

## FINANCIAL INFORMATION

*You should read this section in conjunction with our consolidated financial information, including the accompanying notes, in the Accountants' Report in Appendix IA to this prospectus. Our consolidated financial information as of and for each of the years ended December 31, 2008, 2009 and 2010 was prepared in accordance with IFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions.*

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this prospectus.

### SELECTED CONSOLIDATED FINANCIAL DATA

The following is our selected consolidated financial information as at and for the years ended December 31, 2008, 2009 and 2010, extracted from the Accountants' Report in Appendix IA to this prospectus.

Our Company was incorporated in the Cayman Islands on July 2, 2010. Upon completion of the Reorganization, which will occur immediately prior to the completion of the Global Offering, all issued shares of MGM Grand Paradise will be contributed to the Company and its financial information will be consolidated into the accounts of the Company.

On July 27, 2010, MGM Grand Paradise entered into new credit arrangements with a syndicate of lenders and repaid its then outstanding indebtedness in full on July 30, 2010. Our bank borrowings and maturity profile have changed as a result of the refinancing and are therefore not comparable with our bank borrowings and maturity profile for 2008 and 2009. For details, see the section headed "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of Material Indebtedness."

### Consolidated Statements of Comprehensive Income

	For the year ended December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
<b>Operating Revenue</b>			
Casino revenue . . . . .	6,603,357	7,455,854	12,126,848
Other revenue . . . . .	<u>313,100</u>	<u>271,232</u>	<u>307,880</u>
	6,916,457	7,727,086	12,434,728
<b>Operating Costs and Expenses</b>			
Special gaming tax and special levy to the Macau Government . . . .	(3,432,763)	(4,028,679)	(6,480,269)
Staff costs . . . . .	(1,275,639)	(1,147,384)	(1,188,424)
Operating and administrative expenses . . . . .	(1,345,802)	(1,393,709)	(1,967,699)
Depreciation and amortization . . . . .	<u>(746,986)</u>	<u>(793,084)</u>	<u>(777,780)</u>
	<u>(6,801,190)</u>	<u>(7,362,856)</u>	<u>(10,414,172)</u>

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	For the year ended December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
Operating profit . . . . .	115,267	364,230	2,020,556
Interest income . . . . .	8,311	305	1,299
Finance costs . . . . .	(450,681)	(531,671)	(450,516)
Net foreign currency difference . . . . .	30,626	663	(5,012)
(Loss)/profit before taxation . . . . .	(296,477)	(166,473)	1,566,327
Taxation . . . . .	(186)	(658)	(292)
(Loss)/profit for the year and total comprehensive (loss)/income attributable to the owners of MGM Grand Paradise . . . . .	<u>(296,663)</u>	<u>(167,131)</u>	<u>1,566,035</u>

## Consolidated Statements of Financial Position

	As at December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
<b>Non-Current Assets</b>			
Property and equipment . . . . .	5,903,595	5,794,070	5,351,259
Subconcession premium . . . . .	1,427,848	1,301,296	1,174,048
Land use right premium . . . . .	409,442	390,196	370,950
Other assets . . . . .	68,583	5,341	6,058
Construction in progress . . . . .	<u>311,169</u>	<u>21,070</u>	<u>28,827</u>
	<u>8,120,637</u>	<u>7,511,973</u>	<u>6,931,142</u>
<b>Current Assets</b>			
Inventories . . . . .	40,983	44,240	63,848
Trade receivables . . . . .	357,814	840,691	1,137,422
Prepayments, deposits and other receivables . . . . .	30,978	75,693	77,314
Land use right premium — short term . . . . .	19,246	19,246	19,246
Amount due from a related company . . . . .	—	97	72,471
Bank balances and cash . . . . .	<u>1,448,468</u>	<u>1,975,711</u>	<u>1,922,723</u>
	<u>1,897,489</u>	<u>2,955,678</u>	<u>3,293,024</u>
<b>Current Liabilities</b>			
Payables and accrued charges . . . . .	1,487,980	1,734,940	2,706,145
Bank borrowings — due within 12 months . . . . .	401,057	1,062,735	—
Deposits and advances . . . . .	96,665	201,272	135,103
Construction retention payable — due within 12 months . . . . .	108,237	8,319	3,433
Amounts due to related companies . . . . .	11,933	180	11,681
Taxation payable . . . . .	<u>—</u>	<u>274</u>	<u>225</u>
	<u>2,105,872</u>	<u>3,007,720</u>	<u>2,856,587</u>
Net Current (Liabilities)/Assets . . . . .	<u>(208,383)</u>	<u>(52,042)</u>	<u>436,437</u>
Total Assets Less Current Liabilities . . . . .	<u>7,912,254</u>	<u>7,459,931</u>	<u>7,367,579</u>

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	As at December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
<b>Non-Current Liabilities</b>			
Bank borrowings — due after 12 months . . . . .	6,066,768	5,658,508	5,886,730
Loans from Shareholders . . . . .	605,033	658,261	—
Loan from a related company . . . . .	817,201	891,817	—
Construction retention payable — due after 12 months . . . . .	4,776	—	—
	<u>7,493,778</u>	<u>7,208,586</u>	<u>5,886,730</u>
Net Assets . . . . .	<u>418,476</u>	<u>251,345</u>	<u>1,480,849</u>
<b>Capital and Reserves</b>			
Share capital . . . . .	194,175	194,175	194,175
Share premium . . . . .	778,485	778,485	778,485
Equity reserve . . . . .	630,256	630,256	293,725
(Deficit) retained earnings . . . . .	<u>(1,184,440)</u>	<u>(1,351,571)</u>	<u>214,464</u>
Shareholders' Funds . . . . .	<u>418,476</u>	<u>251,345</u>	<u>1,480,849</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this prospectus. Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. See the section headed "Forward-looking Statements" in this prospectus.*

### Overview

MGM Grand Paradise is one of the leading casino gaming resort developers, owners and operators in the greater China region and holds one of the six gaming concessions/subconcessions in Macau. We currently own and operate MGM Macau, a premium integrated casino resort on the Macau Peninsula. In addition, we are also exploring various growth opportunities in Cotai, the other key area of future casino gaming development in Macau.

Since opening, we have improved our casino revenues and adjusted EBITDA by offering premium quality services and amenities with a focus on growing our VIP business and main floor player loyalty programs. For the years ended December 31, 2008 and 2009, we recorded a net loss of HK\$296.7 million and HK\$167.1 million, respectively, and for the year ended December 31, 2010, we recorded a net profit of HK\$1,566.0 million. Casino revenues for the year ended December 31, 2009 were HK\$7,455.9 million, with adjusted EBITDA of HK\$1,179.3 million, a 12.9% and 25.3% increase, respectively, over 2008. For the year ended December 31, 2010, our casino revenues were HK\$12,126.8 million, with adjusted EBITDA of HK\$2,830.8 million, a 62.6% and 140.0% increase, respectively, over the same period in 2009.

We have continually focused on improving operating efficiencies, particularly by optimizing staffing levels across our operations, resulting in a reduction in payroll costs as a percentage of our revenues. We also have been implementing cost-cutting initiatives in areas such as transportation, utilities and communications to improve profitability. Additionally, we have implemented a customized loyalty program for main floor players, which has significantly increased rated play. Overall, management has been able to improve its gaming mix particularly by working with gaming promoters to increase VIP patron visitation levels and adapting gaming products and areas to cater to the preferences of VIP players, thereby steadily increasing overall gaming revenue.

## **Basis of Presentation**

The financial information presented herein has been prepared in accordance with IFRS under the historical cost convention. IAS 39 has been applied to the recognition and measurement of our financial instruments. The preparation of the financial information in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgment in applying our Group's accounting policies. See the section headed "— Critical Accounting Policies and Estimates".

## **Factors Affecting Our Results of Operations and Financial Condition**

Our results of operations and the period-to-period comparability of our financial condition are affected by a number of factors, including:

### ***Growth of Macau's Gaming and Tourism Markets***

The levels of tourism and overall gaming activity in Macau are key drivers of our business. Both the Macau gaming market and visitation to Macau have grown significantly in the last few years. Several hotels and casinos including Encore at Wynn Macau, City of Dreams, Oceanus, Casino L'Arc Macau and Jimei Casino have recently opened in Macau. In 2006, casino gaming revenue in Macau surpassed that of Las Vegas, making Macau the largest gaming market in the world by casino gaming revenue. The Macau market was more than 2.5 times the size of the Las Vegas Strip and Atlantic City markets combined in terms of gaming revenues based on data from 2010. We have benefited from the rise in visitation to Macau over the past several years, although such visitation numbers have been impacted at times by various factors such as the global economic downturn that began in 2008.

Gaming clients traveling to Macau typically come from nearby regions in Asia including Hong Kong, mainland China, Taiwan, South Korea and Japan, with approximately 86.9% of visitors to Macau in 2010 coming from Hong Kong, mainland China and Taiwan, according to statistics published by the Statistics and Census Service of the Macau Government. We believe that visitation levels and gross gaming revenue growth for the Macau market have been, and will continue to be, driven by a combination of factors, including the economic growth of China which, should it continue to strengthen, is expected to lead to a large and growing middle class with rising disposable income; Macau's proximity to major Asian population centers; and infrastructure improvements that are expected to facilitate more convenient travel to and within Macau. For a more detailed discussion of these factors and other factors affecting tourism in Macau, see the sections headed "Our Industry" and "Risk Factors—Risks Relating to the Gaming Industry in Macau—Restrictions on our patrons' ability to travel to Macau or an outbreak of infectious diseases would reduce the number of visitors to our property and adversely affect our business and our results of operations."

### ***Gaming Promoters***

A significant amount of our VIP casino play is brought to us by gaming promoters, also known as junket operators. Gaming promoters have historically played a critical role in the Macau gaming market and are important to the visibility and the revenues of our casino business. Gaming promoters introduce high-spending VIP players to us and often assist those clients with their travel and entertainment arrangements. In addition, gaming promoters often extend credit to their players.

VIP gaming is conducted by the use of special purpose gaming chips called "rolling chips." These promoter-specific rolling chips can also be referred to as "dead chips" or "non-negotiable chips". Gaming promoters purchase these rolling chips from us and in turn they sell these chips to their players. These rolling chips allow us to track the amount of wagering conducted by the promoters'

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customers. The amount of rolling chips played at the tables is called the rolling chip turnover. The amount of that turnover that we win or lose is called the win/loss or gaming revenue.

