

## INDUSTRY OVERVIEW

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## 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

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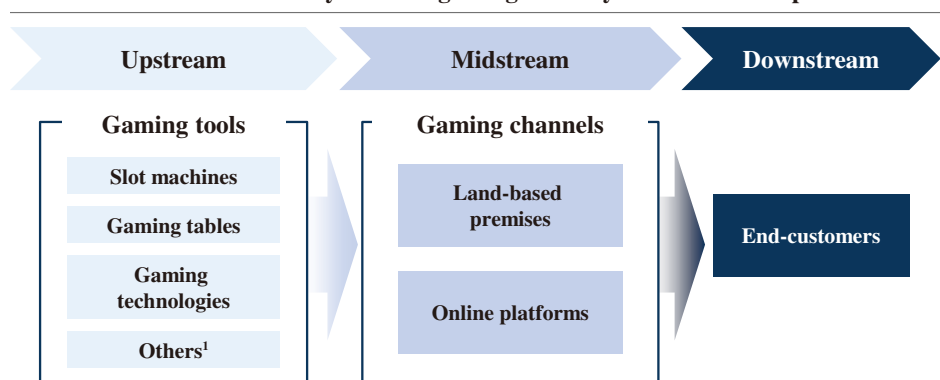
or unforeseen set of industry regulations in which the market may be affected in either a dramatic or fundamental way; and (v) global economy will gradually recover from the negative effects of the COVID-19 pandemic.

### 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 roulette, 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.

**Value chain analysis of the gaming industry in Central Europe**



*Note:*

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

*Source:* China Insights Consultancy

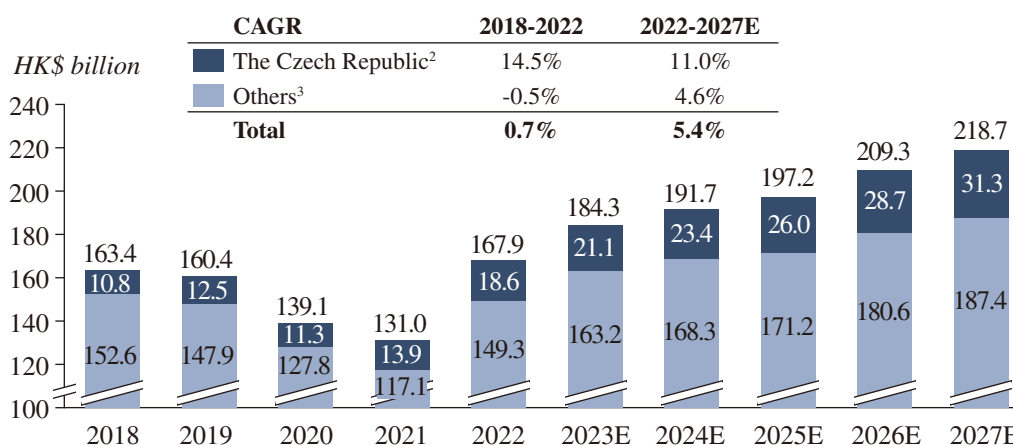
The Central Europe gaming market includes the gaming markets in the Czech Republic, Germany, Poland, Austria, and Slovakia, all of which have different attitudes and laws related to gambling. The market size of the gaming industry in Central Europe, in terms of gross gaming revenue (GGR), decreased from 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 Germany, some types of gaming, like bets on non-sports events, are not permitted. In contrast, the Czech Gambling Act does not have strict prohibition on non-sports betting. The Czech Republic is one of the European countries

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where most of the modern types of gaming are completely legal and has a more developed online gaming market than Austria and Germany. The Czech Republic allows online gaming operated with a registered office in the Czech Republic, another EU Member State, or a state that is a party to the Agreement on the European Economic Area. In Germany and Austria, online gaming operators are advised to have a local license to avoid potential operational risks. 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 11.0% between 2022 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. 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 13.2% between 2022 and 2027 owing to: (i) the lockdown and restrictions caused by the COVID-19 pandemic, which prohibited people gaining access to land-based gaming premises and altered the gaming behaviour to shift to the online channel; (ii) increasing penetration of mobile gambling activities and the enhancement of the infrastructure used in the development of online gaming.

