

The following is the text of a report received from our Company's Reporting Accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

May 23, 2011

The Directors  
MGM Grand Paradise Limited  
J.P. Morgan Securities (Asia Pacific) Limited  
Morgan Stanley Asia Limited  
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding MGM Grand Paradise Limited ("MGM Grand Paradise") and its subsidiaries (hereinafter collectively referred to as the "MGM Grand Paradise Group") for each of the three years ended December 31, 2010 (the "Track Record Period") for inclusion in the prospectus of MGM China Holdings Limited (the "Company") dated May 23, 2011 (the "Prospectus").

MGM Grand Paradise was incorporated in the Macau Special Administrative Region ("Macau SAR") with limited liability by shares on June 17, 2004 for the principal purpose of operating casino games of chance and other casino games ("gaming operations") and the related hotel and resort facilities. MGM Grand Paradise commenced its gaming operations on December 18, 2007.

As at the date of this report and December 31, 2008, 2009 and 2010, MGM Grand Paradise has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/quota capital	Attributable equity interest of the Group				Principal activities
			2008	2009	2010	Date of this report	
Alpha Landmark Enterprises Limited*	British Virgin Islands February 8, 2005	US\$1	100%	100%	100%	100%	Inactive
Alpha Vision Investments Limited*	British Virgin Islands February 8, 2005	US\$1	100%	100%	100%	100%	Inactive
Apexworth Developments Limited*	British Virgin Islands February 8, 2005	US\$1	100%	100%	100%	100%	Inactive
Breve, S.A.*	Macau August 13, 2004	MOP1,000,000	100%	100%	100%	100%	Inactive
Golden Rice Bowl Limited*	Macau April 24, 2007	MOP25,000	100%	100%	100%	100%	Inactive
MGM Grand Paradise (HK) Limited ("MGM Grand Paradise HK")*	Hong Kong October 15, 2004	HK\$2	100%	100%	100%	100%	Management and administrative services for group company
Prime Hotel Management Limited (formerly known as Alfa, S.A.)*	Macau August 13, 2004	MOP1,000,000	100%	100%	100%	100%	Hotel management services
Terra C Sub, S.A.*	Macau August 13, 2004	MOP1,000,000	100%	100%	100%	100%	Inactive

\* Directly owned by MGM Grand Paradise

The financial year end date of the companies now comprising the MGM Grand Paradise Group is December 31.

The statutory consolidated financial statements of MGM Grand Paradise of each of the three years ended December 31, 2010 were prepared in accordance with Financial Reporting Standards of Macau Special Administrative Region ("Macau SAR") and Deloitte Touche Tohmatsu — Sociedade de Auditores have acted as auditor of MGM Grand Paradise and its subsidiaries for such financial statements. The statutory financial statements of MGM Grand Paradise HK for each of the three years ended December 31, 2010 were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and were audited by us. No audited statutory financial statements have been prepared for other subsidiaries since their respective dates of incorporation as there is no statutory requirement to do so.

For the purpose of this report, the directors of MGM Grand Paradise have prepared the consolidated financial statements of the MGM Grand Paradise Group for the Track Record Period in accordance with International Financial Reporting Standards (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" as recommended by the HKICPA. The Financial Information of the MGM Grand Paradise Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to adjust the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of MGM Grand Paradise who approve their issue. The directors of the MGM Grand Paradise are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the MGM Grand Paradise Group as at December 31, 2008, 2009 and 2010 and of the results and cash flows of the MGM Grand Paradise Group for each of the three years ended December 31, 2010.

## A. FINANCIAL INFORMATION

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR EACH OF THE YEAR ENDED DECEMBER 31, 2008, 2009 AND 2010**

	Notes	Year ended December 31,		
		2008	2009	2010
		HK\$'000	HK\$'000	HK\$'000
OPERATING REVENUE				
Casino revenue . . . . .	6	6,603,357	7,455,854	12,126,848
Other revenue . . . . .	7	313,100	271,232	307,880
		<u>6,916,457</u>	<u>7,727,086</u>	<u>12,434,728</u>
OPERATING COSTS AND EXPENSES				
Special gaming tax and special levy to the Macau				
Government . . . . .	9	(3,432,763)	(4,028,679)	(6,480,269)
Staff costs . . . . .		(1,275,639)	(1,147,384)	(1,188,424)
Operating and administrative expenses . . . . .	10	(1,345,802)	(1,393,709)	(1,967,699)
Depreciation and amortization . . . . .		(746,986)	(793,084)	(777,780)
		<u>(6,801,190)</u>	<u>(7,362,856)</u>	<u>(10,414,172)</u>
Operating profit . . . . .		115,267	364,230	2,020,556
Interest income . . . . .		8,311	305	1,299
Finance costs . . . . .	11	(450,681)	(531,671)	(450,516)
Net foreign currency difference . . . . .		30,626	663	(5,012)
(Loss)/profit before taxation . . . . .		<u>(296,477)</u>	<u>(166,473)</u>	<u>1,566,327</u>
Taxation . . . . .	12	(186)	(658)	(292)
(Loss)/profit for the year and total comprehensive				
(loss)/income attributable to owners of MGM Grand				
Paradise . . . . .	13	<u>(296,663)</u>	<u>(167,131)</u>	<u>1,566,035</u>
(Loss)/earnings per share-basic . . . . .	15	<u>(HK\$1,483)</u>	<u>(HK\$836)</u>	<u>HK\$7,830</u>

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AT DECEMBER 31, 2008, 2009 AND 2010**

		As at December 31,		
	Notes	2008	2009	2010
		HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS				
Property and equipment . . . . .	16	5,903,595	5,794,070	5,351,259
Subconcession premium . . . . .	17	1,427,848	1,301,296	1,174,048
Land use right premium . . . . .	18	409,442	390,196	370,950
Other assets . . . . .	19	68,583	5,341	6,058
Construction in progress. . . . .	16	311,169	21,070	28,827
		<u>8,120,637</u>	<u>7,511,973</u>	<u>6,931,142</u>
CURRENT ASSETS				
Inventories . . . . .	20	40,983	44,240	63,848
Trade receivables . . . . .	21	357,814	840,691	1,137,422
Prepayments, deposits and other receivables . . . . .	22	30,978	75,693	77,314
Land use right premium — short term . . . . .	18	19,246	19,246	19,246
Amount due from a related company . . . . .	37(a)(i)	—	97	72,471
Bank balances and cash . . . . .	23	1,448,468	1,975,711	1,922,723
		<u>1,897,489</u>	<u>2,955,678</u>	<u>3,293,024</u>
CURRENT LIABILITIES				
Payables and accrued charges . . . . .	24	1,487,980	1,734,940	2,706,145
Bank borrowings — due within 12 months . . . . .	25	401,057	1,062,735	—
Deposits and advances . . . . .	26	96,665	201,272	135,103
Construction retention payable — due within 12 months . . . . .		108,237	8,319	3,433
Amounts due to related companies . . . . .	37(a)(ii)	11,933	180	11,681
Taxation payable. . . . .		—	274	225
		<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>
NON-CURRENT LIABILITIES				
Bank borrowings — due after 12 months . . . . .	25	6,066,768	5,658,508	5,886,730
Loans from shareholders . . . . .	27	605,033	658,261	—
Loan from a related company . . . . .	28	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>
CAPITAL AND RESERVES				
Share capital . . . . .	29	194,175	194,175	194,175
Share premium . . . . .	29	778,485	778,485	778,485
Equity reserve . . . . .		630,256	630,256	293,725
(Deficit) retained earnings . . . . .		(1,184,440)	(1,351,571)	214,464
SHAREHOLDERS' FUNDS. . . . .		<u>418,476</u>	<u>251,345</u>	<u>1,480,849</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR EACH OF THE YEAR ENDED DECEMBER 31, 2008, 2009 AND 2010**

	Share capital	Share premium	Equity reserve	(Deficit) retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000 (note 27)	HK\$'000	HK\$'000
As at January 1, 2008 . . . . .	194,175	778,485	630,256	(887,777)	715,139
Loss for the year . . . . .	—	—	—	(296,663)	(296,663)
At December 31, 2008 and January 1, 2009 . . . . .	194,175	778,485	630,256	(1,184,440)	418,476
Loss for the year . . . . .	—	—	—	(167,131)	(167,131)
At December 31, 2009 and January 1, 2010 . . . . .	194,175	778,485	630,256	(1,351,571)	251,345
Profit for the year . . . . .	—	—	—	1,566,035	1,566,035
Reversal of equity reserve upon early repayment of shareholders' loans . . .	—	—	(336,531)	—	(336,531)
At December 31, 2010 . . . . .	<u>194,175</u>	<u>778,485</u>	<u>293,725</u>	<u>214,464</u>	<u>1,480,849</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR EACH OF THE YEAR ENDED DECEMBER 31, 2008, 2009 AND 2010**

