaming halls) with slot machines and/or live games in the Czech Republic decreased from 1,636 in 2018 to around 834 in 2022, in which the total number of gaming halls decreased from 1,088 in 2018 to 362 in 2022. Due to the Czech Gambling Act, which was in force since 1 January 2017, and the Act on Gambling Tax, which was in force since 1 January 2017, a higher minimum number requirement of slot machines and stricter information technology system requirements for registration and reporting were stipulated, and operators without sufficient capital found it difficult to comply with new regulations and were wiped out eventually. According to the Ministry of Finance, due to the legal conditions, slot machines and live games are concentrated in larger scale premises. At the end of 2017, 72% of the gaming establishments had less than 15 certified slot machines. As at 1 January 2020, the number decreased to only 2%.

The Czech Gambling Act and the Act on Gambling Tax have resulted in challenging market conditions for gaming hall operators. Such development is more favourable to scalable casino operators and has presented consolidation opportunities for casino operators including our Group. In 2022, our Group is among the top ten casino operators in the Czech Republic, in terms of total number of slot machines in casinos.

Ranking of the top ten casino operators, in terms of total number of slot machines in casinos, the Czech Republic, 2022¹

Ranking	Casino operator	Total number of slot machines in casinos of the casino operator in the Czech Republic, 2022 ²	As percentage of the total number of slot machines in casinos in the Czech Republic, 2022
1	Company A	~4,270	~21.7%
2	Company B	~1,470	~7.5%
3	Company C	~1,220	~6.2%
4	Company D	~740	~3.8%

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Ranking	Casino operator	Total number of slot machines in casinos of the casino operator in the Czech Republic, 2022 ²	As percentage of the total number of slot machines in casinos in the Czech Republic, 2022
4	Company E	~740	~3.8%
6	Company F	~710	~3.6%
7	Company G	~690	~3.5%
8	Company H	~680	~3.5%
9	Our Group	492	2.5%
10	Company I	~480	~2.4%
Top ten		~11,492	~58.5%
Others		~8,178	~41.5%
Total		19,670	100%

Notes:

1. The above data are as at the end of calendar year 2022. The ranking uses the total number of slot machines in casinos as a parameter considering land-based slot machines contributed the majority of the market share of the land-based slot machine and land-based live game industry;
2. The number of slot machines only includes those in casinos, but not in gaming halls; more slot machines does not represent higher profitability as the occupancy rate of slot machines needs to be considered; for top casino operators like our Company, the number of slot machines is considered to represent the scale of business. It is also a common practice to analyse the scale of business using the number of slot machines.

Source: The Ministry of Finance in the Czech Republic, and China Insights Consultancy

Introduction to the top ten casino operators and their relative casinos are as follows:

Company	Location of the casinos ¹	Introduction
Company A	More than half of them are located on the border	A part of an international gambling group based in Austria and established in 1980 ³ with subsidiary engaging in a high-tech gaming technology industry and its bond was listed on the Vienna Stock Exchange which offers a wide range of gambling products including slot machines, table games, and sport betting activities. Company A is a casino operator with more than 40 casinos in the Czech Republic.
Company B	Five of them are located on the border or close to the border	A non-listed casino operator based in the Czech Republic and established in 2002 with more than 35 casinos the Czech Republic.
Company C	Around ten of them are located on the border or close to the border	A non-listed casino operator based in the Czech Republic and established in 1998 with more than 40 casinos in the Czech Republic.
Company D	Two of them are close to the border	A part of a family-owned, internationally operating, and non-listed business group in the entertainment and leisure industry based in Germany and established in 1957 with more than 10 casinos in the Czech Republic.