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<sup>1</sup>, by country, 2018-2027E**



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Notes:

1. Including land-based and online segments;
2. Compared to other countries in Central Europe, the market size of the gaming industry in the Czech Republic increased significantly mainly due to the strong growth of the online gaming segment;
3. Others include Germany, Poland, Austria, and Slovakia.

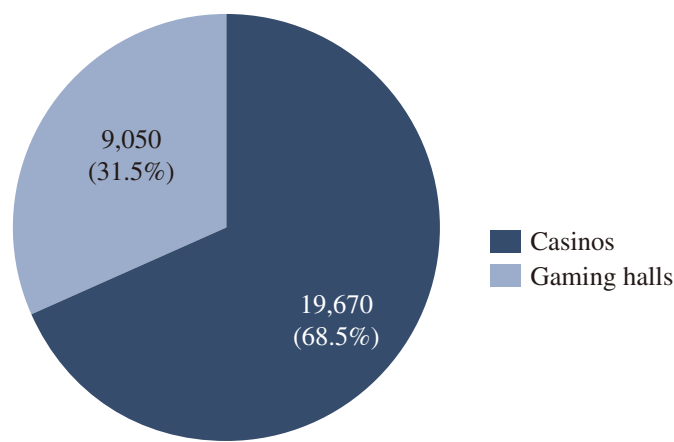
Source: The Ministry of Finance in the Czech Republic, UN Global Compact Network Poland, Institute of Economic and Social Studies, Gambling Laws and Regulations Report Germany, European Gaming & Betting Association, and China Insights Consultancy

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

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.

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**

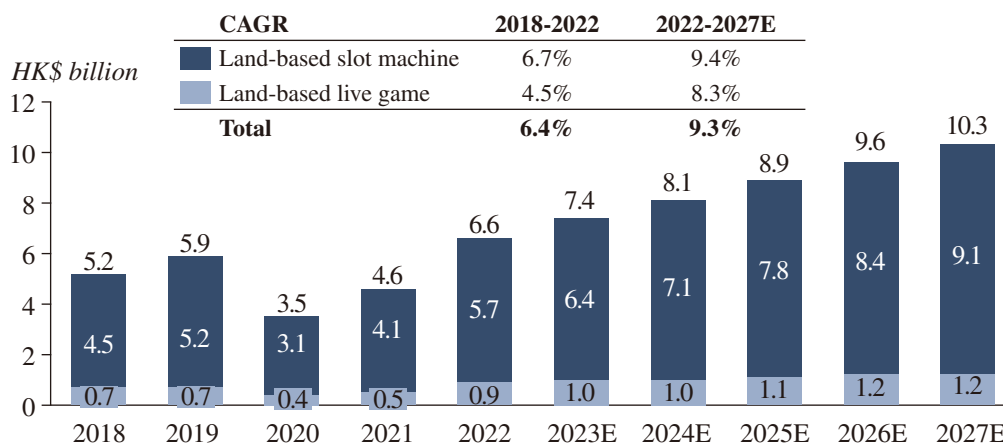


Source: China Insights Consultancy

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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, 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 9.4% between 2022 and 2027. 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 8.3% between 2022 and 2027.