In exchange for their services, we pay the gaming promoters a commission based on either a percentage of the rolling chip turnover or a percentage of the win/loss. Depending upon the volume of gaming play, rolling chip commissions typically range from slightly less than 1% to 1.25% of the rolling chip turnover. Macau laws require that promoter commissions based on rolling chip turnover (turnover based programs) must be capped at 1.25% of rolling chip turnover. Promoter commissions based on a percentage of revenue (revenue share program) are typically a percentage of the win or loss. In the case of revenue share commission programs, the gaming promoters are responsible for applying the Macau government commission cap requirements.

Gaming promoters rely upon sub-junkets or collaborators who bring in the VIP gaming customers. Approximately 80% of the commissions are netted against casino revenue, which corresponds to the amount of the commission returned to the VIP players by the gaming promoters, and approximately 20% of the commissions are included in operating expenses, which corresponds to the amount ultimately retained by gaming promoters for their compensation. We net this estimated 80% of the commissions directly against the gaming win/loss and deduct the remaining 20% as operating expenses. The total amounts of commissions netted against casino revenue during the Track Record Period were approximately HK\$1,935.5 million, HK\$2,585.9 million and HK\$4,187.3 million for 2008, 2009 and 2010, respectively.

In addition, revenue share based gaming promoters each receive a monthly allowance based on a percentage of the rolling chip turnover their clients generate, and such allowance is available for hotel rooms, food and beverage and other discretionary client-related expenses. Other gaming promoters receive discounts on our amenities and services. We believe we have good relationships with our gaming promoters and our commission levels broadly have remained stable throughout our operating history.

Together with our VIP patrons, we also engage closely with high-value players in the mass market, which we believe represents the most profitable segment of the gaming industry. The gross margins of our mass market tables dedicated to high-value players are typically several times higher than our VIP tables. This is primarily because we do not pay our mass market players commissions to attract their business. Consequently, we believe that we can obtain attractive margins in this business segment, on which we intend to focus closely as part of our promotional efforts.

### ***Competition***

We compete primarily in the casino gaming industry. Since the liberalization of Macau's gaming industry in 2002, there has been a significant increase in the number of gaming operators and casino properties in Macau. Currently, there are six gaming operators in Macau, including MGM Grand Paradise. The holders of Macau's three principal gaming concessions are SJM, Wynn Macau and Galaxy and the holders of the three gaming subconcessions are MGM Grand Paradise, VML and Melco Crown. Holders of concessions and subconcessions may operate multiple casinos with the approval of the Macau Government. Each of the current six operators has commenced casino operating activities and several have expansion plans announced or underway. As at the Latest Practicable Date, there were 34 casinos in the Macau area, including 20 operated by SJM. We expect competition in Macau to increase significantly in the near future. In addition, our operations compete with similar businesses in other parts of Asia, including those in markets such as Singapore. For additional information on Macau's gaming market, see the sections headed "Our Industry" and "Risk Factors — Risks Relating to Our Business — Risks Relating to Our Business and Operations — We face intense competition in Macau and elsewhere in Asia" in this prospectus.

### ***Current Economic and Operating Environment***

Economic conditions have a significant impact on our business. We benefited materially from the generally strong economic environment in 2007 and the first half of 2008. Beginning in the second half of 2008 and continuing into 2009, a number of factors, including a slowdown in the global economy, contracting credit markets, reduced consumer spending, visa restrictions on travel to Macau imposed by China and fears of H1N1 influenza, negatively impacted the gaming industry in Macau and our business. Beginning in the second half of 2009 and into 2010, the economic environment has improved and visa restrictions imposed by China have eased, with gaming win, visitation, revenue growth and other key performance measures gaining strength. Our own results have improved in line with the economic recovery although there can be no assurance that this will continue to remain the case. See the sections headed “Risk Factors—Risks Relating to Our Business—Risks Relating to Our Business and Operations—Our business is particularly sensitive to downturns in the economy, economic uncertainty and other factors affecting discretionary consumer spending” and “Risk Factors—Risks Relating to the Gaming Industry in Macau—Restrictions on our patrons’ ability to travel to Macau or an outbreak of infectious diseases would reduce the number of visitors to our property and adversely affect our business and our results of operations.”

### ***Number and Mix of Table Games and Slot Machines***

We change the number and mix of VIP table games, mass table games and slot machines from time to time as a result of marketing and operating strategies in response to changing market demand and industry competition. The shift in the mix of our games affects casino revenue. Revenue from our mass market gaming business was HK\$2,146.6 million, HK\$2,433.3 million and HK\$3,459.6 million for 2008, 2009 and 2010, respectively, and represented 31.0%, 31.5% and 27.8% of our total revenue for the same periods. Revenue from our VIP gaming business was HK\$4,010.0 million, HK\$4,342.2 million and HK\$7,681.2 million in 2008, 2009 and 2010, respectively, and represented 58.0%, 56.2% and 61.8% of our total revenue for the same periods. We are focused on growing both the VIP and main floor segments of our business through efforts to attract both high value VIP gaming patrons and premium main floor players by focusing on the development and implementation of new marketing strategies and enhanced customer service initiatives. Consequently, we will continue to alter the number and mix of table games and slot machines in order to capture the more profitable segments of our target customer base.

### ***Finance Costs***

We are a growing company with significant financial needs. We expect to have significant capital expenditures in the future as we continue to develop our Macau property and consider potential Cotai opportunities. We have relied and intend in future to rely on our operating cash flow and debt and equity funding to meet our financing needs. See the section headed “—Description of Material Indebtedness”.

### ***Operational Costs***

Operational costs, particularly staff costs, form a significant part of our expenditure. We seek to control labor costs, for example, by matching staffing to customer volumes, and to improve our operational procedures so as to achieve cost savings.

### ***Critical Accounting Policies and Estimates***

The preparation of our financial statements and certain accounting policies require management to apply significant judgment in defining the appropriate assumptions integral to financial estimates. On an ongoing basis, management evaluates those estimates, including those relating to the estimated lives of depreciable assets, asset impairment, allowances for doubtful



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accounts, accruals for client loyalty rewards, contingencies, litigation and other items. These judgments are based on factors including historical experience, terms of existing contracts, industry trends and information available from outside sources as we believe appropriate and reasonable. However, by their nature, such judgments are subject to an inherent degree of uncertainty, and therefore actual results could differ materially from our estimates.

### ***Revenue Recognition***

Casino revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in customers' possession. Revenues are recognized net of certain sales incentives, such as discounts and commissions to casino customers. Other revenue comprises hotel, food and beverage, retail and other operating revenue and is recognized when services are rendered and goods are sold and it is probable that the economic benefits associated with the transaction will flow to us.

### ***Property and Equipment***

Property and equipment including buildings held for use in production of services or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Construction in progress includes property and equipment in the course of construction. Amounts are carried at cost less recognized impairment loss, if any. Art works and paintings are stated at cost less accumulated impairment losses.

Depreciation is recognized so as to write off the cost of the assets (other than art works and paintings and construction in progress) less their estimated residual values over their estimated useful lives on a straight-line basis. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

### ***Depreciation of Property and Equipment***

Our carrying amounts of property and equipment (other than construction in progress, and art works and paintings) as at December 31, 2008, 2009 and 2010 were HK\$5,840.3 million, HK\$5,730.8 million and HK\$5,286.7 million, respectively. We depreciate our property and equipment (other than construction in progress and art works and paintings) over their estimated useful lives, using the straight-line method, commencing from the date the property and equipment are ready for intended use. The useful lives that management estimates for property and equipment reflect management's estimate of the period in which we intend to derive future economic benefits from the use of the assets. Should there be any changes in such estimates, the depreciation of property and equipment may vary with changes affecting profit or loss in the period of the change.

### ***Allowance for Doubtful Debts***

We issue markers and credit to approved gaming promoters, casino customers and hotel customers following background checks and investigations of their creditworthiness. An estimated allowance for doubtful accounts is maintained to reduce our receivables to their recoverable amount. Management estimates the allowance based on a specific review of customer accounts and an evaluation of the amounts expected to be recovered with reference to past collection experience, current economic and business conditions and other relevant information. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2008, 2009 and 2010, the carrying amount of trade receivables was HK\$357.8 million, HK\$840.7 million and HK\$1,137.4 million, respectively (net of allowance for doubtful debts of HK\$56.6 million, HK\$151.3 million and HK\$232.4 million as at the same dates). The increase in the allowance for doubtful debts in recent periods as compared to previous years is due to our increased levels of VIP play.

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Included in trade receivables as at December 31, 2008 was an aggregate receivable (before allowance) of approximately HK\$74.0 million that has been past due. After taking into account the subsequent settlements received and expected to be received from the relevant client, the management of MGM Grand Paradise was of the view that the receivable was partially impaired and an allowance of approximately HK\$11.0 million was provided as at December 31, 2008. During the year ended December 31, 2009, MGM Grand Paradise recognized an additional approximately HK\$44.0 million allowance for the remaining balance due from the relevant client. As at December 31, 2009, MGM Grand Paradise had no receivables due from this client. Included in trade receivables as at December 31, 2010 was an aggregate receivable (before allowance) of approximately HK\$120.0 million credit due from a single client. After taking into account the deterioration of the creditworthiness of this client, we have made full provision for the amount of this receivable based on our allowance for doubtful debts policy. The HK\$120.0 million credit receivable accrued in respect of this single client is not an exceptional amount of credit we have extended to gaming patrons or gaming promoters based on all available personal, business and gaming information before such credit is granted. As of the Latest Practicable Date, this HK\$120.0 million remains outstanding. The remaining allowance recognized during each of the years ended December 31, 2008, 2009 and 2010 represents impairment in respect of a large number of casino clients who individually have been determined to be impaired as they have defaulted in repayment of their debts.

In response to this event, we have enhanced our standard operating procedures relating to credit policy for in-house VIP patrons and gaming promoters. For individual VIP patrons, we have enhanced our required credit metrics. We also grant credit in relation to gaming promoters only on the basis of individual guarantees. Formerly, when credit was granted in relation to a gaming promoter, we required individual guarantees, however the guarantees were several (and not joint or joint and several). Under the enhanced procedures, where credit is granted in relation to a gaming promoter, we now require individual guarantees on a joint and several basis. We also have prepared new form credit documentation to ensure joint and several responsibility of the relevant individuals providing the guarantees.

Each individual or entity obtaining credit, or providing a guarantee of credit, is required to undergo a credit review process. Where credit is granted in relation to a gaming promoter, we also require probity reviews of the individual guarantors. This process ensures that parties with a financial interest in or other relationship with a gaming promoter will be scrutinized for credit-worthiness and probity and permits the Company to make better informed decisions about the quality of any guarantees.

### ***Impairment of Tangible and Intangible Assets (other than Financial Assets)***

At the end of each reporting period, we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any of such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in our profit and loss account.



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### ***Leasehold Land and Building***

The land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case the entire lease is generally treated as a finance lease and accounted for as property and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortized over the lease term on a straight-line basis.