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Company	Location of the casinos ¹	Introduction
Company E	Around five of them are located on the border	A non-listed casino operator based in the Czech Republic and established in 2002 with more than 25 casinos in the Czech Republic.
Company F	One of them are located close to the border	A non-listed casino operator and gaming tool provider based in the Czech Republic and established in 2002 with 4 casinos in the Czech Republic.
Company G	None of them are on the border or close to the border	A non-listed casino operator based in the Czech Republic and established in 2010 with more than 10 casinos in the Czech Republic.
Company H	None of them are on the border or close to the border	A non-listed casino operator based in the Czech Republic and established in 2018 with more than 15 casinos in the Czech Republic.
Our Group	All of them are close to the border	An entertainment, gaming and leisure group operating one integrated casino and resort and two full-service casinos in the Czech Republic.
Company I	Two of them are close to the border	A non-listed casino operator based in the Czech Republic and established in 1994 with more than 15 casinos in the Czech Republic.

Notes:

1. As our Group is an operator of casinos, which are not comparable to gaming halls in terms of licence required, gaming atmosphere, and target customers, only casinos are considered here;
2. The above data are as at the end of calendar year 2022;
3. According to the website of Company A.

Source: China Insights Consultancy

Comparison of the operating statistics of our Group's casinos and the industry average

The operating statistics of our Group's casinos and the industry average are compared as below:

	Our Group, FY2023	Industry average, the Czech Republic, 2022
Slot machine drop per machine ¹	HK\$12.5 million	HK\$3.0 million
Table game drop per gaming table ²	HK\$7.2 million	HK\$1.7 million
Slot machine hold percentage	4.8%	6.6%
Table hold percentage	21.6%	12.2%
Average slot win per machine per day	HK\$1,657	HK\$540
Average daily gross win per table	HK\$4,220	HK\$552

Notes:

1. Slot machine drop per machine = Slot machine drop / ((opening number of machines + closing number of machines) / 2);
2. Table game drop per gaming table = table game drop / ((opening number of tables + closing number of tables) / 2).

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(1) *Drop per slot machine/gaming table*

All of our Group's casinos are strategically located on the border, which contributes to a higher drop per slot machine (i.e. HK\$12.5 million) and a higher table drop per gaming table (HK\$7.2 million) respectively compared to the industry average (slot machine: HK\$3.0 million and gaming table: HK\$1.7 million). The higher drop of our Group is mainly attributable to, among others, the various reasons set out below:

- i. **Higher financial capability from our Group's target customers:** due to the strategic locations of our casinos which are close to the border of the Czech Republic, Austria and Germany, during the Track Record Period, over 95% of our players are from neighbouring countries of the Czech Republic and a majority of which are from Austria and Germany, while around 4% of our players are local Czech residents. The spending per head of the players from Austria and Germany is higher than that of the players from the Czech Republic. The higher spending per head can be attributed to the higher annual disposable income per capita in Austria and Germany, which stood at HK\$352,366.3 in Austria and HK\$375,377.0 in Germany, compared to HK\$255,636.9 in the Czech Republic in 2022. Our Group's strategic location which is near their borders, which enables our customers to enjoy short travel distances from major cities in Austria and Germany;
- ii. **The long operating hours of our casinos:** two of our Group's casinos operate 24/7, which is longer than some gaming premises in the Czech Republic, allowing players to stay longer and enjoy longer playing time at our Group's casinos, resulting an increase in volume bet and the overall spending/drop placed by the players during their visits. Our casinos are able to operate 24/7 since, as confirmed by CIC, there is no restriction as to the operating hours for casinos according to the Czech Gambling Act and all of our gaming premises are classified as casinos. As such, the operating hours of our casinos can be determined by our management during the application of the premises licences for each of our casinos based on different commercial factors. However, for gaming halls, according to the Czech Gambling Act, they must be closed from 3 a.m. to 10 a.m., limiting their maximum operating hours to 17 hours per day. At the end of 2022, there were 362 gaming halls, accounting for 43.4% of all gaming premises in the Czech Republic;
- iii. **The provision of diversified gaming options attracts more players:** our Group can create synergies between different games which helps to extend players' stay by catering to the individual gaming preferences of each player and encouraging them to engage in different types of gaming options during their visits. By contrast, some gaming premises only provide limited gaming options, leaving players with fewer choices, as concurred by CIC;
- iv. **The provision of additional services attracts more players:** our Group's casinos offer value-added services such as catering and accommodation, etc., which helps to proliferate gaming and generate higher revenue. Specifically, Palasino Excalibur City provides hotel accommodation through Hotel Savannah, which integrates gaming services with accommodation and

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catering, provides convenience to players who can have flexible time for playing and resting, enabling them to stay longer and engage in more casino activities; and

- v. **Existence of idle and not revenue-generating slot machines and gaming tables:** according to CIC, not all certified slot machines and gaming tables in the market are in continuous operation, as some may be idle and not revenue-generating, which lowers the industry average.