	Year ended December 31,		
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000
<b>OPERATING ACTIVITIES</b>			
(Loss) profit before taxation . . . . .	(296,477)	(166,473)	1,566,327
Adjustments for:			
Allowance for doubtful debts, net . . . . .	66,034	98,260	81,330
Depreciation and amortization . . . . .	746,986	793,084	777,780
Interest expense . . . . .	402,844	334,457	326,632
Bank fees and charges . . . . .	47,837	197,214	123,884
Loss on disposal/write-off of property and equipment . . . . .	1,584	4,818	31,362
Interest income . . . . .	(8,311)	(305)	(1,299)
Exchange (gain) loss in relation to bank borrowings and loans from shareholders and a related company . . . . .	(32,714)	(372)	20,535
Operating cash flows before movements in working capital . . . . .	927,783	1,260,683	2,926,551
Increase in inventories . . . . .	(10,666)	(2,285)	(19,608)
Increase in trade receivables . . . . .	(397,886)	(581,137)	(378,061)
Increase in prepayments, deposits and other receivables . . . . .	(11,996)	(11,603)	(35,082)
Decrease (increase) in amount due from a related company . . . . .	371	(97)	(72,374)
(Increase) decrease in payables and accrued charges . . . . .	(472,095)	359,047	996,698
Increase (decrease) in deposits and advances . . . . .	88,077	104,607	(66,169)
Decrease in construction retention payable . . . . .	(28,826)	(104,694)	(4,886)
Increase (decrease) in amounts due to related companies . . . . .	11,124	(11,753)	11,501
Cash generated from operations . . . . .	105,886	1,012,768	3,358,570
Tax paid . . . . .	(387)	(384)	(341)
Interest received . . . . .	8,311	305	1,299
<b>NET CASH GENERATED BY OPERATING ACTIVITIES . . . . .</b>	<b>113,810</b>	<b>1,012,689</b>	<b>3,359,528</b>
<b>INVESTING ACTIVITIES</b>			
Payments for construction in progress . . . . .	(291,637)	(103,593)	(167,281)
Payments of developers' fee capitalized to property and equipment . . . . .	(132,711)	(24,507)	(4,157)
Proceeds from sale of property and equipment . . . . .	334	193	2,643
Purchase of other assets . . . . .	(12,519)	(700)	(8,866)
Purchase of property and equipment . . . . .	(103,005)	(114,486)	(77,473)
<b>NET CASH USED IN INVESTING ACTIVITIES . . . . .</b>	<b>(539,538)</b>	<b>(243,093)</b>	<b>(255,134)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings:			
- Bank borrowings raised . . . . .	1,886,664	1,772,664	7,425,943
- Repayment of bank borrowings . . . . .	(858,000)	(1,518,555)	(8,074,292)
Repayment of loans from shareholders . . . . .	—	—	(1,049,159)
Repayment of loan from a related company . . . . .	—	—	(969,369)
Interest paid . . . . .	(344,953)	(266,136)	(196,812)
Bank fees and charges paid . . . . .	(80,229)	(230,326)	(293,693)
<b>NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES . . . . .</b>	<b>603,482</b>	<b>(242,353)</b>	<b>(3,157,382)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .</b>	<b>177,754</b>	<b>527,243</b>	<b>(52,988)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR . . . . .</b>	<b>1,270,714</b>	<b>1,448,468</b>	<b>1,975,711</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank     balances and cash . . . . .</b>	<b>1,448,468</b>	<b>1,975,711</b>	<b>1,922,723</b>

**NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION  
FOR EACH OF THE YEAR ENDED DECEMBER 31, 2008, 2009 AND 2010**

**1. GENERAL**

The address of the registered office of MGM Grand Paradise and its principal place of business is Avenida Dr. Sun Yat Sen, NAPE, Macau. Particulars of the companies comprising the MGM Grand Paradise Group have been set out in the foregoing section.

MGM Grand Paradise has entered into a subconcession contract with Sociedade de Jogos de Macau, S.A. ("SJM") for the operation of casino games of chance and other casino games in the Macau SAR in accordance with the terms and the conditions laid down in the subconcession contract dated April 19, 2005 (the "Subconcession Contract"). The subconcession period commenced on April 20, 2005 and will expire on March 31, 2020. Under the Subconcession Contract, MGM Grand Paradise is required to maintain share capital of not less than MOP200 million (equivalent to HK\$194 million approximately). The Subconcession Contract also requires MGM Grand Paradise to pay fixed and variable premiums and levies to the Macau Government throughout the subconcession period (see note 36).

The financial statements are presented in Hong Kong dollars ("HK\$"), the functional currency of MGM Grand Paradise and its subsidiaries.

**2. BASIS OF PREPARATION OF FINANCIAL INFORMATION**

The Financial Information presents the consolidated statements of financial position of the MGM Grand Paradise Group as at December 31, 2008, 2009 and 2010 and its consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period.

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")**

For the purpose of preparing and presenting the Financial Information of the Track Record Period, the MGM Grand Paradise Group has consistently adopted IFRSs, International Accounting Standards ("IASs"), Amendments and Interpretations which are effective for the accounting periods beginning on January 1, 2010 throughout the Track Record Period.

***Standards and Interpretations in issue not yet adopted***

The MGM Grand Paradise Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

IFRSs (Amendments) . . . . .	Improvements to IFRSs 2010 <sup>1</sup>
IFRS 1 (Amendments) . . . . .	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters <sup>2</sup>
IFRS 1 (Amendments) . . . . .	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>3</sup>
IFRS 7 (Amendments) . . . . .	Disclosures — Transfers of Financial Assets <sup>3</sup>
IFRS 9 . . . . .	Financial Instruments <sup>4</sup>
IFRS 10 . . . . .	Consolidated Financial Statements <sup>4</sup>
IFRS 11 . . . . .	Joint Arrangements <sup>4</sup>
IFRS 12 . . . . .	Disclosure of Interests in Other Entities <sup>4</sup>
IFRS 13 . . . . .	Fair Value Measurement <sup>4</sup>
IAS 12 (Amendments) . . . . .	Deferred Tax: Recovery of Underlying Assets <sup>5</sup>
IAS 24 (Revised) . . . . .	Related Party Disclosures <sup>6</sup>
IAS 27 (Revised 2011) . . . . .	Separate Financial Statements <sup>4</sup>
IAS 28 (Revised 2011) . . . . .	Investments in Associates and Joint Ventures <sup>4</sup>
IAS 32 (Amendments) . . . . .	Classification of Rights Issues <sup>7</sup>
IFRIC 14 (Amendments) . . . . .	Prepayments of a Minimum Funding Requirement <sup>6</sup>
IFRIC 19 . . . . .	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>

- 1 Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate
- 2 Effective for annual periods beginning on or after July 1, 2010
- 3 Effective for annual periods beginning on or after July 1, 2011
- 4 Effective for annual periods beginning on or after January 1, 2013
- 5 Effective for annual periods beginning on or after January 1, 2012
- 6 Effective for annual periods beginning on or after January 1, 2011
- 7 Effective for annual periods beginning on or after February 1, 2010

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the MGM Grand Paradise Group's financial assets.

The directors of MGM Grand Paradise anticipate that the application of the other new and revised Standards, Amendments and Interpretations will have no material impact on the financial performance and financial position of the MGM Grand Paradise Group.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on a historical cost basis and in accordance with IFRSs. The accounting policies are set out as below. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

##### Basis of consolidation

The consolidated financial statements incorporate the financial statements of MGM Grand Paradise and entities controlled by MGM Grand Paradise (its subsidiaries). Control is achieved where MGM Grand Paradise has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the MGM Grand Paradise Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

##### 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 the customers' possession. Revenues are recognized net of sales incentives such as discounts and commissions to casino customers.

Other revenue comprises hotel, food and beverages, retail goods 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 the MGM Grand Paradise Group. Advanced deposits on rooms are recorded as accrued liabilities before services are provided to customers.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### Inventories

Inventories consist of food and beverage, retail merchandise and operating supplies and are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average cost method.

##### Property and equipment

Property and equipment including buildings held for use in the production of services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress includes property and equipment in the course of construction for production, supply or administrative purposes and are carried at cost, less recognized impairment loss, if any. Construction in progress are classified to the appropriate categories of property and equipment when completed and ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Art works and paintings are stated at cost less accumulated impairment losses.



Depreciation is recognized so as to write off the cost (other than art works and paintings and construction in progress) less their estimated residual values over their estimated useful lives, using the straight-line method.

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. Any gain or loss arising on the disposal or retirement of an item of property and equipment determined as the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss in the period in which the item is derecognized.

#### **Impairment of tangible and intangible assets (other than financial assets)**

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

Where it is not possible to estimate the recoverable amount of an individual asset, the MGM Grand Paradise Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and 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 that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount, which would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **Leasehold land and building**

The land and building elements of a lease of land and building 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.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The MGM Grand Paradise Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the MGM Grand Paradise Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the MGM Grand Paradise Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the MGM Grand Paradise Group intends to settle its current tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the tax is also recognized in other comprehensive income or directly in equity, respectively.

#### **Other assets**

Other assets comprise operating equipment such as chips, silverware, chinaware, linen and uniforms which are carried at cost less accumulated amortization and impairment loss and are amortized using the straight-line method over their estimated useful lives.

An item of other assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of other assets, determined as the difference between the sales proceeds and the carrying amount of the asset, is recognized in profit or loss in the period in which the item is derecognized.

#### **Cash equivalents**

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash.

#### **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 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. Transaction costs directly attributable to the acquisition of financial asset or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### ***Financial assets***

The MGM Grand Paradise Group's financial assets are loans and receivables. All regular purchases or sales of financial assets are recognized and derecognized on a trade date basis.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period of the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related company and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment (see the accounting policy in respect of impairment of financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables, where the carrying amount is reduced through the use of the allowance account. When a accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Financial liabilities and equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of initial recognition. Interest expense is recognized on an effective interest basis.

*Financial liabilities*

Financial liabilities (including payables, bank borrowings, deposits and advances, construction retention and land use right premium payable and amounts due to related companies) are subsequently measured at amortized cost using the effective interest method.

*Equity instruments*

Equity instruments issued by the MGM Grand Paradise Group are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

The MGM Grand Paradise Group derecognizes a financial asset only when the contractual rights to receive cash flows from the asset expire or, when a financial asset is transferred, the MGM Grand Paradise Group has transferred substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The MGM Grand Paradise Group derecognizes financial liabilities when, and only when, the MGM Grand Paradise Group's obligations specified in the relevant contract are discharged, cancelled or expired. The difference between the

carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### **Sub-concession premium**

Premium payments made for the grant of the subconcession are capitalized, carried at cost less accumulated amortization and accumulated impairment losses, if any, and amortized using the straight-line method over its estimated useful life which is from the date of commencement of gaming operations to the expiry of the Subconcession Contract.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

#### **Retirement benefit costs**

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

#### **Leasing**

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

### **5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### ***Impairment of property and equipment, subconcession premium and land use right premium***

Determining whether property and equipment, the subconcession premium and the land use right premium are impaired requires an estimation of the future cash flows to be generated by the cash generating units and a suitable discount rate in order to calculate their present value. As at December 31, 2008, 2009 and 2010, the carrying amounts of property and equipment, the subconcession premium and the land use right premium are HK\$5.9 billion, HK\$5.8 billion and HK\$5.4 billion, HK\$1.4 billion, HK\$1.3 billion and HK\$1.2 billion and HK\$429 million, HK\$409 million and HK\$390 million respectively and, based on management's assessment, no impairment loss was considered necessary. Should there be any changes in such estimates, the impairment loss of property and equipment, subconcession premium and land use right premium will affect profit or loss in the period of the change.