### ***Financial Instruments***

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a Group entity becomes a party to the contractual provisions of the relevant financial instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

We derecognize a financial asset only when the contractual rights to receive cash flow from the asset expire or, when a financial asset is transferred, we have transferred substantially all the risks and rewards of ownership of the asset to another party. The difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss recognized in our other comprehensive income is recognized in our profit and loss account.

We derecognize financial liabilities when, and only when, our obligations specified in the relevant contract are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in our profit and loss account.

### **Description of Selected Line Items in Our Consolidated Statements of Comprehensive Income**

#### ***Operating Revenue***

Operating revenue consists of casino revenue and other revenue. Our revenue from VIP table gaming operations is generated from VIP players who independently visit us or are referred to us by MGM Resorts International and through our associated gaming promoters. Our revenue from mass market table gaming operations is generated by table games clients who visit the property independent of a gaming promoter. Our revenue from slot machine operations is based on the amount of handle (representing the total amount wagered) that is retained by us.

Our operating revenues for the periods indicated below were:

	For the six months ended					
	June 30, 2008	December 31, 2008	June 30, 2009	December 31, 2009	June 30, 2010	December 31, 2010
	(unaudited)	(unaudited)	(unaudited) (HK dollars in thousands)	(unaudited)	(unaudited)	(unaudited)
Operating revenue . .	3,582,603	3,333,854	3,158,702	4,568,384	5,062,841	7,371,887

#### ***Other Revenue***

Other revenue consists of hotel room revenue, food and beverages revenue, retail revenue and other service revenue.

**Hotel Rooms Revenue:** MGM Macau currently operates 587 hotel rooms and suites. Hotel rooms revenue is derived from the cash rental of rooms and is recognized when rooms are occupied.

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**Food and Beverages Revenue:** Revenue from this business is derived from food and beverages sales in our restaurants and bars and is recognized when the service is provided.

**Retail and Other Service Revenue:** Retail revenue is generated through product sales from our stores and lease income from stores that pay us a lease amount based on factors including sales value, brand value, income potential, floor area and other criteria. Other service revenue is generated by miscellaneous services offered in our hotel including revenue from our spa and salon and communications charges.

### ***Operating Costs and Expenses***

Operating costs and expenses consist of special gaming tax and special levy to the Macau Government, staff costs, operating and administrative expenses and depreciation and amortization.

#### ***Gaming Tax and Levy to the Macau Government***

We are required to pay to the Macau Government a special gaming tax, gaming premium and a special levy. The special gaming tax is assessed at the rate of 35% of our gross gaming revenue. Gaming premium is comprised of (i) a fixed portion in an amount equal to MOP30 million (HK\$29.1 million) and (ii) a variable portion that is calculated based on the number of gaming tables and gaming machines, including slot machines, that we operate. The special levy includes (i) an amount equivalent to 1.6% of our annual gross gaming revenue that will be available to a public foundation for philanthropic activities in Macau and (ii) an amount equivalent to 2.4% of our annual gross gaming revenue for urban development, tourism promotion and social security in Macau. We are required to withhold applicable tax, according to the rate in effect as set by the Macau Government, from any commissions paid to gaming promoters.

#### ***Staff Costs***

Staff costs primarily consist of wages and salaries and training expenses incurred in the course of our operations, retirement plan contributions and Macau social security costs. We also cover health insurance, vacation and certain other staff costs.

#### ***Directors' emoluments***

No emoluments were paid by the Group to the directors during the Track Record Period as their emoluments were borne by the shareholders and were not charged to the Group throughout the Track Record Period.

#### ***Operating and Administrative Expenses***

Operating and administrative expenses are mainly comprised of junket commissions, provision for doubtful accounts, operating lease expenses for our casino and hotel property, office premises, staff quarters and a warehouse, cost of sales for food and beverages and marketing, operating supplies, utilities, entertainment, traveling and office expenses incurred in the course of our operations.

#### ***Depreciation and Amortization***

Depreciation and amortization expenses mainly arise from depreciation of property and equipment as well as the amortization of the land use right premium in respect of our casino and hotel property and the subconcession premium.

#### ***Interest Income***

We earn interest income on cash held in our banks.

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### ***Finance Costs***

Finance costs consist of interest expense on loans from MGM Resorts International (which were fully repaid in December 2010), interest expense from bank borrowings and commitment fees on undrawn amounts of credit facilities and effective interest on loans from Shareholders.

### ***Net Foreign Currency Difference***

Net foreign currency gain/loss arises from exchange rate driven fluctuations in the value of our assets and liabilities that are denominated in currencies other than Hong Kong dollars, including Patacas and U.S. dollars.

### ***Taxation***

We and our subsidiaries file income tax returns in Macau and Hong Kong as required by law. We are exempt from income tax in the Cayman Islands. Casino operators in Macau are subject to a 12% Complementary Tax on income from gaming operations and in respect of which we have received a five-year exemption that expires in 2011. Our non-gaming income remains subject to the Macau Complementary Tax and casino winnings remain subject to the Macau special gaming tax and special levy (amounting to 39% in the aggregate) under the Subconcession Contract.

Our Directors have considered whether to recognize deferred tax assets on unutilized tax losses and deductible temporary differences based on IAS 12 — Income Taxes. The nature of our business in games of chance creates inherent risks in predicting our future profit streams. We are exempted from Macau Complementary Tax for income generated from gaming operations up to 2011. Furthermore, tax losses can only be utilized during the three year period following the date of the related tax assessment. In light of these considerations, no deferred tax assets have been recognized by our Company.

### ***Net Profit or Loss Attributable to Owners of Our Company***

Net profit or loss attributable to owners of our Company represents the net income generated from us that will be attributable to equity holders of the Group.

### ***Adjusted EBITDA***

The following table sets forth the reconciliation of adjusted EBITDA to (loss)/profit for 2008, 2009 and 2010, respectively. Adjusted EBITDA is profit before finance costs, income taxes, depreciation and amortization, interest income, net foreign currency difference, property charges and other items which mainly include loss on disposal/write-off of property and equipment and other non-recurring expenses. Adjusted EBITDA is used by management as the primary measure of our operating performance and to compare our operating performance with that of our competitors. However, adjusted EBITDA should not be considered in isolation; construed as an alternative to profit or operating profit; treated as an indicator of our IFRS operating performance, other combined operations or cash flow data; or interpreted as an alternative to cash flow as a measure of liquidity. Adjusted EBITDA presented in this prospectus may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors.

Management uses adjusted EBITDA as one of several indicators in assessing the performance of our business. While management believes these figures may provide useful additional information to investors when considered in conjunction with our IFRS financial statements and other information in this prospectus, less reliance should be placed on adjusted EBITDA as a measure in assessing our overall financial performance.

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	For the year ended December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
(Loss)/profit for the year	(296,663)	(167,131)	1,566,035
Add/(less):			
Depreciation and amortization	746,986	793,084	777,780
Interest income	(8,311)	(305)	(1,299)
Finance costs	450,681	531,671	450,516
Net foreign currency difference	(30,626)	(663)	5,012
Taxation	186	658	292
Property charges and others	78,647	21,962	32,502
Adjusted EBITDA (unaudited)	<u>940,900</u>	<u>1,179,276</u>	<u>2,830,838</u>

Our Adjusted EBITDA for the periods indicated below was:

	For the six months ended					
	June 30, 2008	December 31, 2008	June 30, 2009	December 31, 2009	June 30, 2010	December 31, 2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(HK dollars in thousands)					
Adjusted EBITDA	531,135	409,765	245,765	933,511	1,045,195	1,785,643

## Review of Historical Operating Results

### Summary Revenue Table

The following table presents selected revenue line items from the consolidated statements of comprehensive income and certain other data:

	For the year ended December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
Casino revenue	6,603,357	7,455,854	12,126,848
VIP gaming operations	4,009,964	4,342,246	7,681,219
Mass market gaming operations	2,146,623	2,433,304	3,459,606
Slot machine gaming operations	446,770	680,304	986,023
Other revenue	313,100	271,232	307,880
Hotel rooms revenue	132,314	102,213	101,203
Food and beverages revenue	149,695	138,093	171,088
Retail and other services revenue	31,091	30,926	35,589
Operating revenue	<u>6,916,457</u>	<u>7,727,086</u>	<u>12,434,728</u>

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	For the year ended December 31,		
	2008	2009	2010
	(unaudited)	(unaudited)	(unaudited)
	(HK dollars in thousands except for numbers of gaming tables and slots)		
Licensed VIP gaming tables . . . . .	103	148	172
VIP table games turnover . . . . .	195,277,053	274,451,017	407,610,681
VIP gross table games win . . . . .	5,945,429	6,927,176	11,863,641
VIP table games win percentage . . . . .	3.0%	2.5%	2.9%
Average daily gross win per gaming table . . . . .	157.6	127.9	188.6
Licensed mass market gaming tables . . . . .	270	263	230
Mass market table games drop . . . . .	10,409,987	11,787,264	14,617,353
Mass market gross table games win . . . . .	2,160,317	2,443,293	3,443,849
Mass market table games win percentage . . . . .	20.8%	20.7%	23.6%
Average daily gross win per gaming table . . . . .	21.8	25.4	41.1
Number of slot machines . . . . .	838	896	1,006
Slot machine handle . . . . .	6,224,417	11,260,179	17,735,546
Slot machine gross win . . . . .	447,922	682,617	992,272
Slot hold percentage . . . . .	7.2%	6.1%	5.6%
Average daily win per slot . . . . .	1.5	2.1	2.7
Commissions and discounts . . . . .	(1,935,464)	(2,585,945)	(4,187,303)
Room occupancy rate . . . . .	75.2%	87.5%	93.7%
Revenue per room . . . . .	1,264	1,373	1,709

### Discussion of Results of Operations

**Financial results for the year ended December 31, 2009 compared to financial results for the year ended December 31, 2010**

#### Operating Revenue

Operating revenue, comprising casino revenue and other revenue, increased by 60.9% from HK\$7,727.1 million in 2009 to HK\$12,434.7 million in 2010. This increase was due primarily to increased VIP and main floor business, driven by higher visitation levels and our enhanced marketing efforts.

#### *Casino Revenue*

Casino revenue increased by 62.6%, from HK\$7,455.9 million (96.5% of operating revenue) for 2009 to HK\$12,126.8 million (97.5% of operating revenue) for 2010. The components of this increase were:

*VIP Casino Gaming Operations.* Revenue from VIP gaming operations increased by 76.9% from HK\$4,342.2 million (56.2% of operating revenue) in 2009 to HK\$7,681.2 million (61.8% of operating revenue) for 2010 and VIP table games turnover increased by 48.5% from HK\$274,451 million for 2009 to HK\$407,611 million for 2010. The increases were primarily due to increased levels of VIP play resulting from increased levels of VIP business, in response to which we adapted gaming products and areas to cater to the preferences of our VIP patrons. VIP table games win percentage increased from 2.5% to 2.9% over the comparable periods in 2009 and 2010.