(2) Slot hold percentage and average slot win per machine per day

Our Group's slot machine hold percentage is slightly lower than industry average but is within the industry standard. According to the 2017 Czech Gambling Act, the design of slot machines shall not allow for a win percentage for the players of less than 75% and more than 100%, which means the hold percentage should range from 0% to 25%.

The lower slot machine hold percentages of our Group had when compared with that of the industry average primarily arises from the inherent winning probabilities associated with the slot machine game offering. The determining factors, including the preset winning probabilities in each game and the composition of games within the slot machines, can result in varying chances of winning and hold percentages. These factors are determined by the slot machine suppliers from whom our Group purchases or rents the slot machines. The slot machines in the land-based casinos of our Group must undergo certification by authorised bodies nominated by the Ministry of Finance. Our Group, as a casino operator, does not have the ability or authority to manipulate these factory-setting.

Also, the actual slot hold percentage could be affected by the volatility of the game and number of games played. Therefore, potential explanation for the deviation of the slot machine hold percentage of our Group from the industry average also includes: (i) the presence of high-volatility games, causing a greater deviation from the preset winning probabilities, and (ii) games that are not played frequently may not generate enough data points to align with the statistical winning probabilities. Infrequent play of certain games will result in a higher deviation between the actual hold percentage and the preset parameters.

Despite that our Group's slot machine hold percentage is lower than that of the industry average, since the slot machine drop per machine of our Group is much higher than that of the industry average, the average slot win per machine per day is therefore much higher than that of the industry average.

(3) Table hold percentage and average daily gross win per table

Different from slot machines, the table game is operated mainly by natural persons and hence its hold percentage is not subject to any setting by manufacturers. Our Group has a higher table hold percentage mainly because all of our Group's casinos are located on the border, and the customers usually stay and play for a longer time than the customers in the city casinos resulting in less-than-ideal gameplays. The customers in the city casinos are more likely to stay shorter and gamble quicker thus potentially contributing to a lower hold percentage. Because our Group's casinos have higher than industry average table game drop per gaming table as well as the table hold percentage, the average daily gross win per table is also much higher than industry average.

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Competitive landscape of the hotel industry in Central Europe

The hotel industry in Central Europe is highly fragmented and the leading players in Central Europe are large international hotel groups. As at the end of 2022, there are more than 130,000 accommodation establishments in Central Europe. Our Group's five hotels are located in Germany, Austria, and the Czech Republic, which is dominated by international hotel chain groups. In 2022, our Company had a market share of 1.2% in Central Europe's hotel industry, in terms of revenue, and a market share of 0.03% in Central Europe's hotel industry, in terms of the number of hotel rooms.

Ranking of the hotel industry, in terms of number of hotel rooms, Germany, Austria and the Czech Republic, 2022

Germany			
Ranking	Hotel company	Number of hotel rooms, 2022	Market share, 2022
1	Company J	~50,000	5.1%
2	Company K	~20,000	2.0%
3	Company L	~18,000	1.8%
4	Company M	~17,000	1.7%
5	Company N	~16,000	1.6%

Austria			
Ranking	Hotel company	Number of hotel rooms, 2022	Market share, 2022
1	Company J	~5,500	1.9%
2	Company L	~3,700	1.3%
3	Company O	~2,900	1.0%
4	Company P	~2,500	0.9%
5	Company N	~2,300	0.8%

The Czech Republic			
Ranking	Hotel company	Number of hotel rooms, 2022	Market share, 2022
1	Company Q	~2,000	1.2%
2	Company L	~1,600	1.0%
3	Company J	~1,600	1.0%
4	Company R	~1,100	0.7%
5	Company S	~1,100	0.7%

Note: In the hotel industry, it is a common practice to analyse the scale of business using the number of hotel rooms.