#### ***Depreciation of property and equipment***

The MGM Grand Paradise Group's carrying amounts of property and equipment other than construction in progress and art works and paintings as at December 31, 2008, 2009 and 2010 is HK\$5.8 billion, HK\$5.7 billion and HK\$5.3 billion, respectively. The MGM Grand Paradise Group depreciates the 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 the intended use. The useful lives that the MGM Grand

Paradise Group estimated for property and equipment reflects the MGM Grand Paradise Group management's estimate of the period that the MGM Grand Paradise Group intends 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*

The MGM Grand Paradise Group issues 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 the MGM Grand Paradise Group's receivables to their recoverable amount. The allowance is estimated 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. When 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 is HK\$358 million, HK\$841 million and HK\$1,137 million (net of allowance for doubtful debts of HK\$57 million, HK\$151 million and HK\$232 million), respectively.

### 6. CASINO REVENUE

Casino revenue represents the aggregate net difference between gaming wins and losses, net of sales incentives.

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Casino revenue from			
- VIP gaming operations . . . . .	4,009,964	4,342,246	7,681,219
- Mass market table gaming operations . . . . .	2,146,623	2,433,304	3,459,606
- Slot machine operations . . . . .	446,770	680,304	986,023
	<u>6,603,357</u>	<u>7,455,854</u>	<u>12,126,848</u>

### 7. OTHER REVENUE

Other revenue comprises:

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Hotel rooms revenue . . . . .	132,314	102,213	101,203
Food and beverages revenue . . . . .	149,695	138,093	171,088
Retail goods and other services revenue . . . . .	31,091	30,926	35,589
	<u>313,100</u>	<u>271,232</u>	<u>307,880</u>

From time to time, the MGM Grand Paradise Group provides hotel rooms, food and beverages, retail goods and other services to certain guests and customers without charges (the "Promotional Allowances") and no revenue is recognized for such promotional activities. The retail value of the Promotional Allowances incurred during the Track Record Period is as follows:

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Hotel rooms . . . . .	120,935	186,217	258,496
Food and beverages . . . . .	182,208	214,059	234,898
Retail goods and other services . . . . .	4,527	8,473	10,282
	<u>307,670</u>	<u>408,749</u>	<u>503,676</u>

### 8. SEGMENT INFORMATION

The MGM Grand Paradise Group currently operates in one operating segment which is the management of its casino, hotel, and food and beverage operations. A single management team reports to the MGM Grand Paradise Group's President (being the chief operating decision-maker) who allocates resources and assesses performance based on the consolidated result for the year for the entire business comprehensively. Accordingly, the MGM Grand Paradise Group does not present separately segment information.

During each of the reporting periods, all revenue is derived from customers in Macau SAR and almost all the non-current assets of the MGM Grand Paradise Group are located in Macau SAR. None of the customers of the MGM Grand Paradise Group contributed more than 10% of the total revenues during each of the reporting periods.

#### 9. SPECIAL GAMING TAX AND SPECIAL LEVY

According to the Subconcession Contract, MGM Grand Paradise is required to pay to the Macau Government a special gaming tax, gaming premium and special levies annually. The special gaming tax is assessed at the rate of 35% of the gross gaming revenue (being the aggregate net difference between gaming wins and losses before deducting sales incentives) of MGM Grand Paradise. Gaming premium is composed of (i) a fixed portion in an amount equal to MOP30 million (equivalent to approximately HK\$29 million) and (ii) a variable portion that is calculated based on the number of gaming tables and gaming machines, including slot machines, operated by MGM Grand Paradise during the year. The special levy includes (i) an amount corresponding to 1.6% of the gross gaming revenue that will be available to a public foundation whose purposes are the promotion, study and development of cultural, social, economic, educative, scientific, academic and philanthropic activities in Macau SAR and (ii) an amount corresponding to 2.4% of the gross gaming revenue for the purposes of urban development, tourism promotion and social security of Macau SAR.

#### 10. OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses comprise:

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Advertising and promotion . . . . .	173,169	199,258	335,261
Allowance for doubtful debts, net . . . . .	66,034	98,260	81,330
Cost of food and beverages . . . . .	171,523	146,942	173,940
Junket commission . . . . .	414,138	533,528	912,835
Operating supplies . . . . .	78,681	82,853	95,882
Others . . . . .	305,399	222,168	258,482
Utilities and fuel . . . . .	136,858	110,700	109,969
	<u>1,345,802</u>	<u>1,393,709</u>	<u>1,967,699</u>

#### 11. FINANCE COSTS

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Interest on			
- Bank borrowings wholly repayable within five years . . . . .	333,861	226,788	198,142
- Loan from a related company not wholly repayable within five years . . . . .	56,833	74,674	75,612
Effective interest on loans from shareholders . . . . .	48,789	52,809	52,878
Bank fees and charges . . . . .	80,229	197,214	123,884
Total borrowing costs . . . . .	519,712	551,485	450,516
Less: amounts capitalized in the cost of qualifying assets . . . . .	(69,031)	(19,814)	—
	<u>450,681</u>	<u>531,671</u>	<u>450,516</u>

Borrowing costs capitalized arose on the secured bank loan facilities as described in note 25 obtained for the construction of phase I and phase II of the casino and hotel complex of the MGM Grand Paradise Group (the "Complex").

#### 12. TAXATION

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Current tax			
Macau . . . . .	(86)	(354)	(98)
Hong Kong . . . . .	(100)	(304)	(194)
	<u>(186)</u>	<u>(658)</u>	<u>(292)</u>

No provision for Macau Complementary Tax has been provided by MGM Grand Paradise as, pursuant to the approval notice 186/2008 issued by the Macau Government dated June 19, 2008, MGM Grand Paradise is exempted from Macau Complementary Tax for income generated from gaming operations for 5 years from 2007 to 2011. Macau Complementary Tax and Hong Kong profits tax was provided by the MGM Grand Paradise's subsidiaries on their estimated taxable profit for the year ended December 31, 2008, 2009 and 2010.

Macau Complementary Tax is calculated at progressive rates up to a maximum of 12% of the estimated assessable profits throughout the Track Record Period. Hong Kong profits tax is calculated at 16.5% for the year ended December 31, 2008, 2009 and 2010 of the estimated assessable profits of each year.

The tax charge for the year can be reconciled to the (loss) profit in the consolidated statement of comprehensive income as follows:

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
(Loss) profit before taxation . . . . .	(296,477)	(166,473)	1,566,327
Tax at applicable income tax rate of 12% . . . . .	35,577	19,977	(187,959)
Effect of tax exemption granted to MGM Grand Paradise . . . . .	142,107	137,676	322,231
Effect of tax losses not recognized . . . . .	(177,812)	(157,865)	(134,272)
Effect of different tax rates of MGM Grand Paradise Group entities operating in jurisdictions other than Macau SAR. . . . .	(133)	(154)	(194)
Others . . . . .	75	(292)	(98)
	<u>(186)</u>	<u>(658)</u>	<u>(292)</u>

At the end of the reporting period, the MGM Grand Paradise Group has unused tax losses (subject to agreement by the relevant tax authority) and deductible temporary difference as follows:

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Arising from unused tax losses . . . . .	1,371,613	2,522,667	3,689,232
Arising from pre-opening expenses. . . . .	488,685	389,425	290,165
	<u>1,860,298</u>	<u>2,912,092</u>	<u>3,979,397</u>

At December 31, 2008, 2009 and 2010, tax losses of approximately HK\$1,371.6 million, HK\$2,522.7 million and HK\$3,689.2 million respectively will expire in three years from the year of assessment.

The Directors of the MGM Grand Paradise Group have considered (i) the nature of business of MGM Grand Paradise which is a game of chance with inherent risk that increases the unpredictability of future profit streams; (ii) that pursuant to the approval notice 186/2008 issued by the Macau Government dated June 19, 2008, MGM Grand Paradise is exempted from Macau Complementary Tax for income generated from gaming operations for 2011; and (iii) the fact that tax losses can only be utilized in three years from the year of assessment. After taking into account of the above factors, the Directors of the MGM Grand Paradise Group are of the view that it may not be probable that taxable profits will be available against which unutilized tax losses and deductible temporary differences can be utilized. As a result, no deferred tax assets have been recognized.

## 13. (LOSS)/PROFIT FOR THE YEAR

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit for the year has been arrived at after charging (crediting):			
Directors' remuneration . . . . .	—	—	—
Retirement benefits scheme contributions for other staff . . . . .	26,227	22,519	22,750
Other staff costs . . . . .	1,249,412	1,124,865	1,165,674
	1,275,639	1,147,384	1,188,424
Amortization in respect of:			
- land use right premium . . . . .	19,299	19,246	19,246
- subconcession premium . . . . .	127,247	126,552	127,248
- other assets . . . . .	63,588	62,970	8,149
Depreciation of property and equipment . . . . .	536,852	584,316	623,137
	746,986	793,084	777,780
Auditor's remuneration . . . . .	4,287	4,136	1,811
Loss on disposal/write-off of property and equipment . . . . .	1,584	4,818	31,362
Operating lease rentals in respect of			
- leasehold land . . . . .	2,844	2,844	2,844
- office premises . . . . .	5,721	4,292	2,151
- staff accommodation . . . . .	684	76	31
- warehouse . . . . .	4,596	5,016	9,196
- office equipment . . . . .	9,129	10,746	9,892

## 14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

No emoluments were paid by the MGM Grand Paradise Group to the directors during the Track Record Period as their emoluments were borne by the shareholders and were not charged to the MGM Grand Paradise Group throughout the Track Record Period. It is not practical to allocate the remuneration for their services to the MGM Grand Paradise Group and other entities related to the shareholders. None of the directors has waived any emoluments in each of the three years ended December 31, 2010.

No emoluments were paid to any directors as an inducement to join or upon joining the MGM Grand Paradise Group or as compensation for loss of office during each of the three years ended December 31, 2010.

The emoluments of the five individuals with the highest emoluments in the MGM Grand Paradise Group were as follows:

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Salaries and other benefits . . . . .	16,125	21,444	21,901
Contributions to retirement benefits schemes . . . . .	327	783	783
Discretionary and performance related incentive payments (note) . . . . .	7,469	8,263	14,445
	23,921	30,490	37,129

Note: The discretionary and performance related incentive payments are determined based on the MGM Grand Paradise Group's performance and individuals' contribution to the MGM Grand Paradise Group.