*Mass Market Casino Gaming Operations.* Revenue from mass market gaming operations increased by 42.2% from HK\$2,433.3 million (31.5% of operating revenue) for 2009 to HK\$3,459.6 million (27.8% of operating revenue) for 2010 and mass market table games

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drop increased by 24.0% from HK\$11,787.3 million for 2009 to HK\$14,617.4 million for 2010. The increases were due to general market recovery, a continued focus on premium mass market play and enhanced marketing efforts targeting higher-spending customers. Mass market table games win percentage increased from 20.7% to 23.6% over the comparable periods in 2009 and 2010.

*Slot Machine Gaming Operations.* Revenue from slot machine gaming operations increased by 44.9% from HK\$680.3 million (8.8% of operating revenue) for 2009 to HK\$986.0 million (7.9% of operating revenue) for 2010. Slot machine handle increased by 57.5% from HK\$11,260 million for 2009 to HK\$17,736 million for 2010. In addition to overall market growth, the increases resulted primarily from continued improvements to slot machine mix, increasing play on high denomination slot machines and enhanced marketing efforts. Slot machine win per unit per day increased by 29.4% from HK\$2,088 for 2009 to HK\$2,701 for 2010. Slot machine hold percentage decreased from 6.1% to 5.6% over the comparable periods in 2009 and 2010 because of the lower hold percentage of high denomination slot machines.

### *Other Revenue*

Other revenue, which includes revenue from hotel rooms, food and beverages, retail and other services, increased by 13.5%, from HK\$271.2 million (3.5% of operating revenue) for 2009 to HK\$307.9 million (2.5% of operating revenue) for 2010. The components were as follows:

*Hotel Rooms Revenue.* Our hotel rooms revenue decreased by 1.0% from HK\$102.2 million for 2009 to HK\$101.2 million for 2010. The decrease in revenue was primarily due to the increased number of complimentary rooms given to VIP and other premium players.

*Food and Beverages Revenue.* Our food and beverages revenue increased by 23.9% from HK\$138.1 million for 2009 to HK\$171.1 million for 2010. The increase in food and beverages revenue was primarily due to increased consumption of food and beverages in our restaurants arising from generally increased visitation levels at our property and the conversion of several of our restaurants into casual dining eateries over the period.

*Retail and Other Services Revenue.* Our retail and other services revenue increased by 15.1% from HK\$30.9 million for 2009 to HK\$35.6 million for 2010. The increase in retail and other services revenue was primarily due to increased visitation levels to our retail outlets and use of other services.

### Operating Costs and Expenses

#### *Special Gaming Tax and Special Levy to the Macau Government*

Special gaming tax and special levy to the Macau Government increased by 60.9% from HK\$4,028.7 million for 2009 to HK\$6,480.3 million for 2010. This increase was in line with increased casino gaming revenues over the period.

#### *Staff Costs*

Staff costs increased by 3.6% from HK\$1,147.4 million for 2009 to HK\$1,188.4 million for 2010. The increase was primarily due to increased staffing costs in line with our higher business volumes. In addition, marketing staff levels increased in order to handle our enhanced marketing efforts.

#### *Operating and Administrative Expenses*

Operating and administrative expenses increased by 41.2% from HK\$1,393.7 million for 2009 to HK\$1,967.7 million for 2010. The increase was primarily due to an increase in advertising and



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promotional expenses of 68.3% from HK\$199.3 million for 2009 to HK\$335.3 million for 2010. In line with our increased VIP business, commissions paid and payable to our gaming promoters also increased by 71.1% from HK\$533.5 million for 2009 to HK\$912.8 million for 2010. Cost of food and beverages increased by 18.4% from HK\$146.9 million in 2009 to HK\$173.9 million in 2010 and other expenses (including consultancy, professional and support services) increased by 16.3% from HK\$222.2 million in 2009 to HK\$258.5 million in 2010. These increases were moderated by a decrease in allowance for doubtful debts of 17.2% from HK\$98.3 million in 2009 to HK\$81.3 million in 2010, on a net basis, as a result of tighter collection effort. Utilities and fuel costs were broadly similar at HK\$110.7 million in 2009 and HK\$110.0 million in 2010.

### *Depreciation and Amortization*

Depreciation and amortization decreased by 2.0% from HK\$793.1 million for 2009 to HK\$777.8 million for 2010. The decrease was mainly due to full depreciation of computer equipment, software and certain other assets.

### Interest Income

Interest income increased from HK\$0.3 million for 2009 to HK\$1.3 million for 2010. Interest income increased primarily due to higher average bank balances during the period.

### Finance Costs

Finance costs decreased by 15.3% from HK\$531.7 million for 2009 to HK\$450.5 million for 2010, primarily due to decreased bank fees and charges as well as lower bank loan borrowings in 2010.

### Net Foreign Currency Difference

Net foreign currency difference decreased from a gain of HK\$0.7 million for 2009 to a loss of HK\$5.0 million for 2010 primarily due to currency fluctuations during the period.

### Taxation

No provision for Macau Complementary Tax has been made as we are exempted from Macau Complementary Tax for income generated from gaming operations for five years from 2007 to 2011. Macau Complementary Tax is calculated at progressive rates up to a maximum of 12% of the assessable profit each year.

Macau and Hong Kong profit tax has been provided for in respect of MGM Grand Paradise's subsidiaries on their estimated taxable profit each year. Macau and Hong Kong profit tax provided for in respect of MGM Macau's Hong Kong based subsidiary was HK\$0.3 million for 2010.

### Profit for the Period

As a result of the foregoing, our profit for the period and total comprehensive income attributable to owners increased significantly from a loss of HK\$167.1 million for 2009 to a profit of HK\$1,566.0 million for 2010.

## ***Financial results for the year ended December 31, 2008 compared to the year ended December 31, 2009***

### Operating Revenue

Total operating revenue increased by 11.7% from HK\$6,916.5 million in 2008 to HK\$7,727.1 million in 2009. This was due to a combination of factors including overall market growth in the second half of 2009 as a result of general economic recovery, strong visitation levels

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due to easing of travel restrictions by China and the increased number of Macau gaming properties and intensified marketing initiatives carried out in the second half of 2009.

### *Casino Revenue*

Casino revenue increased by 12.9% from HK\$6,603.4 million (95.5% of total operating revenue) in 2008 to HK\$7,455.9 million (96.5% of total operating revenue) in 2009. The components of this increase were as follows:

*VIP Casino Gaming Operations.* VIP table turnover increased by 40.5% from HK\$195,277.1 million in 2008 to HK\$274,451.0 million in 2009. VIP gaming revenue increased by 8.3% from HK\$4,010.0 million in 2008 to HK\$4,342.2 million in 2009. The increases were primarily due to intensification of our VIP marketing efforts and an increase in the number of gaming promoters and VIP tables (which increased by 44 from 103 at the end of 2008 to 147 at the end of 2009). The increase in VIP gaming operations revenue was partially offset by the decrease in VIP gross table games win from 3.0% in 2008 to 2.5% in 2009, which was lower than the theoretically expected win percentage of 2.7%-3.0%.

*Mass Market Casino Gaming Operations.* Mass market table games drop increased by 13.2% from HK\$10,410.0 million in 2008 to HK\$11,787.3 million in 2009. Mass market gaming revenue increased by 13.4% from HK\$2,146.6 million in 2008 to HK\$2,433.3 million in 2009. These increases were due to general market recovery in the second half of 2009 and our increased marketing efforts, focused particularly on the premium mass market segment. Our win per unit per day increased by 16.6% from HK\$21,822 in 2008 to HK\$25,441 in 2009 due to overall increased gaming volumes.

*Slot Machine Gaming Operations.* Slot machine handle increased by 80.9% from HK\$6,224.4 million in 2008 to HK\$11,260.2 million in 2009. Slot machine gaming revenue increased by 52.3% from HK\$446.8 million in 2008 to HK\$680.3 million in 2009. The increases resulted from an increase in the number of slot machines from 813 at the end of 2008 to 955 at the end of 2009, improvements to our slot machine mix to suit players' preferences and increasing high denomination play which represented 62.1% of total slot win. As part of the overall increase in the number of slot machines, we also increased the number of high-end slot machines.

### *Other Revenue*

Other revenue decreased by 13.4% from HK\$313.1 million in 2008 to HK\$271.2 million in 2009. The components were as follows:

*Hotel Rooms Revenue.* Our hotel rooms revenue decreased by 22.7% from HK\$132.3 million in 2008 to HK\$102.2 million in 2009. The decrease was due to an increased number of complimentary hotel rooms given to VIP players, which were recorded at lower overall chargeable rates than cash rates, in line with industry practice. Our hotel rooms occupancy increased 22.0% from 150,693 in 2008 to 183,843 in 2009, and guests who were gaming customers increased from 49.9% in 2008 to 67.2% in 2009. This reflected increased occupancy by members of our newly introduced customer loyalty program, who qualified for accommodation at deeply discounted promotional rates available to our most frequent gaming patrons.

*Food and Beverages Revenue.* Our food and beverages revenue decreased by 7.8% from HK\$149.7 million in 2008 to HK\$138.1 million in 2009. The decrease was due to an increased amount of complimentary food and beverages offered to our gaming players, resulting in lower chargeable revenue.

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*Retail and Other Services Revenue.* Our retail and other services revenue decreased slightly by 0.5% from HK\$31.1 million in 2008 to HK\$30.9 million in 2009. Usage levels of these services were broadly similar in both 2008 and 2009.

### Operating Costs and Expenses

#### *Special Gaming Tax and Special Levy to the Macau Government*

The special gaming tax and special levy increased by 17.4% from HK\$3,432.8 million in 2008 to HK\$4,028.7 million in 2009. The increase was due to increased gross gaming revenue of HK\$10,041.8 million in 2009 compared to HK\$8,538.8 million in 2008.

#### *Staff Costs*

Staff costs decreased by 10.1% from HK\$1,275.6 million in 2008 to HK\$1,147.4 million in 2009. The decrease was due to optimization of headcount and staffing levels across all business areas, including casino, hotel, and food and beverages operations.