### 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

**Shift of demand from neighbouring countries:** The gaming industry in Central Europe is marked by varying gambling regulations across countries. Some countries, including the Czech Republic, have legalised gaming activities, while some may take prohibitive approaches. In Austria, before 2013, poker was not regulated by Austria's gambling law, and private poker clubs were allowed. However, in 2013, the Austria's Ministry of Finance announced that poker can only be played within the premises operated by the licenced operators, forcing private poker clubs to close down. This created opportunities for Austria's neighbouring countries, such as the Czech Republic, to absorb Austrian poker players. The city council of Bratislava, which is the capital of Slovakia, announced to prohibit casinos and other forms of gaming in 2021. Incumbent licenced operators are allowed to continue their operations until their licences expire, which mostly will expire in one to two years, with some smaller operators running till 2027. This kind of event potentially creates a shift of demand from Bratislava to the Czech Republic. The seamless travel opportunities across Central European countries also facilitates the shift of demand. Market participants in the gaming industry in the Czech Republic, especially those located on the borders, may benefit from the demand inflow from neighbouring countries where gaming activities are limited or prohibited.

**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

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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 2022 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 2.8%, 2.5% and 4.5%. The rising affluence of people encourages higher expenditure, which provides favourable conditions for the gaming industry to grow.

***Recovery of tourism in the Czech Republic from COVID-19:*** 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, which can bring in more potential customers to the gaming industry in the region.

***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

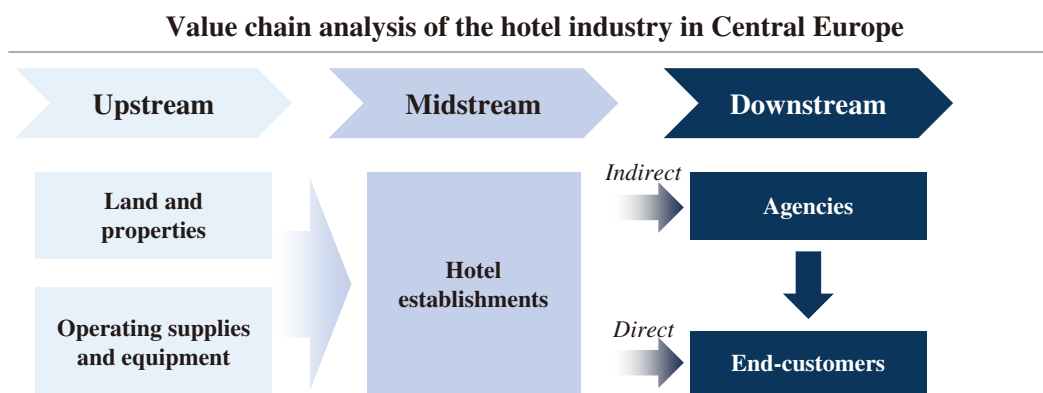
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gaming experiences. As various forms of gaming activities emerge, the competition within the industry intensifies, which necessitates a strategic move to retain players, propelling gaming operators to refine and differentiate their physical offerings. Therefore, improving land-based gaming experiences becomes a means of differentiation.