Source: China Insights Consultancy

Introduction to the top five players in the hotel industry in Germany, Austria, and the Czech Republic are as follows:

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Company	Introduction
Company J	A listed world leading hotel chain group based in France and established in 1967 with more than 5,400 hotels worldwide.
Company K	A non-listed world leading hotel chain group based in the U.S. and established in 1946 with approximately 4,300 hotels worldwide.
Company L	A listed world leading hotel chain group based in the U.S. and established in 1927 with more than 2,000 hotels worldwide.
Company M	A listed world leading hotel chain group based in the U.K. and established in 2003 with more than 6,000 hotels worldwide.
Company N	A non-listed low-budget hotel chain group based in Germany and established in 2000 with approximately 90 hotels.
Company O	A non-listed hotel chain group based in Austria and established in 1988 with approximately 25 hotels.
Company P	A non-listed hotel chain group based in Austria and established in 2006 with approximately 60 hotels.
Company Q	A listed world leading hotel chain group based in the U.S. and established in 1939 with more than 7,400 hotels worldwide.
Company R	A listed world leading hotel chain group based in the U.S. and established in 1981 with approximately 9,100 hotels worldwide.
Company S	A listed world leading hotel chain group based in the U.S. and established in 1919 with more than 7,000 hotels worldwide.

Competitive advantages of our Group

Top ten largest casino operator in the Czech Republic: Our Group is among the top ten largest casino operators, in terms of total number of slot machines in casinos, in the Czech Republic in 2022.

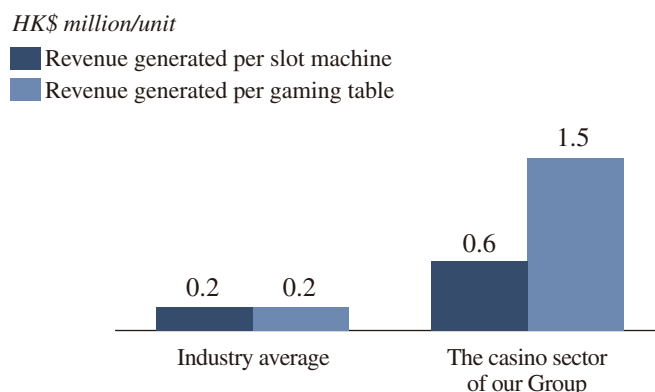
The three casinos of our Group are one of the major players in the respective regions: In terms of GGR of slot machines in the Czech Republic in 2022, *Palasino Excalibur City*, *Palasino Wullowitz*, and *Palasino Furth im Wald* each accounted for around 45%, 50%, and 20% of the market share, in Znojmo, Český Krumlov, and Domažlice districts,

INDUSTRY OVERVIEW

respectively. Our Group accounted for around 5.3% of the market share of the land-based slot machine industry in the Czech Republic, in terms of GGR.

Higher than industry average revenue generating capability: Our Group's casino sector generate more revenue per slot machine (i.e. HK\$0.6 million) and more revenue per gaming table (i.e. HK\$1.5 million) in FY2023 compared to industry average (slot machine: HK\$0.2 million and gaming table: HK\$0.2 million) in 2022, indicating a higher than industry average revenue generating capability.

Comparison of the revenue generating capability between industry average and the casino sector of our Group, the Czech Republic, 2022



Notes:

1. Revenue generated per slot machine= revenue generated by slot machines of the year/((opening number of slot machines + closing number of slot machines)/2);
2. Revenue generated per gaming table= revenue generated by gaming tables of the year/((opening number of gaming tables + closing number of gaming tables)/2).

Source: The Ministry of Finance in the Czech Republic, and China Insights Consultancy.