#### *Operating and Administrative Expenses*

Operating and administrative expenses increased by 3.6% from HK\$1,345.8 million in 2008 to HK\$1,393.7 million in 2009. The increase was mainly due to higher advertising and promotional expenses of HK\$199.3 million in 2009, compared to HK\$173.2 million in 2008, an increase of 15.1%. Promotional expenses increased principally due to the introduction of our customer loyalty program and included expenses associated with events and promotions, transportation and loyalty club points. In addition, our gaming promoter commissions paid and payable increased by 28.8% from HK\$414.1 million in 2008 to HK\$533.5 million in 2009. Allowance for doubtful debts, net increased by 48.8% from HK\$66.0 million in 2008 to HK\$98.3 million in 2009 due mainly to credit losses in respect of two in-house VIP clients. These increases were offset by a reduction in the cost of food and beverages of 14.3% from HK\$171.5 million in 2008 to HK\$146.9 million in 2009, a reduction in other expenses (including consultancy, professional and support services) of 27.3% from HK\$305.4 million in 2008 to HK\$222.2 million in 2009 and a reduction in utilities and fuel costs of 19.1% from HK\$136.9 million in 2008 to HK\$110.7 million in 2009.

#### *Depreciation and Amortization*

Depreciation and amortization increased by 6.2% from HK\$747.0 million in 2008 to HK\$793.1 million in 2009 as a result of increased depreciation costs associated with our casino and hotel property and equipment. These costs related principally to increased capital expenditures incurred in connection with the expansion of gaming floor capacity and the purchase and fitting out of an increased number of slot machines and gaming tables at our Macau property.

### Interest Income

Interest income decreased by 96.3% from HK\$8.3 million in 2008 to HK\$0.3 million in 2009. The decrease was due to lower interest rates payable for cash balances held at banks.

### Finance Costs

Finance costs increased by 18.0% from HK\$450.7 million in 2008 to HK\$531.7 million in 2009. The increase was primarily due to fees and charges of HK\$161.2 million incurred in respect of amendments made to the covenants of our credit facilities, partly offset by a reduction in overall market interest rates.

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### Net Foreign Currency Difference

Net foreign currency difference decreased by 97.8% from HK\$30.6 million in 2008 to HK\$0.7 million in 2009. The net foreign exchange gain was mainly caused by revaluation of shareholder loans, a loan from MGM Resorts International and a part of our bank borrowings which are denominated in U.S. dollars.

### Taxation

No provision for Macau Complementary Tax has been made as we are exempted from Macau Complementary Tax for income generated from gaming operations for five years from 2007 to 2011. Macau Complementary Tax is calculated at progressive rates up to a maximum of 12% of the assessable profit each year.

Macau and Hong Kong profit tax has been provided for in respect of MGM Grand Paradise's subsidiaries on their estimated taxable profit for each year. Taxation increased from HK\$0.2 million in 2008 to HK\$0.7 million in 2009, due to an increase in the taxable income of a Hong Kong based subsidiary.

### Loss for the Year

As a result of the foregoing, loss for the year and total comprehensive loss attributable to owners of the Company decreased by 43.7% from HK\$296.7 million in 2008 to HK\$167.1 million in 2009. We had not fully implemented our business and marketing strategies in 2008 and 2009. We continued to develop these strategies in each of these two years and to address ongoing operating inefficiencies, particularly in staffing. We also incurred charges in connection with amendments to our then-existing Loan Facility. These factors contributed to our net loss position in 2008 and 2009.

### Subsequent Events

During the first quarter of 2011, we continued to focus on enhancing our operating efficiencies, implementing and marketing our customized loyalty program for main floor players and increasing VIP patron visitation to our casino gaming resort through optimizing our gaming products and areas. Our operating revenues for the months ended January 2011, February 2011 and March 2011 were HK\$1,432.3 million, HK\$1,713.8 million and HK\$1,519.7 million, respectively. Our adjusted EBITDA results for the months ended January 2011, February 2011 and March 2011 were HK\$393.9 million, HK\$390.3 million and HK\$362.5 million, respectively. Our VIP gross table games win, mass market gross table games win and slot machine gross win for the months of January 2011, February 2011 and March 2011, respectively, are set forth below:

	<u>January 2011</u> (unaudited)	<u>February 2011</u> (unaudited)	<u>March 2011</u> (unaudited)
	(HK dollars in thousands)		
VIP gross table games win . . . . .	1,337,208	1,895,443	1,546,514
Mass market gross table games win . . . . .	377,197	362,943	364,501
Slot machine gross win . . . . .	125,968	132,660	151,379

Our operating profits for the quarters ended March 31, 2010 and March 31, 2011 were approximately HK\$364.3 million and HK\$966.8 million, respectively, and depreciation and amortisation expenses for the same periods were HK\$191.3 million and HK\$179.6 million, respectively. During the quarter ended March 31, 2011, we paid dividends of HK\$475.7 million to our shareholders, of which HK\$237.8 million, HK\$47.6 million and HK\$190.3 million were paid to MGM Resorts International Holdings, Pansy Ho and Grand Paradise Macau Limited, respectively.

The selected financial information disclosed above for the quarters ended March 31, 2010 and 2011 and the months ended January, February and March 2011 (except for adjusted EBITDA), as extracted from our consolidated financial information for the three months ended March 31, 2011

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that was reviewed by our reporting accountants in accordance with HKSRE 2400, reflects all adjustments that our management believes are necessary for the fair presentation of such information under IFRS. Results for interim periods are not indicative of results for the full year.

We believe our net revenue and adjusted EBITDA margin will improve in subsequent periods as a result of our strategies to continue to build on our core strengths by optimizing our gaming products and services and expanding key gaming areas on our property, strengthening our brand appeal and marketing reach, refining our customer segmentation approach. However, our net revenue and adjusted EBITDA margin may continue to be adversely impacted by factors set out in the section headed "Risk Factors" in this prospectus.

According to MGM Resorts International's earnings release for the quarter ended March 31, 2011, MGM Grand Paradise's operating income for the quarter ended March 31, 2011 is US\$126 million, including depreciation expense of US\$20 million, compared to operating income of US\$49 million in quarter ended March 31, 2010, which included depreciation expense of US\$22 million. This represents a 158% increase in operating income from the quarter ended March 31, 2010. The Company received approximately US\$31 million in distributions from MGM Macau during the first quarter of 2011. The unaudited financial data contained in MGM Resorts International's earnings release for the quarter ended March 31, 2011 was prepared in accordance with U.S. GAAP and may not be directly comparable to our financial information, which is prepared in accordance with IFRS.

### Liquidity and Capital Resources

#### *Capital Resources*

Since commencing our operations, we have generally funded our working capital and recurring expenses as well as capital expenditures from long-term borrowings, shareholder loans and an additional loan from MGM Resorts International, supplemented by cash flows from operations.

Our cash balance at December 31, 2010 was HK\$1,922.7 million. This cash was available for operations, new development activities and enhancements to MGM Macau.

The following table presents a summary of our cash flows for the years ended December 31, 2008, 2009 and 2010.

#### Consolidated Statement of Cash Flows

	For the year ended December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
Net cash generated by operating activities . . . . .	113,810	1,012,689	3,359,528
Net cash used in investing activities. . . . .	(539,538)	(243,093)	(255,134)
Net cash generated by (used in) financing activities. . . . .	603,482	(242,353)	(3,157,382)
Net increase (decrease) in cash and cash equivalents . . . . .	177,754	527,243	(52,988)
Cash and cash equivalents at the beginning of the year . . .	1,270,714	1,448,468	1,975,711
Cash and cash equivalents at the end of the year. . . . .	<u>1,448,468</u>	<u>1,975,711</u>	<u>1,922,723</u>

#### *Cash Generated by Operating Activities*

Our net cash generated from operating activities is primarily affected by operating income generated and changes in working capital. Net cash generated by operating activities was HK\$3,359.5 million, HK\$1,012.7 million and HK\$113.8 million for 2010, 2009 and 2008, respectively.

Operating cash flows before movements in working capital for 2010 were HK\$2,926.6 million and the net cash generated by operating activities increased to HK\$3,359.5 million primarily due to increased operating revenue and profit as well as an increase in payables and accrued charges of

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HK\$996.7 million, partly offset by an increase in trade receivables of HK\$378.1 million arising from credit extended to junket operators.

Operating cash flows before movements in working capital for 2009 were HK\$1,260.7 million and the net cash generated by operating activities reduced to HK\$1,012.7 million primarily due to an increase in trade receivables of HK\$581.1 million, as we had extended credit to junket operators, and a decrease in construction retention payable of HK\$104.7 million due to payments made following the completion of construction of our Macau property. These were partially offset by an increase in payables and accrued charges (including gaming taxes) of HK\$359.0 million and an increase in deposits and advances of HK\$104.6 million.

Operating cash flows before movements in working capital for 2008 were HK\$927.8 million and the net cash generated by operating activities reduced to HK\$113.8 million primarily due to an increase in trade receivables of HK\$397.9 million arising from credit extended to junket operators and a decrease in payables and accrued charges of HK\$472.1 million, which was mainly attributable to the decrease in construction costs upon the opening of our Macau property. These amounts were partially offset by an increase in deposits and advances of HK\$88.1 million.

### ***Cash Used in Investing Activities***

Net cash used in investing activities was HK\$255.1 million for 2010, HK\$243.1 million for 2009 and HK\$539.5 million for 2008. In all such periods, payments for construction in progress of and purchase of property and equipment for MGM Macau were the major components of cash flows used in investing activities. Payment for construction in progress relates mostly to renovation works carried out throughout the property.

### ***Cash Generated by/Used in Financing Activities***

Net cash used in financing activities was HK\$3,157.4 million for 2010, reflecting repayment of our bank borrowings and our shareholder and related party loans, offset by additional amounts drawn down for the refinancing of our debt. Net cash used in financing activities was HK\$242.4 million for 2009, reflecting bank borrowings drawn down and repaid during the year. Net cash generated by financing activities was HK\$603.5 million for 2008.

### **Indebtedness**

The following table presents a summary of our bank borrowings as at December 31, 2008, 2009, 2010, and as at March 31, 2011.

	As at December 31,			As at March 31,
	2008	2009	2010	2011
	(HK dollars in thousands)			
Bank borrowings:				
Secured A term loan facility . . . . .	6,467,825	5,246,352	—	—
Secured A revolving credit facility . . . . .	—	1,474,891	—	—
Secured B term loan facility . . . . .	—	—	4,086,730	4,098,613
Secured B revolving credit facility . . . . .	—	—	1,800,000	1,310,000
	<u>6,467,825</u>	<u>6,721,243</u>	<u>5,886,730</u>	<u>5,408,613</u>



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The following table presents a summary of a breakdown of our bank borrowings by maturity dates as at the dates indicated.