**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. 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.

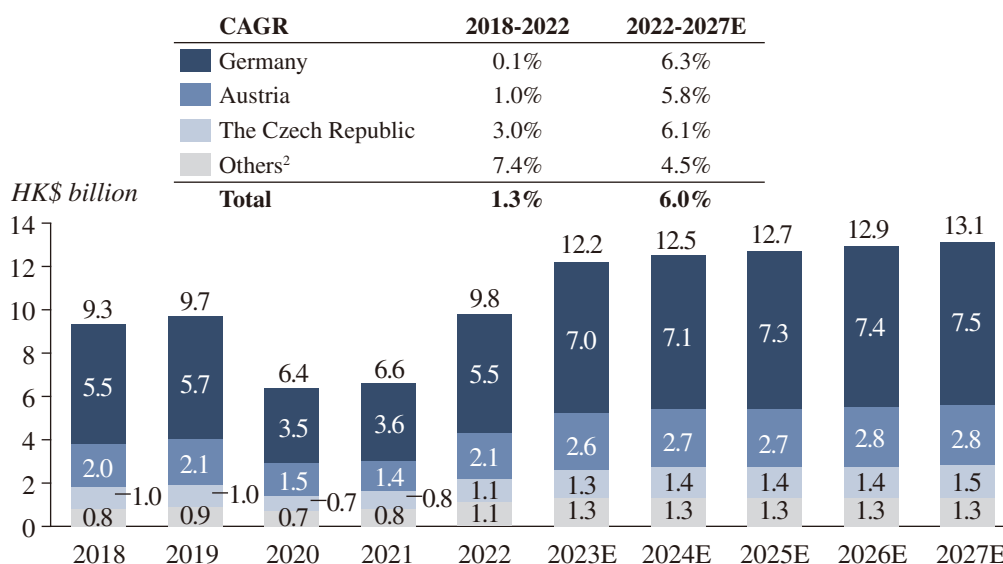


Source: China Insights Consultancy

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 traveling 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. Net 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 6.0% between 2022 and 2027. Germany contributed to approximately 56.1% of the market in Central Europe in 2022 and is expected to maintain a stable share during 2022 and 2027.

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### Market size of the hotel industry in Central Europe<sup>1</sup>, in terms of revenue, by country, 2018-2027E<sup>1</sup>



*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.

**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



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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 9.3%. 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 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.

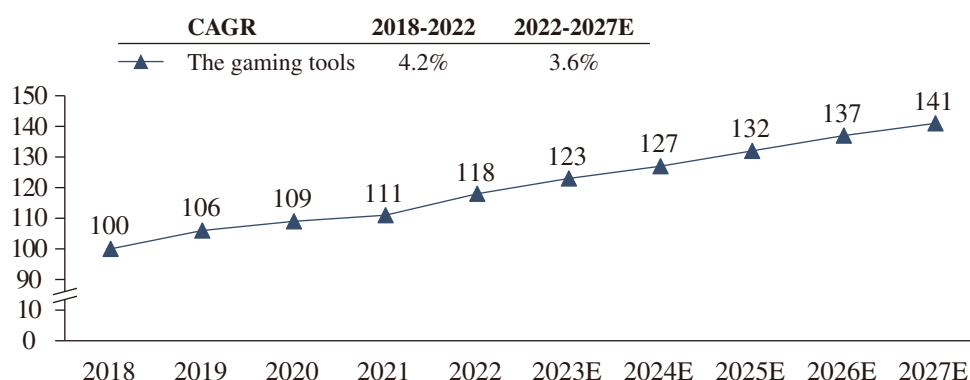
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### COST ANALYSIS OF THE GAMING INDUSTRY AND THE HOTEL INDUSTRY IN CENTRAL EUROPE

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 19.5% from 2022 to 2027.

**Price index<sup>1</sup> of the gaming tools, the Czech Republic, 2018-2027E**



*Note:*

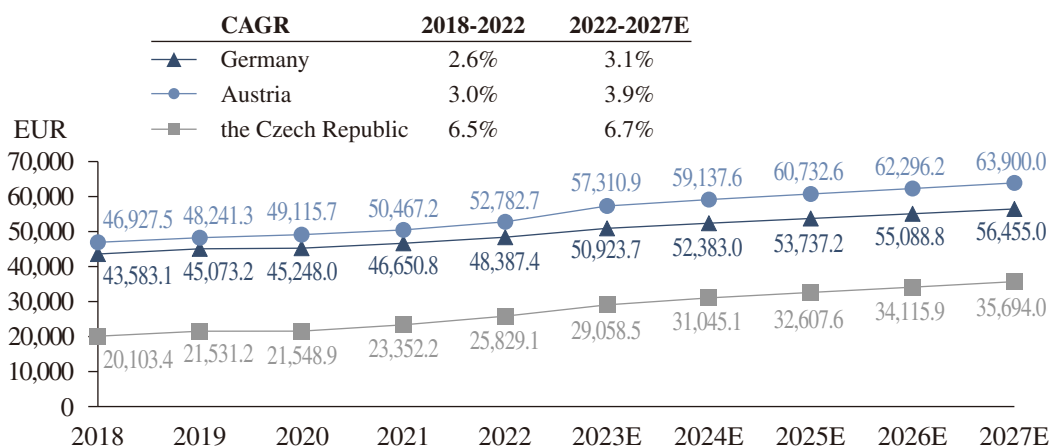
1. 2018 is used as the base year for the price index.