Their emoluments were within the following bands:

	Year ended December 31,		
	2008	2009	2010
	No. of employees	No. of employees	No. of employees
HK\$3,500,001 to HK\$4,000,000 . . . . .	1	2	1
HK\$4,000,001 to HK\$4,500,000 . . . . .	2	1	1
HK\$4,500,001 to HK\$5,000,000 . . . . .	1	—	1
HK\$5,500,001 to HK\$6,000,000 . . . . .	—	1	—
HK\$6,500,001 to HK\$7,000,000 . . . . .	1	—	—
HK\$7,000,001 to HK\$7,500,000 . . . . .	—	—	1
HK\$12,500,001 to HK\$13,000,000 . . . . .	—	1	—
HK\$16,500,001 to HK\$17,000,000 . . . . .	—	—	1

No emoluments were paid to any of these five individuals with the highest emoluments in the MGM Grand Paradise Group as an inducement to join or upon joining the MGM Grand Paradise Group or as compensation for loss of office during each of the three years ended December 31, 2010.

#### 15. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share for the Track Record Period is based on the followings:

	Year ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
<b>(Loss)/profit</b>			
(Loss)/profit for the year and total comprehensive (loss)/income attributable to owners of MGM Grand Paradise for the purpose of basic (loss)/earnings per share . . . . .	(296,663)	(167,131)	1,566,035
<b>Number of shares</b>			
Number of ordinary shares for the purpose of basic (loss)/earnings per share . . . .	200,000	200,000	200,000

The MGM Grand Paradise Group has no potential ordinary shares in the Track Record Period.

#### 16. PROPERTY AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Gaming machines and equipment	Computer equipment and software	Art works and paintings	Vehicles	Property and equipment total	Construction in progress	Grand total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>										
At January 1, 2008 . . . . .	4,430,421	1,133,687	409,112	201,009	142,174	45,238	6,494	6,368,135	5,019	6,373,154
Additions . . . . .	—	44,229	15,361	32,800	10,762	21,511	38	124,701	376,204	500,905
Transfers . . . . .	36,428	27,631	5,461	—	—	534	—	70,054	(70,054)	—
Reclassification . . . . .	—	—	4,946	(4,179)	(2,338)	—	1,571	—	—	—
Adjustment upon finalization of costs . . . . .	(45,892)	(660)	(17,846)	(2,878)	(21,521)	(3,937)	(165)	(92,899)	—	(92,899)
Disposal/written-off . . . . .	—	(1,509)	(305)	—	(859)	(14)	—	(2,687)	—	(2,687)
At December 31, 2008 . . . . .	4,420,957	1,203,378	416,729	226,752	128,218	63,332	7,938	6,467,304	311,169	6,778,473
and January 1, 2009 . . . . .	4,420,957	1,203,378	416,729	226,752	128,218	63,332	7,938	6,467,304	311,169	6,778,473
Additions . . . . .	52,476	28,088	11,488	9,500	27,151	7	—	128,710	124,808	253,518
Transfers . . . . .	317,141	65,696	15,371	7,248	81	—	—	405,537	(405,537)	—
Reclassification . . . . .	—	—	(31)	(208)	239	—	—	—	—	—
Adjustment upon finalization of costs . . . . .	(53,219)	(24)	(1,193)	—	—	(9)	—	(54,445)	(9,370)	(63,815)
Disposal/written-off . . . . .	—	(2,723)	(1,975)	(3,293)	(182)	(50)	—	(8,223)	—	(8,223)
At December 31, 2009 . . . . .	4,737,355	1,294,415	440,389	239,999	155,507	63,280	7,938	6,938,883	21,070	6,959,953
and January 1, 2010 . . . . .	4,737,355	1,294,415	440,389	239,999	155,507	63,280	7,938	6,938,883	21,070	6,959,953
Additions . . . . .	29,505	22,929	10,324	11,205	3,954	1,388	16	79,321	167,281	246,602
Transfers . . . . .	68,762	36,533	13,867	27,623	10,883	12	—	157,680	(157,680)	—
Reclassification . . . . .	—	—	(2,002)	2,173	(171)	—	—	—	—	—
Adjustment upon finalization of costs . . . . .	(11,557)	(2,866)	(7,525)	(94)	(628)	—	—	(22,670)	(1,844)	(24,514)
Disposal/written-off . . . . .	(28,361)	(12,891)	(5,754)	(8,822)	(333)	(164)	—	(56,325)	—	(56,325)
At December 31, 2010 . . . . .	4,795,704	1,338,120	449,299	272,084	169,212	64,516	7,954	7,096,889	28,827	7,125,716

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Gaming machines and equipment	Computer equipment and software	Art works and paintings	Vehicles	Property and equipment total	Construction in progress	Grand total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
DEPRECIATION										
At January 1, 2008 . . . .	(8,622)	(8,654)	(4,334)	(1,706)	(4,260)	—	(50)	(27,626)	—	(27,626)
Eliminated on disposal/write-off . . . .	—	439	76	—	254	—	—	769	—	769
Charge for the year . . . .	(222,647)	(139,798)	(85,724)	(45,125)	(41,784)	—	(1,774)	(536,852)	—	(536,852)
At December 31, 2008 and January 1, 2009 . .	(231,269)	(148,013)	(89,982)	(46,831)	(45,790)	—	(1,824)	(563,709)	—	(563,709)
Eliminated on disposal/write-off . . . .	—	1,203	823	1,083	103	—	—	3,212	—	3,212
Charge for the year . . . .	(233,045)	(150,741)	(89,070)	(51,691)	(58,182)	—	(1,587)	(584,316)	—	(584,316)
At December 31, 2009 and January 1, 2010 . .	(464,314)	(297,551)	(178,229)	(97,439)	(103,869)	—	(3,411)	(1,144,813)	—	(1,144,813)
Eliminated on disposal/write-off . . . .	3,969	10,707	3,215	4,131	298	—	—	22,320	—	22,320
Charge for the year . . . .	(255,290)	(166,428)	(91,139)	(58,639)	(50,051)	—	(1,590)	(623,137)	—	(623,137)
At December 31, 2010 . .	(715,635)	(453,272)	(266,153)	(151,947)	(153,622)	—	(5,001)	(1,745,630)	—	(1,745,630)
CARRYING AMOUNT										
At December 31, 2008 . .	4,189,688	1,055,365	326,747	179,921	82,428	63,332	6,114	5,903,595	311,169	6,214,764
At December 31, 2009 . .	4,273,041	996,864	262,160	142,560	51,638	63,280	4,527	5,794,070	21,070	5,815,140
At December 31, 2010 . .	4,080,069	884,848	183,146	120,137	15,590	64,516	2,953	5,351,259	28,827	5,380,086

At December 31, 2008, 2009 and 2010, borrowing costs of HK\$407 million, HK\$496 million and HK\$496 million respectively have been capitalized in the MGM Grand Paradise Group's property and equipment and HK\$69 million was capitalized in construction in progress at December 31, 2008. The additions to construction in progress during the year ended December 31, 2010 mainly include renovation work on the Complex. This renovation work involves modification of parts of the Complex which resulted in certain items of property and equipment being written off.

According to the subconcession contract, certain property and equipment related to the casino have to be returned to the Macau Government at no cost upon the expiry of the Subconcession Contract in year 2020.

Other than construction in progress and art works and paintings, property and equipment are depreciated on a straight-line basis as follows:

Buildings — gaming . . . . .	12.5 years or over the remaining term of the Subconcession Contract
Buildings — non-gaming . . . . .	25 years or over the lease term of the land on which the buildings are located, whichever is shorter
Leasehold improvements . . . . .	3 to 10 years
Furniture, fixtures and equipment. . . . .	3 to 7 years
Gaming machines and equipment. . . . .	3 to 5 years
Computer equipment and software . . . . .	3 years
Vehicles . . . . .	5 years

#### 17. SUBCONCESSION PREMIUM

	HK\$'000
COST	
At January 1, 2008, December 31, 2008, 2009 and 2010. . . . .	1,560,000
AMORTIZATION	
At January 1, 2008 . . . . .	(4,905)
Charge for the year . . . . .	(127,247)
At December 31, 2008 and January 1, 2009 . . . . .	(132,152)
Charge for the year . . . . .	(126,552)
At December 31, 2009 and January 1, 2010 . . . . .	(258,704)
Charge for the year . . . . .	(127,248)
At December 31, 2010 . . . . .	(385,952)
CARRYING AMOUNT	
At December 31, 2008 . . . . .	1,427,848
At December 31, 2009 . . . . .	1,301,296
At December 31, 2010 . . . . .	1,174,048

Pursuant to the agreement dated June 19, 2004 between MGM Grand Paradise and SJM, a company in which a close family member of certain directors of the MGM Grand Paradise Group has controlling beneficial interests, a subconcession premium of US\$200 million (equivalent to approximately HK\$1.56 billion) was paid by MGM Grand Paradise to SJM for the right to operate casino games of chance and other casino games in the Complex for a period of 15 years commencing on April 20, 2005.

#### 18. LAND USE RIGHT PREMIUM

	HK\$'000
<b>COST</b>	
At January 1, 2008, December 31, 2008, 2009 and 2010 . . . . .	481,470
<b>AMORTIZATION</b>	
At January 1, 2008 . . . . .	(33,483)
Charge for the year . . . . .	(19,299)
At December 31, 2008 and January 1, 2009 . . . . .	(52,782)
Charge for the year . . . . .	(19,246)
At December 31, 2009 and January 1, 2010 . . . . .	(72,028)
Charge for the year . . . . .	(19,246)
At December 31, 2010 . . . . .	(91,274)
<b>CARRYING AMOUNT</b>	
At December 31, 2008 . . . . .	428,688
At December 31, 2009 . . . . .	409,442
At December 31, 2010 . . . . .	390,196

Included in the consolidated statement of financial position as:

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Current land use right premium . . . . .	19,246	19,246	19,246
Non-current land use right premium . . . . .	409,442	390,196	370,950
	<u>428,688</u>	<u>409,442</u>	<u>390,196</u>

The land use right premium represents payments made for the Complex, which is located in Macau SAR, and are stated at cost less accumulated amortization and impairment and are amortized using the straight-line method over the estimated useful life of 25 years from the date when the land use right was granted on April 6, 2006.