All casinos are strategically located on the border: The Czech-Austrian and Czech-German border areas are characterised by a high concentration of casinos resulting from more rigid regulation of gaming on the other side of the border. For example, offline poker is only permitted in state-owned casinos in Germany and around half of the land-based casinos in Germany are state-owned. Austria prohibits poker games from being held in public places such as bars and restaurants and the government of Austria has taken steps to block foreign poker sites from operating within the country as well. All our Group's casinos are located at the border to attract players from nearby countries including Germany and Austria. Besides, different from casinos that are not located on the border, including city casinos, casinos located on the border are go-to destinations for customers who usually bring considerable funds and stay longer, leading to higher drop for slot machine and gaming table.

The casino combined with hospitality services provide high business model resilience: Our Group's *Palasino Savannah Resort*, comprising *Palasino Excalibur City* and *Hotel Savannah*, offers gaming facilities, accommodation and other hospitality offering. The casino combined with hospitality services business model provides benefits to travellers result from providing a one-stop comprehensive and convenient entertainment centre. Therefore, this integrated business model presents more competitiveness in the market. The gaming segment and the non-gaming segment mutually reinforce each other and boost the revenue generation.

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Key entry barriers to the casino industry and the hotel industry in Central Europe

Strict regulatory requirements and licence obtainment: The casino industry is regulated in the Czech Republic, which offers limited opportunities for new entrants. Prospective casino operators must obtain licences for each type of gaming activities. There were 41 and 35 companies granted with land-based slot machine licence and land-based live game licence, respectively as at 31 December 2018. In 2022, there were only 37 and 33 companies granted with land-based slot machine licence and land-based live game licence, respectively. All prospective casino operators must undergo thorough processes, including demonstrating financial capability, ensuring transparent sources of deposit and ownership structure, etc., to comply with legal and regulatory standards. For example, the Reporting Decree No. 19/2019 Coll. has stipulated strict reporting requirements for gaming operators in terms of the scope of data to be transmitted to the Ministry of Finance, the technical parameters of data, the method and frequency of data transmission, etc. This necessitates sufficient capability to operate and maintain an agile casino management system to ensure the accuracy and efficiency of data processing and transmission. These strict requirements make it difficult for new entrants to enter the market.

High capital requirements: Establishing a casino involves high capital investment. Besides the initial investment on premises, gaming equipment, and other infrastructures, casino operators in the Czech Republic also must provide security deposit, either by depositing funds into a special account of the Ministry of Finance, or as a bank guarantee accepted by the Ministry of Finance. Currently, the security deposit amount ranges from CZK5.0 million (HK\$1.7 million) to CZK50.0 million (HK\$17.3 million) for basic licence application, depending on the types of games operated. Under the new Czech Gambling Act, the amount of deposit will be changed. Gaming operators will be subject to different amount of deposits based on the amount of gaming tax paid by the gaming operator of the second to fifth tax period preceding the effective date of the new Czech Gambling Act, with a maximum deposit amount up to CZK300.0 million (HK\$103.7 million). High capital requirements also apply to hotels, as running a hotel requires substantial capital outlay in land, building, construction or renovation, etc.

Dominance of established players: Both of the casino industry and the hotel industry in Central Europe are well-served by established market participants, who have cultivated a group of loyal customers. The process of building a reputation and forging customer loyalty is time-consuming, which is hard to gain in a short period of time by new entrants.

Key success factors of the casino industry and hotel industry in Central Europe

Strategic location to attract customers: Casinos situated in strategic locations, such as in proximity to international borders, near recreational premises, or around tourist destinations, can benefit from higher foot traffic by absorbing customers from different countries. For casinos, being situated in strategic locations enables the capture of cross-border traffic and offers more accessibility for players if the casinos are within short driving distance. Hotels also benefit from strategic locations, serving as gateways to domestic and international traffic while attracting customers with scenic views. The competitive advantage gained from a prime location can increase customer reach and revenue potential, making it a pivotal factor in achieving sustainable growth and profitability.