	As at December 31,			As at March 31, 2011
	2008	2009	2010	
	(HK dollars in thousands)			
Carrying amount repayable:				
On demand or within one year . . . . .	401,057	1,062,735	—	—
More than one year, but not exceeding two years . . . . .	1,215,900	2,939,130	214,500	321,750
More than two years, but not exceeding five years . . . . .	4,850,868	2,719,378	5,672,230	5,086,863
More than five years . . . . .	—	—	—	—
	<u>6,467,825</u>	<u>6,721,243</u>	<u>5,886,730</u>	<u>5,408,613<sup>(1)</sup></u>

**Note:**

(1) The carrying amount represents principal amount of our bank borrowings as at March 31, 2011 of HK\$5.6 billion, after deduction of debt finance costs.

As at March 31, 2011, we had undrawn banking facilities in the total amount of HK\$1.8 billion. During the year ended December 31, 2008, MGM Grand Paradise received a waiver letter from compliance with certain financial covenants in its then-existing credit facility for the fourth quarter of that year. The waiver was requested in order to give us sufficient flexibility in our financial planning at the time and was not requested in response to any actual or impending breach of financial covenants under such credit facility. MGM Grand Paradise paid to the banks an amount of approximately HK\$42.0 million for the waiver and this was recognized as an expense during the year. All outstanding amounts under our prior credit facility were repaid in full on July 30, 2010. There was no delay or default in repayment of borrowings from banks and payment to third parties during the Track Record Period. The credit facilities are secured by a charge over the shares and other assets of MGM Grand Paradise and its subsidiaries.

We have previously received loans from certain of our shareholders. We obtained unsecured Loan Notes in the principal amounts of US\$135.0 million (approximately HK\$1.0 billion), which were interest-free and repayable based on agreed terms. In addition, MGM Resorts International granted to us an interest-bearing US\$100.0 million (approximately HK\$775.0 million) Loan Facility. The interest payable on the Loan Facility was the aggregate of a margin of 1% and the cost of funds of MGM Resorts International. The amounts were repaid in full as at December 22, 2010.

As at March 31, 2011, MGM Grand Paradise has given bank guarantees totaling HK\$300.0 million.

Save as disclosed in this section of the prospectus, as at March 31, 2011 we did not have any outstanding loan capital issued or agreed to be issued, borrowings or other similar indebtedness, overdrafts, liabilities under acceptances or acceptance credits or hire purchase commitments, debentures, mortgages, charges, banking facilities, guarantees, finance leases or other material contingent liabilities.

Our Directors confirm that there has been no material adverse change in our Group's indebtedness, commitments and contingent liabilities since December 31, 2010.

### Description of Material Indebtedness

#### Term Loan Facility and Revolving Facility

##### Overview

On July 27, 2010, MGM Grand Paradise entered into a new HK\$7,410.0 million credit agreement with a syndicate of lenders and repaid the outstanding amounts under its prior credit facility in full

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on July 30, 2010. As at December 31, 2010, MGM Grand Paradise had total bank borrowings under loan and credit facilities of HK\$6,090.0 million.

The new credit facilities include a HK\$4,290.0 million term loan facility and a HK\$3,120.0 million revolving credit facility (under which loans denominated in U.S. dollars also may be requested). The revolving credit loan facility may be used to finance any proper corporate purposes of MGM Grand Paradise and its subsidiaries.

Of the total term loan facility, approximately HK\$3.2 billion has been designated as a B term loan commitment. Of the total revolving credit facility, approximately HK\$1.2 billion has been designated as a B revolving credit commitment. These B term loan commitments and B revolving credit commitments may not be used directly for purposes connected with the operation of casinos or other forms of gaming.

The indebtedness under the term loan facility and the revolving credit facility is guaranteed by MGM China Holdings Limited and by certain subsidiaries of MGM Grand Paradise.

MGM China Holdings Limited is not restricted under the term loan facility or the revolving credit facility from incurring additional indebtedness or otherwise subject to operational covenants.

### *Principal and Interest*

The revolving loans under the facility may be redrawn up to June 2015. The principal amount of the term loans is required to be repaid in quarterly installments, commencing in July 2012, and in one lump sum of HK\$2,145.0 million upon final maturity in July 2015.

MGM Grand Paradise pays interest at HIBOR or LIBOR (depending on the currency of the borrowing) plus an initial margin of 4.5% per annum. Depending on MGM Grand Paradise's adjusted leverage ratio<sup>(1)</sup>, the margin may decrease to a minimum of 3.0% per annum. As of March 31, 2011, MGM Grand Paradise paid interest at HIBOR plus a margin of 3.0%.

### *General Covenants*

The facilities contain general covenants restricting the ability of the obligor group (MGM Grand Paradise and certain of its subsidiaries, but not our Company) to, among other things, create or allow to exist any security interest on any of their assets, dispose of all or any part of their assets, incur additional indebtedness other than any permitted financial indebtedness, change substantially the general nature of its business, enter into any amalgamation, demerger, merger or reconstruction, acquire or subscribe for shares or other ownership interests in or securities of any company or other person, acquire any business or incorporate any company, incur or allow to be outstanding any third party guarantee, enter into any derivative transaction other than for treasury management purposes, be the creditor in respect of any financial indebtedness or trade credit extended to its customers (except, amongst others, on normal commercial terms and in the ordinary course of trading activities of the obligor group), redeem, purchase, defease, retire or repay any of its shares, issue shares, or amend its constitutional documents. In each case, there are certain permitted exceptions to these restrictions.

### *Financial Covenants*

MGM Grand Paradise is required to maintain a specified adjusted leverage ratio at the end of each quarter while the loans are outstanding. For 2010, the specified adjusted leverage ratio is to be

#### **Notes:**

- (1) The adjusted leverage ratio means, at any calendar quarter end, the ratio of (a) the aggregate principal amount of all financial indebtedness of the obligor group (MGM Grand Paradise and certain of its subsidiaries but not our Company) other than (i) the mark to market value of any interest rate derivative transaction; (ii) the bank guarantees issued to the Macau Government; (iii) any subordinated debt; and (iv) any intercompany financial indebtedness within the obligor group to (b) bank adjusted EBITDA for the four calendar quarters ending at such calendar quarter end.

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no greater than 4.50 to 1.00 for each quarter. The adjusted leverage ratio is required to be no greater than 4.00 to 1.00 for each quarter during 2011 and no greater than 3.50 to 1.00 thereafter. In addition, MGM Grand Paradise is required to maintain a debt service coverage ratio<sup>(2)</sup> of no less than 1.50 to 1.00 at each quarter end. As of December 31, 2010, our adjusted leverage ratio was 2.16 to 1.00 and our debt service coverage ratio was 2.87 to 1.00. As at March 31, 2011, our leverage ratio under this credit agreement had decreased to approximately 1.60.

Based on our financial forecast and the prevalent business environment, we will monitor our compliance with our financial ratios on an ongoing basis. We will also renegotiate and refinance existing borrowings and raise new funds in the capital markets according to our business needs to manage our liquidity requirements and ensure covenant compliance.

### *Compliance with Covenants*

The Directors confirm that all accrued interest, fee payment and principal repayment obligations were met on schedule. There has been no material non-compliance with the financial covenants or general covenants contained in the credit facilities set forth above since the execution of the credit agreement or during the Track Record Period.

### *Mandatory Prepayments*

The facilities contain mandatory prepayment provisions which include, among other things, prepayment of all outstanding loans, together with accrued interest and all other amounts due thereunder, upon a change of control, a revocation, repudiation, termination or otherwise the unenforceability of the Subconcession Contract or the land concession contract or a sale of MGM Grand Paradise's business. If MGM Grand Paradise makes permitted restricted payments that would result in the pro forma adjusted leverage ratio exceeding 3.50:1.00, then, concurrently with any such payment, it must apply an additional amount towards prepayment of the facilities that is at least equal to the lower of the amount of any such permitted restricted payment or the amount which, immediately after prepayment of the facilities, would result in the pro forma adjusted leverage ratio not exceeding 3.50:1.00. MGM Grand Paradise is also required to apply towards the prepayment of the facilities any net insurance proceeds received in excess of US\$10,000,000 that do not go towards replacement or repair works unless such proceeds are applied within 180 days of receipt of the relevant insurance claim.

### *Dividend Restrictions*

MGM Grand Paradise is not allowed to declare, make or pay any dividends if its adjusted leverage ratio exceeds 4.00:1.00 and, to the extent its adjusted leverage ratio exceeds 3.50:1.00, may only pay dividends if it concurrently prepays the loans outstanding under the credit agreement. For the purpose of the facilities, certain subordinated debt obligations of MGM Grand Paradise are excluded from the underlying amount of total debt that is factored into the calculation of MGM Grand Paradise's adjusted leverage ratio.

### *Events of Default*

The facilities contain certain events of default, including but not limited to non-payment, breach of MGM Grand Paradise's other obligations under the facilities, cross-default in an amount greater than HK\$200,000,000, insolvency events, cessation of business, expropriation, judgments against MGM Grand Paradise in an amount greater than HK\$200,000,000, cessation or suspension of listing, and any material adverse change in MGM Grand Paradise's ability to meet its payment

(2) The debt service coverage ratio means, at any calendar quarter end, the ratio of (a) bank adjusted EBITDA to (b) debt service including (i) scheduled principal repayments of financial indebtedness incurred by the obligor group; (ii) interest, fees, discounts, commissions, costs and other finance payments and expenses in respect of financial indebtedness paid by the obligor group; and (iii) non-gaming tax.

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obligations or MGM Grand Paradise's business and assets. The facilities also contain certain insolvency-related proceedings relating to our Company.

A total divestment of holdings in MGM Grand Paradise by MGM Resorts International after the Listing would constitute a change of control pursuant to the facilities (unless in the process MGM Resorts International retains direct or indirect beneficial ownership of at least 25% of the issued share capital of MGM Grand Paradise). This is an event which gives rise to an immediate cancellation of, and obligation to prepay, the facilities in full.

Further, a termination of the existing trademark sublicense agreement, dated April 19, 2005, between (among others) MGM Resorts International Holdings, MGM Resorts International and MGM Grand Paradise will constitute an event of default under the facilities, except where the existing agreement is replaced by a new agreement under which MGM Grand Paradise and its subsidiaries can use the relevant IP rights on substantially the same commercial terms as those set out in the facilities or where the new agreement is in turn replaced or extended on terms not reasonably likely in any way to materially and adversely affect the interest of the finance parties under the facilities.

#### *Security and Guarantees*

Collateral for the term loan and revolving credit facility consists of substantially all of the assets of the obligor group and the shares of MGM Grand Paradise. Our Company and certain of MGM Grand Paradise's direct and indirect subsidiaries (where applicable) have executed guarantees as security.