## 19. OTHER ASSETS

	HK\$'000
<b>COST</b>	
At January 1, 2008 . . . . .	121,992
Additions during the year . . . . .	<u>12,519</u>
At December 31, 2008 and January 1, 2009 . . . . .	134,511
Additions during the year . . . . .	700
Reclassification to inventories . . . . .	<u>(972)</u>
At December 31, 2009 and January 1, 2010 . . . . .	134,239
Additions during the year . . . . .	8,866
Disposal during the year . . . . .	<u>(63,812)</u>
At December 31, 2010 . . . . .	<u>79,293</u>
<b>AMORTIZATION</b>	
At January 1, 2008 . . . . .	(2,340)
Charge for the year . . . . .	<u>(63,588)</u>
At December 31, 2008 and January 1, 2009 . . . . .	(65,928)
Charge for the year . . . . .	<u>(62,970)</u>
At December 31, 2009 and January 1, 2010 . . . . .	(128,898)
Charge for the year . . . . .	(8,149)
Eliminated on disposal . . . . .	<u>63,812</u>
At December 31, 2010 . . . . .	<u>(73,235)</u>
<b>CARRYING AMOUNT</b>	
At December 31, 2008 . . . . .	<u>68,583</u>
At December 31, 2009 . . . . .	<u>5,341</u>
At December 31, 2010 . . . . .	<u>6,058</u>

Other assets comprise of operating equipment such as chips, silverware, chinaware, linen and uniforms which are amortized over their estimated useful lives on the straight-line method at a rate of 50% per annum.

## 20. INVENTORIES

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Retail merchandise . . . . .	521	579	1,375
Operating supplies . . . . .	10,683	10,729	20,072
Food and beverages . . . . .	<u>29,779</u>	<u>32,932</u>	<u>42,401</u>
	<u>40,983</u>	<u>44,240</u>	<u>63,848</u>

## 21. TRADE RECEIVABLES

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Trade receivables . . . . .	414,367	992,005	1,369,780
Less: Allowance for doubtful debts . . . . .	<u>(56,553)</u>	<u>(151,314)</u>	<u>(232,358)</u>
	<u>357,814</u>	<u>840,691</u>	<u>1,137,422</u>

The MGM Grand Paradise Group grants unsecured credit lines, drawn by way of non-negotiable chips, to gaming promoters based on pre-approved credit limits. The MGM Grand Paradise Group issues markers to gaming promoters with a credit period of 30 days. The directors consider the outstanding receivables from gaming promoters are of good credit quality based on their credit histories and subsequent settlements. The MGM Grand Paradise Group also issues markers and credit to approved casino customers ("VIP gaming customers") and provides credit to hotel customers following background checks and investigations of creditworthiness. The MGM Grand Paradise Group allows a credit period of 14 to 30 days on issuance of markers to its VIP gaming customers and 30 days to its hotel customers. Trade receivables are unsecured and non-interest bearing. The following is an analysis of trade receivables by age presented based on marker issuance date or invoice date:

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Within 30 days . . . . .	221,866	810,485	1,071,999
31 - 60 days . . . . .	47,548	30,206	62,063
61 - 90 days . . . . .	25,772	—	2,668
91 - 120 days . . . . .	62,628	—	692
	<u>357,814</u>	<u>840,691</u>	<u>1,137,422</u>

The MGM Grand Paradise Group assesses the recoverability of trade receivables on an individual basis. Allowance for doubtful debts are recognized against trade receivables based on estimated recoverable amounts taking into account past default experience of the individual counterparty and an ongoing assessment of the counterparty's current financial position. The MGM Grand Paradise Group usually recognizes full allowance against receivables due from casino customers aged over 120 days without subsequent settlement because historical experience has been that receivables that are past due beyond 120 days are generally irrecoverable. Trade receivables from hotel customers are not significant at the end of each reporting period.

Certain trade receivables are past due at the reporting date of which the MGM Grand Paradise Group has considered not impaired as they are either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables is 90 days as at December 31, 2008, 31 days as at December 31, 2009 and 50 days as at December 31, 2010. Ageing of trade receivables which are past due but not impaired based on marker issuance or invoice date is as follows:

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
31 - 60 days . . . . .	47,548	30,206	62,063
61 - 90 days . . . . .	25,772	—	2,668
91 - 120 days . . . . .	62,628	—	692
	<u>135,948</u>	<u>30,206</u>	<u>65,423</u>

Movement in the allowance for doubtful debts during each year, which are substantially all related to casino customers, is as follows:

	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
At January 1, . . . . .	—	56,553	151,314
Impairment losses recognized on trade receivables . . . . .	66,034	110,749	186,097
Impairment losses reversed upon recovery . . . . .	—	(12,489)	(104,767)
Amount written off as uncollectible . . . . .	(9,481)	(3,499)	(286)
At December 31, . . . . .	<u>56,553</u>	<u>151,314</u>	<u>232,358</u>

In determining the recoverability of trade receivables, the MGM Grand Paradise Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. Other than as discussed below, the concentration of credit risk is limited due to the debtor base being large and unrelated.

Included in trade receivables as at December 31, 2008 is an aggregate receivable (before allowance) of approximately HK\$74 million that has been past due. After taking into account the subsequent settlements received and expected to be received from the debtor, the management of the MGM Grand Paradise Group is of the opinion that the receivable is partially impaired and an allowance of approximately HK\$11 million has been provided as at December 31, 2008. During the year ended December 31, 2009, the MGM Grand Paradise Group has recognized an additional approximately HK\$44 million allowance for the remaining balance due from the debtor. As at December 31, 2009, the MGM Grand Paradise Group has no receivable due from this debtor. Included in trade receivables as at December 31, 2010 is an

aggregate receivable (before allowance) of approximately HK\$120 million due from a single debtor that has not been past due. However, after taking into account the deterioration of the credit worthiness of this debtor, full provision of approximately HK\$120 million has been made by management against this receivable. The remaining allowance recognized during each of the years ended December 31, 2008, 2009 and 2010 represents impairment on a large number of casino debtors who are individually determined to be impaired as they have defaulted in repayment of their debts.

The directors of the MGM Grand Paradise are of the opinion that the credit quality of the trade receivables that are neither past due nor impaired at end of each reporting period is of good quality.

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The MGM Grand Paradise Group's prepayments, deposits and other receivables comprise:

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Prepaid bank fees . . . . .	—	33,461	—
Prepaid goods and services . . . . .	6,804	22,464	40,902
Rental and other deposits . . . . .	18,302	15,744	28,844
Other receivables . . . . .	5,872	4,024	7,568
	<u>30,978</u>	<u>75,693</u>	<u>77,314</u>

## 23. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.02% to 0.4%, 0.0007% to 0.06% and 0.0006% to 0.07% per annum as at December 31, 2008, 2009 and 2010.

## 24. PAYABLES AND ACCRUED CHARGES

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Accrued commission and incentives . . . . .	50,383	48,890	82,034
Accrued construction and renovation costs . . . . .	264,440	40,755	33,256
Accrued liability for customer loyalty program . . . . .	11,711	26,540	43,372
Accrued staff costs . . . . .	140,961	139,156	180,843
Other payables and accrued charges . . . . .	237,519	103,757	150,256
Outstanding chips liabilities . . . . .	424,712	1,036,870	1,301,709
Special gaming tax and special levy payables . . . . .	193,571	314,758	865,807
Trade payables . . . . .	164,683	24,214	48,868
	<u>1,487,980</u>	<u>1,734,940</u>	<u>2,706,145</u>

The following is an analysis of trade payables by age based on the invoice date:

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Within 30 days . . . . .	150,535	15,585	39,789
31 - 60 days . . . . .	11,683	1,975	7,530
61 - 90 days . . . . .	468	769	1,120
91 - 120 days . . . . .	852	209	199
Over 120 days . . . . .	1,145	5,676	230
	<u>164,683</u>	<u>24,214</u>	<u>48,868</u>

The average credit period on purchases of goods is one month. The MGM Grand Paradise Group has financial risk management policies to ensure that all payables are paid within the credit timeframe.

## 25. BANK BORROWINGS

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Bank borrowings represent:			
Secured bank loan facilities of US\$337,384,000 ("Tranche A") . . . . .	3,223,494	2,614,758	—
Secured bank loan facilities of HK\$2,631,594,000 ("Tranche B") . . . . .	3,244,331	2,631,594	—
Secured bank loan facilities of US\$90,711,000 and HK\$771,870,000 ("Revolving Credit") . . . . .	—	1,474,891	—
Secured bank loan facilities of HK\$4,290,000,000 ("Term loan") . . . . .	—	—	4,086,730
Secured bank loan facilities of HK\$3,120,000,000 ("Revolving Credit") . . . . .	—	—	1,800,000
	<u>6,467,825</u>	<u>6,721,243</u>	<u>5,886,730</u>
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
More than two years, but not exceeding five years . . . . .	4,850,868	2,719,378	5,672,230
	<u>6,467,825</u>	<u>6,721,243</u>	<u>5,886,730</u>
Less: Amount due within one year under current liabilities . . . . .	(401,057)	(1,062,735)	—
	<u>6,066,768</u>	<u>5,658,508</u>	<u>5,886,730</u>

MGM Grand Paradise has signed a syndicated loan facilities agreement with an aggregate facility amount of US\$700 million (equivalent to approximately HK\$5.46 billion) on July 13, 2006 and increased the aggregate facility amount to US\$1.1 billion (equivalent to approximately HK\$8.53 billion) on February 4, 2008. The facility amount was reduced to US\$900 million (equivalent to approximately HK\$6.98 billion) as at December 31, 2009. The loan bears an aggregate rate of interest of (i) a margin, a factor based on MGM Grand Paradise's leverage ratio and (ii) London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") for US\$ and HK\$ borrowings respectively. Quarterly principal repayment of Tranche A and Tranche B under the loan facilities commenced in January 2009 and will be fully repaid in 2013 while the Revolving Credit will mature in 2011. Repayment of interest ranges from monthly to quarterly basis.

The draw downs were used to finance the construction of the Complex. The syndicated loan facilities are secured by a charge over the shares of MGM Grand Paradise and its subsidiaries including all its assets and all the assets of its subsidiaries.