*Source:* China Insights Consultancy

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 3.1%, 3.9%, and 6.7%, respectively, between 2022 and 2027.

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### Annual compensation per employee<sup>1</sup>, Germany, Austria, and the Czech Republic, 2018-2027E



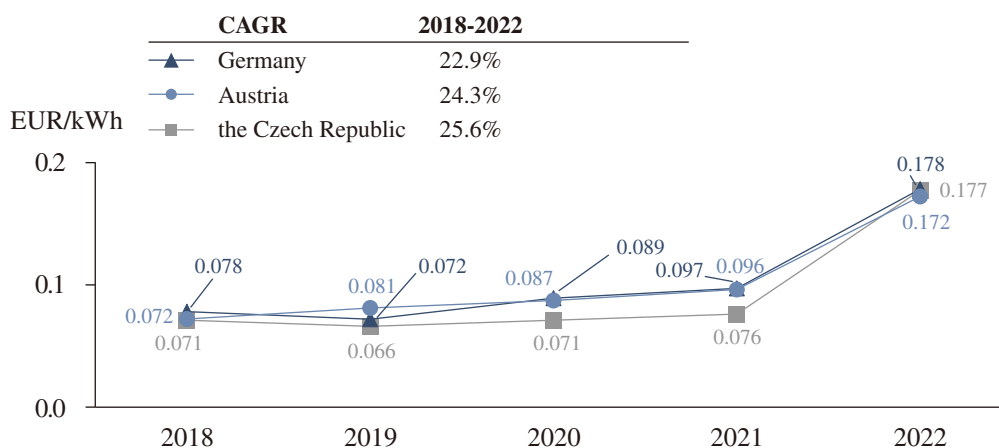
Note:

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.