#### **Description of Major Financial Ratios**

##### *Current Ratio*

As at December 31, 2008, 2009 and 2010, the current ratios of our Company were 0.90, 0.98 and 1.15, respectively.

As at December 31, 2010, our current ratio had increased primarily as a result of our increased trade receivables attributable to our increased casino business and the reclassification of the current portion of our bank borrowings as non-current liabilities following the refinancing of our previous credit facility. We believe we have sufficient operating cash flow to meet our current liabilities when due.

##### *Gearing Ratio*

As at December 31, 2008, 2009 and 2010 the gearing ratios of our Company were 93.9%, 96.2% and 72.8%, respectively. Our gearing ratio had improved in 2010 as a result of improved business performance and reduced loan balances.

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## Net Current Assets

The following table sets out our current assets, current liabilities and net current assets as at March 31, 2011:

	<u>(HK dollars in thousands)</u>
<b>Current Assets</b>	
Inventories .....	63,761
Trade receivables .....	977,889
Prepayments, deposits and other receivables .....	137,252
Land use right premium — short term .....	19,246
Amount due from a related company .....	—
Bank balances and cash .....	<u>2,179,116</u>
	<u>3,377,264</u>
<b>Current Liabilities</b>	
Payables and accrued charges .....	2,659,215
Deposits and advances .....	178,546
Construction retention payable — due within 12 months .....	3,552
Amounts due to related companies .....	6,068
Taxation payable .....	<u>264</u>
	<u>2,847,645</u>
<b>Net Current Assets .....</b>	<u><b>529,619</b></u>

### *Trade Receivables*

During the Track Record Period, the trade receivables balance was HK\$357.8 million at December 31, 2008, HK\$840.7 million at December 31, 2009 and HK\$1,137.4 million at December 31, 2010. The increase in trade receivables from HK\$840.7 million in 2009 to HK\$1,137.4 million in 2010 was due to the increase in credit extended to our increased numbers of gaming promoters and VIP patrons over the period. The majority of the trade receivables balance is from our associated junket operators and VIP clients.

There was an increase in our allowance for doubtful debts during the Track Record Period (HK\$56.5 million at December 31, 2008, HK\$151.3 million at December 31, 2009 and HK\$232.4 million at December 31, 2010). As customer payment experience evolves, management will continue to refine the estimated reserve for doubtful accounts. For more information on doubtful debts, see the section headed “— Critical Accounting Policies and Estimates — Allowance for doubtful debts”.

Subsequent cash collections of the trade receivables are materially in compliance with contractual payment terms, and our Directors confirm that we have made adequate provisions in relation thereto.

### *Payables and Accrued Charges*

The payables and accrued charges balance as at December 31, 2010 was HK\$2,706.1 million. Subsequent payments of trade payables reflected in our consolidated statement of financial position as at December 31, 2010 have continued to be made in a manner consistent with corporate policy and contractual requirements.

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The following sets out the ageing analysis and subsequent usage/settlement of inventory, trade receivables and trade payables as at December 31, 2010:

**Trade Receivables Subsequent Settlement**

	<u>(HK dollars in thousands)</u>
Within 30 days . . . . .	1,071,999
31 — 60 days . . . . .	62,063
61 — 90 days . . . . .	2,668
91 — 120 days . . . . .	692
Over 120 days . . . . .	<u>0</u>
Trade receivables as at December 31, 2010 . . . . .	<u>1,137,422</u>
Less: Subsequent settlement up to April 30, 2011 . . . . .	<u>1,114,716</u>
Outstanding balances as at April 30, 2011 . . . . .	<u><u>22,706</u></u>

**Trade Payables Subsequent Payment**

	<u>(HK dollars in thousands)</u>
Within 30 days . . . . .	39,789
31 — 60 days . . . . .	7,530
61 — 90 days . . . . .	1,120
91 — 120 days . . . . .	199
Over 120 days . . . . .	<u>230</u>
Trade payables as at December 31, 2010 . . . . .	<u>48,868</u>
Less: Subsequent payment up to April 30, 2011 . . . . .	<u>48,865</u>
Outstanding balances as at April 30, 2011 . . . . .	<u><u>3</u></u>

**Inventories Subsequent Usage**

	<u>(HK dollars in thousands)</u>
Retail merchandise . . . . .	1,375
Operating supplies . . . . .	20,072
Food and beverages . . . . .	<u>42,401</u>
Inventories as at December 31, 2010 . . . . .	<u>63,848</u>
Less: Subsequent issuance up to April 30, 2011 . . . . .	<u>37,713</u>
Outstanding balances as at April 30, 2011 . . . . .	<u><u>26,135</u></u>



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The following sets out an analysis of average inventory, trade receivables and trade payables turnover days during the Track Record Period. All turnover days are calculated based on operating revenue.

### INVENTORY TURNOVER DAYS

	As at December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
Inventory .....	40,983	44,240	63,848
Total operating revenue .....	6,916,457	7,727,086	12,434,728
Inventory turnover days .....	1.88	2.01	1.59

### PAYABLES TURNOVER DAYS

	As at December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
Total operating revenue .....	6,916,457	7,727,086	12,434,728
Trade payables and special gaming tax and special levy payables .....	358,254	338,972	914,675
Payables turnover days .....	17.30	16.47	18.40

### RECEIVABLES TURNOVER DAYS

	As at December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
Total operating revenue .....	6,916,457	7,727,086	12,434,728
Trade receivables .....	357,814	840,691	1,137,422
Receivable turnover days .....	10.13	28.31	29.03

There was no material fluctuation in the average inventory, trade receivables and trade payables turnover days during 2008, 2009 and 2010.

### Commitments and Contingent Liabilities

#### *Capital Commitments*

Our capital commitments are set forth below as at the dates indicated:

	As at December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
Construction and development of our casino and hotel complex			
Authorized but not contracted for .....	491,510	108,424	43,081
Contracted but not accounted for .....	212,037	21,938	30,900
	<u>703,547</u>	<u>130,362</u>	<u>73,981</u>

#### *Operating Lease Commitments*

We have outstanding commitments for future minimum leasehold payments under non-cancellable operating leases, in respect of the leasehold land on which our casino and hotel is

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situated, rental premises, warehouse, staff quarters, office equipment, light boxes and advertising booths, which fall due as set forth below:

	As at December 31,		
	2008	2009	2010
	(HK dollars in thousands)		
Within one year . . . . .	24,513	24,982	22,011
More than one year and not longer than five years . . . . .	42,322	29,439	21,016
More than five years . . . . .	49,113	46,284	43,439
	<u>115,948</u>	<u>100,705</u>	<u>86,466</u>

### ***Contingent Liabilities***

As at December 31, 2010, we had contingent liabilities in the form of bank guarantees given by us to certain parties totaling HK\$300.0 million, of which HK\$294.0 million was issued in favor of the Macau Government as required by the Subconcession Contract, HK\$2.0 million was issued in favor of a utility supplier and HK\$4.0 million was issued in favor of a related company in which certain of our Directors have non-controlling beneficial interests.

### **Quantitative and Qualitative Disclosures about Market Risks**

Market risk is the risk of loss arising from adverse changes in market rates and conditions, such as inflation, interest rates, and foreign currency exchange rates.

#### ***Foreign Exchange Risks***

The cash received from gaming activities is primarily in Hong Kong dollars. The Group reports gross gaming win to the Macau Government in Patacas and the gaming taxes are paid in Hong Kong dollars. Our costs and expenses are primarily denominated in Patacas and Hong Kong dollars. The value of a Pataca is directly linked to the value of a Hong Kong dollar and accordingly, we do not expect fluctuations in the values of these currencies to have a material impact on our operations. We also are exposed to foreign exchange risk in respect of any of our borrowings denominated in foreign currencies. Our current borrowings are denominated in Hong Kong dollars. See Note 32 to Appendix IA — Accountants' Report to this prospectus.

#### ***Interest Rate Risks***

One of our primary exposures to market risk is interest rate risk associated with our credit facilities that bear interest based on floating rates. We manage our interest rate risk by maintaining a level of cash and cash equivalents which management considers adequate to finance our operations and mitigate the effects of fluctuations in cash flows. We cannot assure you that these risk management strategies will have the desired effect, and interest rate fluctuations could have a negative impact on our results of operations. We do not hedge our interest rate risk. For further information, see Note 32 to Appendix IA — Accountants' Report to this prospectus.

### **Off Balance Sheet Arrangements**

We have not entered into any transactions with special purpose entities nor do we engage in any transactions involving derivatives that would be considered speculative positions. We do not have any retained or contingent interest in assets transferred to an unconsolidated entity.

### **Other Liquidity Matters**

We expect that we will fund our operations and capital expenditure requirements from operating cash flows, cash on hand and standby credit facilities. However, we cannot be sure that operating cash flows will be sufficient for this purpose. We may raise additional debt or refinance all

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or a portion of our indebtedness on or before maturity, but there can be no assurance that we will be able to do so on acceptable terms or at all.

New business developments or other unforeseen events may occur, resulting in the need to raise additional funds. There can be no assurances regarding the business prospects with respect to any other opportunity. Any other development would require us to obtain additional financing.

In the ordinary course of business, in response to market demands and client preferences and in order to increase revenue, we have made and will continue to make enhancements and refinements. We have incurred and will continue to incur capital expenditures related to these enhancements and refinements.

Taking into consideration our financial resources, including our cash and cash equivalents, standby credit facilities and internally generated funds, we believe that we have sufficient liquid assets to meet our working capital and operating requirements for the 12 months following the date of this prospectus.

### **Related Party Transactions**

The Group did not pay any marketing fees to MGM Resorts International for related party services during the Track Record Period save for the amount of US\$1.2 million which has been accrued as marketing fees payable to MGM Resorts International from July 1, 2010 to December 31, 2010. In addition, during the Track Record Period, MGM Grand Paradise had an arrangement with MGM International Holdings under which MGM Grand Paradise was granted a sublicense to use the Subject Marks on a royalty-free and non-exclusive basis solely in connection with the marketing and operation of our casino business in Macau, and as such no expense was recognized for such transaction in the Group's financial statements for the Track Record Period.

For further details of related party transactions, see Note 37 to Appendix IA — Accountants' Report to this prospectus. Our Directors confirm that all related party transactions are conducted on normal commercial terms and that their terms are fair and reasonable. For details of future related party transactions, particularly marketing, corporate support and branding and development services, see the section headed "Connected Transactions" in this prospectus, which sets out the terms on which these transactions will be conducted.

### **Financial Independence**

As at the Latest Practicable Date, the Group had no non-trade balances due to Directors, no non-trade balances due from Directors and no non-trade balances due from related parties.