During the year ended December 31, 2008, the MGM Grand Paradise Group has received a waiver letter for strict compliance with certain bank covenants from the banks for the fourth quarter of that year. The MGM Grand Paradise Group paid to the banks an amount of approximately HK\$42 million for the waiver and this was recognized as an expense during the year.

During the year ended December 31, 2009, MGM Grand Paradise agreed with the banks to amend certain terms of the syndicated loan facilities (the "amended facilities") and capped the aggregate facility amount at US\$900 million (equivalent to approximately HK\$6.98 billion). With the amendments, the banks waived compliance with certain covenants for 2009 and 2010. The MGM Grand Paradise Group paid to the banks certain fees totalling approximately HK\$208 million for the purpose of amending certain terms and covenants in respect of 2009 and 2010. The amount of approximately HK\$174 million in relation to 2009 was recognized as an expense during the year. The remaining amount of approximately HK\$34 million in respect of 2010 was included as prepayment as at December 31, 2009. During the year ended December 31, 2010, the MGM Grand Paradise Group further paid bank fees totalling approximately HK\$64 million in respect of the 2010 amendments which are similar to those for 2009 and an amount totalling approximately HK\$98 million was recognized as an expense during that year. At December 31, 2009, all banking facilities then available to MGM Grand Paradise have been fully drawn.

The amended facilities, among other things, require the shareholders of MGM Grand Paradise to maintain an aggregate amount of US\$26 million (equivalent to approximately HK\$202 million) in freely transferable and immediately available funds in escrow accounts established with the banks. In the event that an event of default including a failure to meet certain covenants subsists on or after December 31, 2010, the shareholders irrevocably agree that the escrow funds can be called upon by the banks and applied directly in or towards prepayment of the amended facilities.

In July 2010, the MGM Grand Paradise Group fully repaid the syndicated loan facilities (the "existing facilities") by entering into a new credit agreement with a limit of HK\$7,410 million (the "new credit facilities") with a different syndicate of banks and the requirement to maintain the aforesaid US\$26 million (equivalent to approximately HK\$202 million) in escrow is no longer required. The purpose of the new credit facilities is for early repayment in full of the existing banking facilities, paying any amount the lenders are entitled to receive as a result of early

repayment of the existing banking facilities, other fees, costs and expenses payable in connection with the refinancing and all proper corporate purposes of the MGM Grand Paradise Group. The new credit facilities comprise a term loan facility and a revolving facility with a limit of HK\$4,290 million and HK\$3,120 million respectively. The term loan facility is denominated in HK\$ and bears interest at a percentage rate per annum equals to the aggregate of a margin ranges from 3% to 4.5% and HIBOR. The revolving credit facility may be denominated in either HK\$ or US\$ and bears interest at a percentage rate per annum equal to the aggregate of the same margin and HIBOR or LIBOR as appropriate. The term loan facility is repayable on a quarterly basis commencing in July 2012 and will be fully repaid in July 2015 while each revolving credit loan will be repaid in full on the last date of the respective term but no later than July 2015. As at December 31, 2010, the MGM Grand Paradise Group incurred and paid miscellaneous charges and bank fees of approximately HK\$222 million in relation to the new credit facilities.

Bank borrowings as at December 31, 2010 comprise:

	HK\$'000
Outstanding principal amount of bank borrowings . . . . .	6,090,000
Less: Debt finance costs . . . . .	<u>(203,270)</u>
Carrying amount as at December 31, 2010 . . . . .	<u>5,886,730</u>

The new credit facilities are secured by a charge over the shares of MGM Grand Paradise and its subsidiaries including all its assets and all the assets of its subsidiaries.

## 26. DEPOSITS AND ADVANCES

Deposits and advances mainly represent funds deposited by casino customers for gaming purposes, which are unsecured, interest free and repayable on demand.

## 27. LOANS FROM SHAREHOLDERS

Loans from shareholders are in the form of unsecured interest-free loan notes (the "Loan Notes") with principal amounting US\$135 million (equivalent to approximately HK\$1 billion). Pursuant to the terms of the Instrument of the Unsecured Notes and the Subscription and Shareholders Agreement of MGM Grand Paradise, MGM Grand Paradise and its shareholders agree to procure that MGM Grand Paradise will, with effect from the opening of the Complex to the public (whether fully or partly) repay the Loan Notes, on a monthly basis, in an aggregate amount of US\$30 million (equivalent to approximately HK\$233 million) per annum. The repayment of the Loan Notes shall be increased to US\$50 million (equivalent to approximately HK\$388 million) per annum with effect from the repayment in full of the MGM Mirage Subordinated Facility (as defined below in note 28) of US\$100 million (equivalent to approximately HK\$775 million). The Loan Notes shall only be paid to the extent permitted by third party financing and after, and shall be subordinated to (i) any repayments due in respect of any third party financing of MGM Grand Paradise and any of its subsidiaries; and (ii) any interest due on any sums drawn down under the MGM Mirage Subordinated Facility from time to time, but shall be paid before, and in priority to, any repayment due in respect of any financing of MGM Grand Paradise and any of its subsidiaries (other than the Loan Notes) from shareholders and group companies of shareholders (including any capital repayments due under the MGM Mirage Subordinated Facility). The Loan Notes repayment shall be paid in equal monthly installments until the Loan Notes have been redeemed in full.

In accordance with IAS 39, the interest-free shareholders' Loan Notes classified as financial liabilities are initially measured at fair value and are subsequently measured at amortized cost at each reporting date until full repayment. Management of MGM Grand Paradise has, pursuant to the terms of the relevant agreements and based on certain assumptions, estimated the fair value of the Loan Notes using the effective interest method (that is, discounting the future cash flows at the market rate of interest over the estimated repayment dates) and certain of these assumptions will be reassessed by management of MGM Grand Paradise on an annual basis. As a result, at the initial recognition of these Loan Notes, a fair value adjustment of approximately HK\$630 million (equivalent to approximately US\$81 million) was made to reduce the principal amount of the interest-free shareholders' Loan Notes with a corresponding reserve of the same amount recognized in equity as deemed contribution from shareholders.

In addition, effective interest expenses of approximately US\$6.3 million (equivalent to approximately HK\$48.8 million), approximately US\$6.8 million (equivalent to approximately HK\$52.8 million), and approximately US\$6.8 million (equivalent to approximately HK\$52.9 million) were recognized in the statement of comprehensive income for each of the year ended December 31, 2008, 2009 and 2010 and the shareholders' Loan Notes have been increased by the same amount at the end of the relevant reporting periods as a result of the accretion of these effective interest expenses.

As at December 31, 2010, the MGM Grand Paradise Group has repaid all the loans from shareholders. Consequently, the equity reserve of approximately HK\$630 million recognized initially was reduced to approximately HK\$294 million as at December 31, 2010 due to the early repayment of the loans.



**28. LOAN FROM A RELATED COMPANY**

The loan from MGM Resorts International Holdings Limited (formally known as MGM Mirage), the holding company of certain shareholders of MGM Grand Paradise, is in the form of an unsecured, interest bearing loan note with a principal amount of US\$100 million (equivalent to approximately HK\$775 million) (the "MGM Mirage Subordinated Facility"), carries an interest rate at the aggregate of a margin of 1% per annum and the weighted average interest rate of MGM Resorts International Holdings Limited's long term borrowings. Interest shall accrue from day to day on the outstanding balance of the MGM Mirage Subordinated Facility and shall be paid in arrears each month following the date of the making of the first advance but shall be paid only to the extent that monthly cash flow surplus of the MGM Grand Paradise Group is available to meet the same. Interest due but not paid shall be deemed capitalized as part of the advances outstanding from the MGM Grand Paradise Group to the lender.

Pursuant to the terms of the MGM Mirage Subordinated Facility, the loan is repayable on a monthly basis, in and towards, repayment of the loan, the total amount of monthly cash flow surplus for the immediately preceding month provided that (i) all repayment, cash flow retention and other obligations or conditions in respect of MGM Grand Paradise third party financing arrangements have been paid, satisfied or waived in full for the relevant month; (ii) all payments of interest due in respect of the loan under the MGM Mirage Subordinated Facility have been settled; (iii) MGM Grand Paradise has settled the repayment of the loans from shareholders as discussed in note 27 for the relevant month; and (iv) any repayment shall be reduced by such amount as MGM Grand Paradise shall deem necessary for the purpose of preserving sufficient working capital for MGM Grand Paradise's ongoing operations.

As at December 31, 2010, the MGM Grand Paradise Group has repaid all of the loan from a related party.

**29. SHARE CAPITAL AND PREMIUM**

	<u>Authorized, issued and fully paid</u> HK\$'000
200,000 shares of MOP1,000 (equivalent to approximately HK\$970) each at par issued on the date of incorporation, at January 1, 2008, December 31, 2008, December 31, 2009 and December 31, 2010 . . . . .	<u>194,175</u>
	<b>HK\$'000</b>
Share premium on issue of 200,000 shares on the date of incorporation, at January 1, 2008, December 31, 2008, December 31, 2009 and December 31, 2010 . . . . .	<u>778,485</u>

As part of the Reorganization as detailed in the section headed Reorganization in the Prospectus, the existing shareholders of MGM Grand Paradise will convert the shares held by them in MGM Grand Paradise into class A and class B shares upon receipt of approval from The Stock Exchange of Hong Kong Limited on the listing of MGM China Holdings Limited, which will become the holding company of MGM Grand Paradise upon completion of the Group Reorganization.

**30. RETIREMENT BENEFIT PLANS****Defined contribution plan**

The MGM Grand Paradise Group operates a retirement benefit plan for all qualifying employees. The assets of the plans are held separately from those of the MGM Grand Paradise Group in funds under the control of trustees.

The total expenses recognized in the consolidated statement of comprehensive income of approximately HK\$26 million, HK\$23 million, and HK\$23 million represents contributions payable to the plan by the MGM Grand Paradise Group at rates specified in the rules of the plan during the years ended December 31, 2008, 2009 and 2010 respectively. As at December 31, 2008, 2009, 2010, contributions of approximately HK\$9,500,000, HK\$26,000 and HK\$4,000,000 due in respect of the years ended December 31, 2008, 2009 and 2010 respectively had not been paid over to the plan. The amounts were paid subsequent to the end of the reporting periods.