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

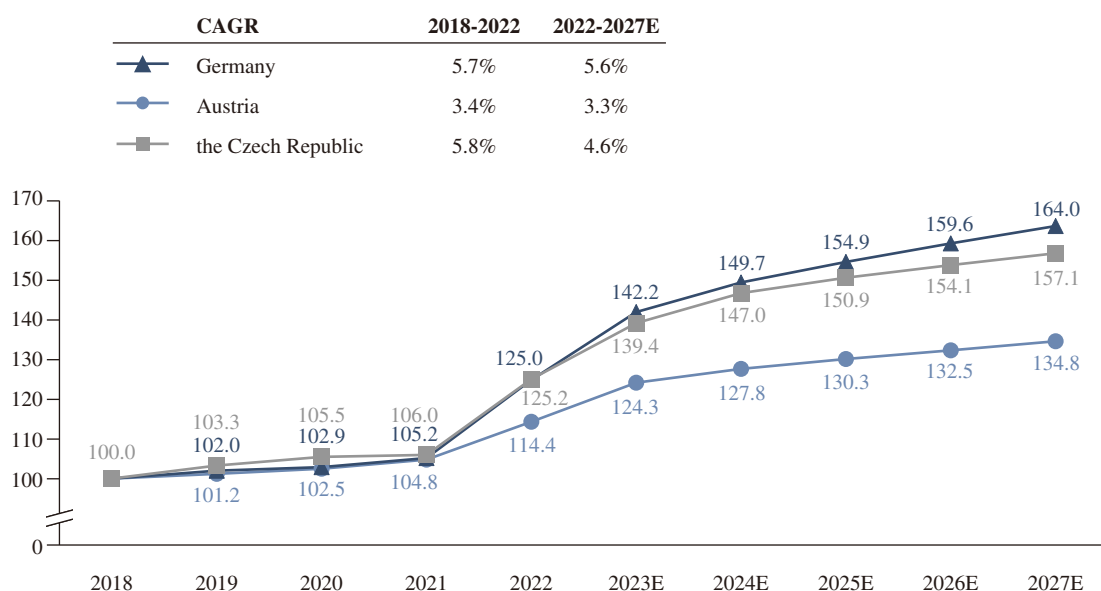


Source: Eurostat, and China Insights Consultancy

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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 2022 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 5.6%, 3.3%, and 4.6%.

**PPI<sup>1</sup> of manufacture of food products and beverages,  
Germany, Austria, and the Czech Republic, 2018-2027E**



Note:

- 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

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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 of 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, 2022<sup>1</sup>

Ranking	Casino operator	Total number of slot machines in casinos of the casino operator in the Czech Republic, 2022 <sup>2</sup>	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%
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	<b>Our Group</b>	<b>492</b>	<b>2.5%</b>
10	Company I	~480	~2.4%
Top ten		~11,492	~58.5%
Others		~8,178	~41.5%
<b>Total</b>		<b>19,670</b>	<b>100%</b>

*Notes:*

1. The above data are as of 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.

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

## INDUSTRY OVERVIEW

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

Company	Location of the casinos <sup>1</sup>	Introduction
Company A	More than half of them are located on the border	A part of a listed high-tech gaming technology company, which mainly focuses on slot machine manufacturing. Company A is based in Austria and established in 1980 and offers a wide range of gambling products including slot machines, table games, and sport betting activities.
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.
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.
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.
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.
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.
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.
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.
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.

*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 of the end of calendar year 2022.

*Source:* China Insights Consultancy

### 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 of 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. In terms of revenue, our Group earned a market share of 1.2% in Central Europe's hotel industry in 2022.

### Competitive advantages of our Group

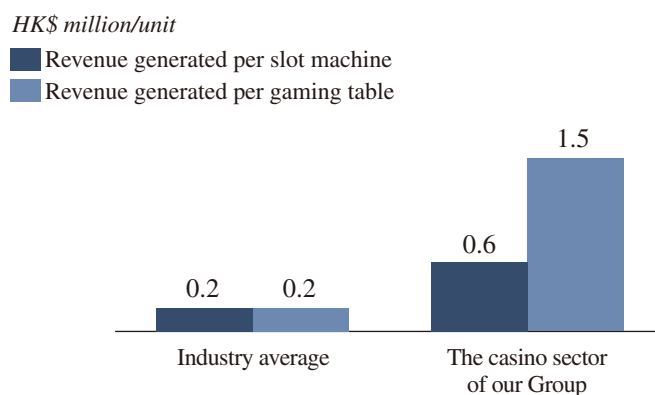
***Top ten largest casino operator in the Czech Republic:*** Our Group is among the top ten largest casino operators, in terms of total number of slot machines in casinos, in the Czech Republic in 2022.

## INDUSTRY OVERVIEW

**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 Wulowitz*, and *Palasino Furth im Wald* each accounted for around 45%, 50%, and 20% of the market share, in Znojmo, Český Krumlov, and Domažlice districts, respectively.

**Higher than industry average revenue generating capability:** According to the Ministry of Finance, there were more than 28,000 certified slot machines and more than 4,000 gaming tables in the Czech Republic in 2022. Our Group's casino sector had higher revenue generating capability as compared to the industry average, in terms of revenue generated per slot machine and revenue generated per gaming table as follows:

### 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.

**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 travelers result from providing a one-stop comprehensive and convenient entertainment center. 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.

### 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.

## INDUSTRY OVERVIEW

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 of 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.

**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.



## INDUSTRY OVERVIEW

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 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.