### **Disclosure Requirement under the Listing Rules**

Our Directors have confirmed that there were no circumstances which, as at the Latest Practicable Date, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since December 31, 2010 (the date to which our latest consolidated financial results were prepared as set out in Appendix IA — Accountants' Report to this prospectus).

### **Quarterly reporting of MGM Resorts International**

In order to provide our Shareholders with material information that is made available to MGM Resorts International to comply with its SEC reporting obligations, we would need to provide unaudited quarterly financial information in Hong Kong in compliance with Rule 13.09 of the

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Listing Rules. When MGM Resorts International releases its quarterly financial information (which will contain financial information relating to our Group) in the United States, our Company will simultaneously make a Rule 13.09 announcement attaching a copy of such release. When MGM Resorts International files its quarterly financial report (which will contain financial information relating to our Group) on Form 10-Q generally within one week after the press release of the quarterly financial information, our Company will make a Rule 13.09 announcement attaching a copy of such Form 10-Q, which will contain financial information relating to our Group. The financial information relating to our Group contained in such release and such Form 10-Q will be presented in U.S. GAAP and there will not be any reconciliation of such financial information to IFRS. This reporting requirement will impose an additional administrative burden on us in preparing quarterly financial reporting statements. See the sections headed “Risk Factors — Risks Relating to Our Business — Risks Relating to Significant Shareholders — MGM Resorts International is subject to certain U.S. federal and state laws, which may impose on us greater administrative burdens and costs than we would otherwise incur” and “Risk Factors — Risks Relating to the Global Offering — The SEC filings and financial reports of MGM Resorts International include certain financial information regarding MGM Grand Paradise, which may not be directly comparable to our IFRS financial information” in this prospectus.

### Unaudited Pro Forma Adjusted Net Tangible Assets

The following unaudited pro forma data relating to our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on our net tangible assets as at December 31, 2010, as if the Global Offering had taken place on December 31, 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2010 or at any subsequent dates, including following the Global Offering.

The unaudited pro forma adjusted net tangible assets value does not take into account the dividend of approximately MOP490.0 million (equivalent to approximately HK\$476.0 million) declared and paid to the shareholders of MGM Grand Paradise on March 24, 2011.

	Unadjusted audited consolidated net tangible assets of the Group attributable to the owners of our Company as at December 31, 2010 <sup>(1)</sup>	Estimated net proceeds from the Global Offering <sup>(2)</sup>	Estimated reimbursement from Shareholders of certain Global Offering expenses <sup>(2)</sup>	Estimated amount to settle Acquisition Note <sup>(3)</sup>	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of our Company as at December 31, 2010 <sup>(4)</sup>	Unaudited pro forma adjusted net tangible assets per Share <sup>(5)</sup>
	(HK dollars in thousands)	(HK dollars in thousands)	(HK dollars in thousands)	(HK dollars in thousands)	(HK dollars in thousands)	(HK dollars)
Based on an Offer Price of HK\$12.36 per Share. . . . .	306,801	8,948,367	114,108	(9,062,475)	306,801	0.08
Based on an Offer Price of HK\$15.34 per Share. . . . .	306,801	11,133,333	114,108	(11,247,441)	306,801	0.08

**Notes:**

- (1) The unadjusted audited consolidated net tangible assets of the Group attributable to the owners of our Company as at December 31, 2010 is extracted from the Accountants’ Reports set out in Appendix IA and Appendix IB to this prospectus, and is based on the audited consolidated net assets of the Group attributable to the owners of our Company of HK\$1,480,849,000, deducting subconcession premium of HK\$1,174,048,000. The net tangible assets of the Company as at December 31, 2010 as set out in Appendix IB to this prospectus has not been taken into account as the amount involved is not material.

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- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK\$12.36 and HK\$15.34 per Offer Share, respectively, after deduction of commissions and expenses as set out in the section headed "Underwriting" in this prospectus.
- (3) As detailed in the section headed "History and Corporate Structure — Reorganization" in this prospectus, immediately following the completion of the Global Offering, the Company will use the proceeds it receives from the Global Offering to satisfy its obligations under the Acquisition Note pursuant to the acquisition agreement. It is anticipated that such payment will be made on the Listing Date.
- (4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in Note (2) and Note (3) above and on the basis that 3,800,000,001 Shares were in issue assuming that the Global Offering had been completed on December 31, 2010 and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or any shares which may be issued or repurchased pursuant to the general mandate as set out in the section headed "Share Capital" in this prospectus.
- (5) By comparing the valuation of our property interests as set out in Appendix IV to this prospectus, the net valuation surplus is approximately HK\$9,450.9 million as compared to the carrying amounts of the Group's property interests as of March 15, 2011, which has not been included in the above consolidated net tangible assets attributable to the owners of the Company. The valuation surplus of our property interests will not be incorporated in the Group's consolidated financial statements in the future. If the valuation surplus were to be included in our consolidated financial statements, an additional annual depreciation and amortization charge of approximately HK\$541.9 million would be incurred.

### Profit Forecast For The Six Months Ending June 30, 2011

On the bases and assumptions set out in the section headed "Profit Forecast" in Appendix III to this prospectus and, in the absence of unforeseen circumstances, certain profit forecast data of the Group for the six months ending June 30, 2011 are set out below:

Forecast profit attributable to the owners of our Company for the six months ending June 30, 2011 <sup>(1)</sup> . . . . .	not less than HK\$1,450.1 million
Unaudited forecast earnings per Share on a pro forma basis <sup>(2)</sup> . . . . .	not less than HK\$0.38

#### Notes:

- (1) Our forecast profit attributable to the owners of our Company for the six months ending June 30, 2011 is extracted from the section headed "Financial Information — Profit Forecast For The Six Months Ending June 30, 2011" in this prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarized in the section headed "Profit Forecast" in Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributable to the owners of our Company for the six months ending June 30, 2011 based on the unaudited consolidated results based on the management accounts of the Group for the three months ended March 31, 2011 and a forecast of the consolidated results of the Group for the remaining three months ending June 30, 2011. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 4 of Section A of the Accountants' Report, the text of which is set out in Appendix IA to this prospectus.
- (2) The unaudited forecast earnings per Share on a pro forma basis is calculated by dividing the forecast profit attributable to the owners of our Company for the period ending June 30, 2011 by 3,800,000,001 Shares as if such Shares had been in issue on January 1, 2011. The number of Shares used in this calculation includes the Shares in issue as of the date of this prospectus and the Shares to be issued pursuant to the Global Offering but excludes any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme or any shares which may be issued or repurchased pursuant to the general mandate.

The Company has undertaken to the Stock Exchange that the interim report for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Listing Rules.

### Adjusted EBITDA Forecast For The Six Months Ending June 30, 2011

The forecast adjusted EBITDA of our Company has been derived from and on the same bases and assumptions as the "Profit Forecast" in Appendix III to this prospectus. In the absence of unforeseen circumstances, forecast adjusted EBITDA for the six months ending June 30, 2011 is expected to be not less than HK\$1,949.3 million. Adjusted EBITDA is used by management as the primary measure of operating performance of our Group's property and to compare the operating performance of our Group's property with that of its competitors. However, adjusted EBITDA should not be considered in isolation; construed as an alternative to profit or operating profit; treated as an indicator of our IFRS operating performance, other combined operations or cash flow data; or interpreted as an alternative to cash flow as a measure of liquidity. Adjusted EBITDA presented in

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this prospectus may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors. In addition, our adjusted EBITDA presented in this prospectus may differ from adjusted EBITDA presented by MGM Resorts International for its Macau segment in its filings with the SEC. For a quantitative reconciliation of adjusted EBITDA to (loss)/profit for the year/period for the years ended December 31, 2008, 2009 and 2010, see the section headed “— Adjusted EBITDA” in this prospectus.

### Dividend Policy

Following the completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the absolute discretion of our Directors and will depend on our future operations and earnings, development pipeline, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. Other limitations on our ability to declare and pay dividends include the fact that, as a holding company, we are dependent upon the receipt of cash contributions from our subsidiaries, principally MGM Grand Paradise, to fund any dividend payments that we make. However, our subsidiaries must in turn comply with their constitutional documents and the laws and regulations of their jurisdictions of incorporation, which in the case of MGM Grand Paradise is Macau.

Pursuant to Article 198 of the Macau Commercial Code, if any entity has losses brought forward from previous years, any profit for the current accounting period cannot be distributed to shareholders without first covering the losses brought forward from those prior periods. For details of our financial performance during the Track Record Period, see the section headed “Financial Information” and Appendix IA to this prospectus.

Pursuant to Article 432 of the Macau Commercial Code, at least 10% of MGM Grand Paradise’s annual profits must be retained as a legal reserve until such legal reserve reaches an amount equal to 25% of MGM Grand Paradise’s share capital of MOP 200 million. MGM Grand Paradise’s exemption from the Complementary Tax does not apply to the dividends to be distributed by MGM Grand Paradise. Dividends and other distributions that we receive from MGM Grand Paradise are subject to the Complementary Tax at a rate of up to 12%. As we are not subject to Macau Complementary Tax for dividends paid prior to the completion of the Reorganization, no deferred tax provision has been made by us on the undistributed earnings of MGM Grand Paradise during the Track Record Period.

Upon the completion of the Reorganization, however, we will be subject to Macau Complementary Tax on dividends paid by MGM Grand Paradise. MGM Grand Paradise plans to make arrangements with the Macau Government to settle the Complementary Tax due by paying a flat annual fee regardless of the amount of distributable dividends. If such arrangements are not approved, we will be required to recognize deferred tax liabilities for taxable temporary differences associated with our investment in MGM Grand Paradise.

Moreover, under the credit agreement MGM Grand Paradise entered into with a syndicate of lenders on July 27, 2010, MGM Grand Paradise is not permitted to declare, make or pay any dividends if its pro forma leverage ratio exceeds 4:1 and, to the extent the pro forma leverage ratio exceeds 3.5:1, may only pay dividends if it concurrently prepays an equal amount under the term loans then outstanding under the credit agreement. Accordingly, MGM Grand Paradise may not be able to distribute 100% of its annual profits to us as cash dividends.

As at March 31, 2011, the leverage ratio of MGM Grand Paradise under this credit agreement is approximately 1.60. Subsequent to December 31, 2010, total dividends of MOP490.0 million have been declared and paid to the Shareholders after retaining as legal reserve the full amount of MOP50 million required pursuant to Article 432 of the Macau Commercial Code.



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**Distributable Reserves**

Under the Cayman Companies Law, our share premium may be distributed, subject to the provisions of our Memorandum or Articles and provided that immediately following the date on which the dividend is proposed to be distributed, we will be in a position to pay off our debts as and when they fall due in the ordinary course of business. As at December 31, 2010, MGM Grand Paradise had distributable reserves of approximately HK\$480 million.