**31. CAPITAL RISK MANAGEMENT**

The MGM Grand Paradise Group manages its capital to ensure that entities in the MGM Grand Paradise Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The MGM Grand Paradise Group's overall strategy remains unchanged throughout the Track Record Period. The capital structure of the MGM Grand Paradise Group consists of net debt (borrowings offset by cash and bank balances) and equity of the MGM Grand Paradise Group (comprising issued capital and reserves).

The MGM Grand Paradise Group's management reviews the capital structure of the MGM Grand Paradise Group on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each component of the capital structure.

### Gearing ratio

The gearing ratio at end of the reporting period was as follows:

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Debt <sup>(i)</sup> . . . . .	7,890,059	8,271,321	5,886,730
Cash and bank balances . . . . .	(1,448,468)	(1,975,711)	(1,922,723)
Net debt . . . . .	6,441,591	6,295,610	3,964,007
Equity <sup>(ii)</sup> . . . . .	418,476	251,345	1,480,849
Total capital . . . . .	6,860,067	6,546,955	5,444,856
Gearing ratio (Net debt/Total capital) . . . . .	93.9%	96.2%	72.8%

(i) Debt is defined as long and short-term bank borrowings and loans from shareholders and a related company as described in notes 25, 27 and 28.

(ii) Equity includes all capital and reserves of the MGM Grand Paradise Group that are managed as capital.

## 32. FINANCIAL INSTRUMENTS

### Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses), for each class of financial asset, financial liability and equity instrument are disclosed in note 4 above.

Categories of financial instruments

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
<u>Financial assets</u>			
<u>Amortized cost</u>			
Amount due from a related company . . . . .	—	97	72,471
Bank balances and cash . . . . .	1,448,468	1,975,711	1,922,723
Other receivables . . . . .	5,872	4,024	7,568
Rental and other deposits . . . . .	18,302	15,744	28,844
Trade receivables . . . . .	357,814	840,691	1,137,422
	<u>1,830,456</u>	<u>2,836,267</u>	<u>3,169,028</u>
<u>Financial liabilities</u>			
<u>Amortized cost</u>			
Amounts due to related companies . . . . .	11,933	180	11,681
Bank borrowings . . . . .	6,467,825	6,721,243	5,886,730
Construction retention payable . . . . .	113,013	8,319	3,433
Deposits and advances . . . . .	96,665	201,272	135,103
Loan from a related company . . . . .	817,201	891,817	—
Loans from shareholders . . . . .	605,033	658,261	—
Outstanding chips liabilities . . . . .	424,712	1,036,870	1,301,709
Trade payables . . . . .	164,683	24,214	48,868
	<u>8,701,065</u>	<u>9,542,176</u>	<u>7,387,524</u>

### Financial risk management objectives

The MGM Grand Paradise Group's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the MGM Grand Paradise Group. The risks associated with financial instruments include market risk (currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk.

The MGM Grand Paradise Group's management manages and monitors risks and policies implemented to mitigate risk exposures on a timely and effective manner.

There has been no change to the types of the MGM Grand Paradise Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks during each of the three years ended December 31, 2010.

### Market risk

The MGM Grand Paradise Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates.

#### *Foreign currency risk management*

The MGM Grand Paradise Group undertakes transactions and has raised bank loans denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. The MGM Grand Paradise Group does not use any derivative contracts to hedge against its exposure to currency risk. Majority of its foreign currency exposures comprises liabilities denominated in US\$ while the exchange rate of the HK\$ is linked to the US\$ and has remained relatively stable over past several years. The majority of the receipts of the MGM Grand Paradise Group are denominated in HK\$. MOP denominated financial assets are not significant within the MGM Grand Paradise Group. MOP is pegged to the HK\$ at a constant rate of approximately HK\$1 : MOP1.03. The MGM Grand Paradise Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates. The carrying amounts of the MGM Grand Paradise Group's foreign currency denominated monetary assets and monetary liabilities (including bank balance and cash, payables, bank borrowings, loans from shareholders and a related company) at the end of the reporting period are as follows:

	Assets		
	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
United States Dollars ("US\$") . . . . .	228,479	24,644	26,722
Taiwan Dollars ("TW\$") . . . . .	41,993	51,815	19,123
Singapore Dollars ("SG\$") . . . . .	—	21,652	46,247
Macau Patacas ("MOP") . . . . .	32,244	31,833	28,300
	Liabilities		
	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
US\$ . . . . .	4,645,728	4,867,856	—

#### *Foreign currency sensitivity analysis*

The MGM Grand Paradise Group is mainly exposed to the effects of fluctuation in the US\$. The following table details the MGM Grand Paradise Group's sensitivity to a 1% increase and decrease in the HK\$ against the US\$. 1% is the sensitivity rate used internally for assessment of possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the reporting dates for a 1% change in foreign currency rates. A positive number below indicates a decrease in loss/an increase in profit where the HK\$ strengthens 1% against the US\$. For a 1% weakening of the HK\$ against the US\$, there would be an equal and opposite impact on the result, and the balance would be negative.

	Impact of US\$		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Sensitivity rate . . . . .	1%	1%	1%
Loss/profit for the year . . . . .	44,172	48,432	(267)

### Interest rate risk

The MGM Grand Paradise Group's exposure to fair value interest rate risk to fixed-rate borrowings is minimal because the MGM Grand Paradise Group has been keeping borrowings at variable rates.

The MGM Grand Paradise Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, bank borrowings and loan from related parties (see note 25 for details of the bank borrowings and note 28 for details of loan from a related company). The MGM Grand Paradise Group's cash flow interest rate risk on bank balances is

considered insignificant due to current low interest rate for bank deposit. The MGM Grand Paradise Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The MGM Grand Paradise Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the MGM Grand Paradise Group's United States dollar denominated borrowings and the fluctuation of HIBOR arising from the MGM Grand Paradise Group's Hong Kong dollar denominated borrowings.

#### *Interest rate sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to interest rates for the floating rate bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease throughout the Track Record Period is used internally for assessment of possible change in interest rate.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the MGM Grand Paradise Group's loss for the year ended December 31, 2008, 2009 would increase/decrease by HK\$28 million, HK\$34 million respectively and the MGM Grand Paradise Group's profit for the year ended December 31, 2010 would decrease/increase by HK\$30 million. This is mainly attributable to the MGM Grand Paradise Group's exposure to interest rates on its variable-rate bank borrowings.

#### Credit risk

As at December 31, 2008, 2009 and 2010, the MGM Grand Paradise Group's maximum exposure to credit risk which will cause a financial loss to the MGM Grand Paradise Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the MGM Grand Paradise Group is arising from:

- the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liabilities in relation to a financial guarantee issued by the MGM Grand Paradise Group as disclosed in note 33.

In order to minimize the credit risk, the management of the MGM Grand Paradise Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the MGM Grand Paradise Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the MGM Grand Paradise Group believes that no significant credit risk is inherent in the MGM Grand Paradise Group's trade receivables which are not provided for.

The credit risk on liquid funds is limited because the counterparties are banks with high credit standing in Hong Kong and Macau SAR.

Other than concentration of credit risk of the debtor at December 31, 2008 which is discussed in more detail in note 21 and liquid funds which are deposited with several banks with high credit standing in Hong Kong and Macau SAR, the MGM Grand Paradise Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of casino customers, gaming promoters and hotel customers.

#### Liquidity Risk

In the management of the liquidity risk, the MGM Grand Paradise Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the MGM Grand Paradise Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

The MGM Grand Paradise Group relies on bank borrowings and loans from shareholders and a related company as a significant source of liquidity. As at December 31, 2009, the MGM Grand Paradise Group has drawn all the banking facilities available, details of which are set out in note 25.

The following table details the MGM Grand Paradise Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the MGM Grand Paradise Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from an interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As at 12.31.2008</b>								
Trade payables . . . . .	—	164,683	—	—	—	—	164,683	164,683
Outstanding chips liabilities . . . .	—	424,712	—	—	—	—	424,712	424,712
Bank borrowings . . . . .	5.59%	125,455	13,614	500,862	6,415,277	—	7,055,208	6,467,825
Deposits and advances . . . . .	—	96,665	—	—	—	—	96,665	96,665
Construction retention payable . . . . .	—	—	—	108,237	4,776	—	113,013	113,013
Amounts due to related companies . . . . .	—	11,933	—	—	—	—	11,933	11,933
Loans from shareholders (Note 1) . . . . .	8.4%	—	—	—	155,020	892,140	1,047,160	605,033
Loan from a related company (Note 2) . . . . .	7.05%	—	—	—	87,111	1,763,765	1,850,876	817,201
Financial guarantee contracts . . .	—	493,000	—	—	—	—	493,000	—
		<u>1,316,448</u>	<u>13,614</u>	<u>609,099</u>	<u>6,662,184</u>	<u>2,655,905</u>	<u>11,257,250</u>	<u>8,701,065</u>
	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As at 12.31.2009</b>								
Trade payables . . . . .	—	24,214	—	—	—	—	24,214	24,214
Outstanding chips liabilities . . . .	—	1,036,870	—	—	—	—	1,036,870	1,036,870
Bank borrowings . . . . .	4.15%	197,813	—	1,014,304	5,925,956	—	7,138,073	6,721,243
Deposits and advances . . . . .	—	201,272	—	—	—	—	201,272	201,272
Construction retention payable . . . . .	—	—	—	8,319	—	—	8,319	8,319
Amounts due to related companies . . . . .	—	180	—	—	—	—	180	180
Loans from shareholders (Note 1) . . . . .	8.4%	—	—	—	387,800	660,036	1,047,836	658,261
Loan from a related company (Note 2) . . . . .	8.64%	—	—	—	216,888	1,633,988	1,850,876	891,817
Financial guarantee contracts . . .	—	494,000	—	—	—	—	494,000	—
		<u>1,954,349</u>	<u>—</u>	<u>1,022,623</u>	<u>6,530,644</u>	<u>2,294,024</u>	<u>11,801,640</u>	<u>9,542,176</u>
	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As at 12.31.2010</b>								
Trade payables . . . . .	—	48,868	—	—	—	—	48,868	48,868
Outstanding chips liabilities . . . .	—	1,301,709	—	—	—	—	1,301,709	1,301,709
Bank borrowings . . . . .	5.09%	20,796	—	167,389	7,062,655	—	7,250,840	5,886,730
Deposits and advances . . . . .	—	135,103	—	—	—	—	135,103	135,103
Construction retention payable . . . . .	—	—	—	3,433	—	—	3,433	3,433
Amounts due to related companies . . . . .	—	11,681	—	—	—	—	11,681	11,681
Financial guarantee contracts . . .	—	300,000	—	—	—	—	300,000	—
		<u>1,818,157</u>	<u>—</u>	<u>170,822</u>	<u>7,062,655</u>	<u>—</u>	<u>9,051,634</u>	<u>7,387,524</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(Note 1) As at December 31, 2008 and 2009, pursuant to the terms of the Instrument of the Unsecured Notes and the Subscription and Shareholders Agreement of MGM Grand Paradise as described in note 27, the

management estimated that the monthly repayment of the Loan Notes would commence in May 2013 after the full repayment of the bank borrowings as described in note 25 and after repayment of the monthly interest due on any sums drawn down under the MGM Mirage Subordinated Facility as described in note 28. Therefore, the maturity analysis for the loans outstanding as at December 31, 2008 and 2009 were prepared on such basis. As discussed in note 27, the Loan Notes have been fully repaid as of December 31, 2010.