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Versatility in game offering: Casinos that demonstrate the ability to satisfy a diverse range of player preferences gain a distinct competitive advantage. By offering a wide selection of machines and games, casinos position themselves as dynamic and customer-centric destinations for players. Casinos that consistently refresh their game offerings, introduce new themes, and incorporate innovative technologies that foster player engagement and a sense of excitement. Novelty not only attracts new players but also retains existing ones by combating monotony and predictability, leading to heightened overall satisfaction.

Strong brand awareness and customer loyalty: In the casino industry, the value of a strong brand can surpass its competitors by maintaining strong relationships with loyal customers, by offering tailored customer loyalty program, VIP player program, and such. They foster trust and loyalty among customers, encouraging repeated visits and word-of-mouth recommendations. This helps provide consistent inflow of revenues from recurring customers, and also draw attention from new customers.

Quality of service and guest experience: Delivering exceptional customer service is paramount to achieving success in both the casino and hotel industry. Casinos and hotels need to have a good understanding about different customer profiles. Well-maintained facility is also part of the service. Casinos and hotels that invest in their facilities will elevate the overall guest experience. This includes the facilities that satisfy various demands of customers, such as guest rooms, restaurants, fitness centres, and versatile event spaces.

Opportunities and challenges of the casino industry and the hotel industry in Central Europe

Limited availability of slot machines to serve more players during peak hours: Most land-based casinos offer slot machines with multiple games. The popularity of some slot machines may extend players' time spent on a single machine, resulting in overcrowding and limited availability of slot machines within the casino premises. This is especially prominent during peak hours such as weekends, when more machines are occupied, leaving some players no position to play. Besides, the availability of machines is challenged by the cool-off time mandated by the Czech Gambling Act, which requires players engaging in slot machines to wait 15 minutes every two hours before they can resume playing. This renders machines unavailable for players even if they are not actively utilised. Therefore, inadequate slot machines can be a bottleneck for casinos, particularly during peak hours. Casinos need to make sure that there are enough slot machines available during peak hours, for example by looking at the peak hour occupancy rate of slot machines instead of the average occupancy rate.

Difficulty in complying with changing gaming regulations: In Central Europe, gaming regulation keeps evolving, with many leaning towards a more restrictive approach as governments seek to promote responsible gaming practices. Tightening legislation poses challenges for casinos if they cannot take adequate measures to comply with new regulations. These challenges encompass various aspects, including higher capital requirement in security deposit, additional player protection measures, more investment to improve casino infrastructure, etc., where less competent casino operators may find difficult to fulfil. Moreover, in certain countries, such as the Czech Republic, individual municipalities retain the authority to restrict or ban certain gaming activities within its jurisdictions. For example, in Brno, the second largest city in the Czech

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Republic, a ban on gaming machines went into effect in 2015, resulting in decreasing number of gaming machines in the city. In such cases, less competent casinos will be compelled to scale down or face the risk of closure.

Increasing demand for casinos with more permitted gaming options: While the tightening regulatory framework in certain cities brings challenges for casinos there, it opens up opportunities for casinos in other areas where more types of gaming activities are permitted. For example, Prague, the capital of the Czech Republic, will enforce a ban on slot machines from 1 January 2024. Once the ban comes into effect, the number of slot machines decrease, resulting in a mismatch in demand, leading to the diversion of traffic to other cities with more relaxed regulations. Casinos in these cities can then benefit from absorbing the players from Prague.

Potential growth in customer base from tourism to Central Europe: The influx of tourists to Central Europe from all over the world creates an opportunity for casinos and hotels to capitalise on an expanded pool of potential customers. The potential customers also include those seeking accommodation and gaming experiences at the same time. This presents an opportunity for casino and hotel operators to market themselves and increase brand awareness to attract new customers.

Increasing competition from alternative accommodation options: The rise of alternative accommodation options, such as homestays and Airbnb, intensifies competition within the industry. Traditional hotels face the challenge of attracting and retaining guests who may opt for the unique and often cost-effective experiences offered by these alternatives.