- (Note 2) As at December 31, 2008 and 2009, in the opinion of the directors of the MGM Grand Paradise Group, repayment of the MGM Mirage Subordinated Facility, which comprises the principal and any unpaid interest accrued and capitalized as part of the principal, will commence more than five years after each of the reporting dates based on their assessment on the availability of cash flows of the MGM Grand Paradise Group for repayment purposes. The repayment of the monthly interest will commence in May 2013, in priority of the monthly repayment of the Loan Notes. Therefore, the maturity analysis for the loan outstanding as at December 31, 2008 and 2009 were prepared on such basis. As discussed in note 28 the remaining balance of the loan from a related company has been fully repaid as of December 31, 2010.

#### *Fair value*

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market inputs.

The Directors of the MGM Grand Paradise consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

### 33. CONTINGENT LIABILITIES

At December 31, 2008, 2009 and 2010, the MGM Grand Paradise Group has given bank guarantees totalling HK\$493 million, HK\$494 million and HK\$300 million respectively to certain parties, of which HK\$488 million, HK\$488 million and HK\$294 million was issued in favor of the Macau Government as required in the subconcession contract, HK\$0.6 million, HK\$2 million and HK\$2 million was issued in favor of a utility supplier and HK\$4 million, HK\$4 million and HK\$4 million was issued in favor of a lessor, which is a related company and certain directors have non-controlling beneficial interests.

Based on management's expectations, at each subsequent reporting date it is more likely than not that no amount will be payable by the MGM Grand Paradise Group to indemnify the bank under these arrangements. Consequently no liability for the guarantees has been recognized in the Financial Information of the MGM Grand Paradise Group for the Track Record Period.

### 34. OPERATING LEASE COMMITMENTS

At the end of reporting period, the MGM Grand Paradise Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of the leasehold land where the Complex is located (in addition to the prepaid land use right premium as detailed in note 18), rented office premises, warehouse, staff quarters, office equipment, light boxes and advertising booths which fall due as follows:

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
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>

Leases for office premises, warehouse, staff quarters, office equipment, light boxes and advertising booths are negotiated for an average term of three years and rentals are fixed for an average of three years. The lease for the leasehold land where the Complex is located is fixed for 25 years from April 2006.

## 35. CAPITAL COMMITMENTS

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Capital expenditure in respect of construction and development of the Complex that have been			
- authorized but not contracted for . . . . .	491,510	108,424	43,081
- contracted but not accounted for . . . . .	<u>212,037</u>	<u>21,938</u>	<u>30,900</u>
	<u>703,547</u>	<u>130,362</u>	<u>73,981</u>

## 36. OTHER COMMITMENTS

Pursuant to the gaming contract signed with the Macau Government, MGM Grand Paradise has committed to pay an annual premium of approximately HK\$29 million plus a variable premium calculated on the basis of the number of gaming tables and gaming devices operated by MGM Grand Paradise during the term of the Subconcession Contract when the gaming operations commenced business. A premium of approximately HK\$99.4 million, HK\$111.6 million and HK\$115.1 million was paid to the Macau Government and was recognized in profit or loss and included in special gaming tax and special levy to the Macau Government for each of the years ended 2008, 2009 and 2010 respectively.

## 37. RELATED PARTY TRANSACTIONS

Balances and transactions between MGM Grand Paradise and its subsidiaries, which are related parties of MGM Grand Paradise, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the MGM Grand Paradise Group and other related parties are disclosed below.

- (a)(i) Amount due from a related company represents the balance with a group company of certain shareholders. The amount is unsecured, non-interest bearing and repayable on demand. The maximum amount outstanding during the years ended December 31, 2009 and 2010 is HK\$97,000 and HK\$72 million respectively.
- (a)(ii) Amounts due to related companies represent balances with companies in which certain directors have non-controlling beneficial interests and holding company of certain shareholders. The amounts are unsecured non-interest bearing and repayable on demand.

Aging of amounts due to related companies

	As at December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
0 - 30 days . . . . .	9,522	145	2,217
31 - 60 days . . . . .	2,402	29	3,708
61 - 90 days . . . . .	1	6	1,582
91 - 120 days . . . . .	—	—	1,295
Over 120 days . . . . .	<u>8</u>	<u>—</u>	<u>2,879</u>
	<u>11,933</u>	<u>180</u>	<u>11,681</u>

- (b)(i) During each of the three years ended December 31, 2010, the MGM Grand Paradise Group had the following significant transactions with related companies:

Related parties	Type of transaction	Year Ended December 31,		
		2008	2009	2010
		HK\$'000	HK\$'000	HK\$'000
Company in which certain directors have non-controlling beneficial interests	Travelling and accommodation . . .	29,295	27,311	27,820
	Rental of premises . . . . .	2,580	2,555	2,062
	Gift voucher purchased . . . . .	—	—	2,234
	Decoration fees paid . . . . .	<u>3,694</u>	<u>—</u>	<u>—</u>
		<u>—</u>	<u>—</u>	<u>—</u>



- (b)(ii) In the opinion of the directors of MGM Grand Paradise, the following related party transactions will also constitute connected transactions upon listing under the Listing Rules:

Related and connected parties	Type of transaction	Year Ended December 31,		
		2008	2009	2010
		HK\$'000	HK\$'000	HK\$'000
Company in which certain directors have non-controlling beneficial interests	Travelling and accommodation . . . . .	16,082	48,610	53,870
	Laundry services expenses . . . . .	—	9,233	10,291
	Commission income . . . . .	—	(2,090)	(2,449)
	Gift vouchers purchased . . . . .	—	—	2,427
	Rental of premises . . . . .	—	—	178
Holding company of certain shareholders	Interest expenses . . . . .	56,833	74,674	75,612
	Marketing expenses . . . . .	—	—	9,248
Shareholders	Developers' fees paid . . . . .	27,919	15,626	1,846

Developers' fees represents fees paid to shareholders for certain development support services in connection with the design and development of the Complex and are capitalized to construction in progress in each of the three years ended December 31, 2010.

In addition, from time to time, the MGM Grand Paradise Group and certain entities which directors of MGM Grand Paradise have non-controlling beneficial interests and the group companies of certain shareholders of the MGM Grand Paradise Group collect and/or make payment on behalf of each other at no service charges.

Other than interest expenses paid to holding company of certain shareholders, namely MGM Resorts International Holdings Limited, which was discontinued during the year ended December 31, 2010, all of the above connected transactions will continue after the listing of MGM China Holdings Limited (see Section D below) on The Stock Exchange of Hong Kong Limited.

(c) Compensation to key management personnel

The remuneration of key management during each of the three years ended December 31, 2010 was as follows:

	Year Ended December 31,		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Short term benefits . . . . .	42,451	44,056	56,091
Post-employment benefits . . . . .	706	1,032	1,099
	43,157	45,088	57,190

The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market trends.

## B. DISTRIBUTABLE RESERVES

Pursuant to Article 432 of the Macau Commercial Code, at least 10% of MGM Grand Paradise's annual profits determined based on Financial Reporting Standards of Macau SAR 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 (equivalent to approximately HK\$194 million). The legal reserve is not distributable to shareholders. As at December 31, 2010, the MGM Grand Paradise Group has distributable reserves of approximately HK\$480 million (equivalent to MOP495 million), which represents retained earnings of MGM Grand Paradise as at December 31, 2010 determined based on the statutory financial statements of MGM Grand Paradise prepared in accordance with Financial Reporting Standards of Macau SAR for the year ended December 31, 2010, after deducting an amount of approximately MOP50 million (equivalent to approximately HK\$49 million) to be set aside and retained as legal reserve pursuant to provisions of the Macau Commercial Code.

## C. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by MGM Grand Paradise or any of its subsidiaries to MGM Grand Paradise's directors in respect of the Track Record Period.



**D. SUBSEQUENT EVENTS**

The following events occurred subsequent to December 31, 2010:

- a) On April 13, 2011, MGM Grand Paradise and MGM China Holdings Limited, a company currently wholly-owned by Antonio Jose Menano, who has agreed to transfer such shareholding in MGM China Holdings Limited to the shareholders of MGM Grand Paradise upon Group Reorganization, entered into a contribution and share issuance agreement with Pansy Ho, Grand Paradise Macau Limited and MGM Resorts International ("shareholders of MGM Grand Paradise") as part of the Reorganization. Pursuant to the agreement and, subject to certain conditions set out therein, the shareholders of MGM Grand Paradise will contribute their 160,000 class A shares in MGM Grand Paradise to MGM China Holdings Limited in the manner set out in the section headed "History and Corporate Structure — Reorganization" in this prospectus and MGM China Holdings Limited will become the holding company of the MGM Grand Paradise Group.
- b) On March 23, 2011, an amount of MOP50 million (equivalent to approximately HK\$49 million) was transferred from retained earnings to legal reserve and dividends of MOP2,450 per share (equivalent to approximately HK\$2,379 per share) amounting approximately MOP490 million (equivalent to approximately HK\$476 million) in aggregate were declared and approved by the shareholders of MGM Grand Paradise. Such dividends were paid to the shareholders of MGM Grand Paradise on March 24, 2011.

**E. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the MGM Grand Paradise Group, MGM Grand Paradise or any of the companies comprising the MGM Grand Paradise Group in respect of any period subsequent to December 31, 2010.

Yours faithfully,

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong