



美高梅中國控股有限公司  
MGM China Holdings Limited

2011 Annual Report

美高梅中國控股有限公司  
MGM China Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2282







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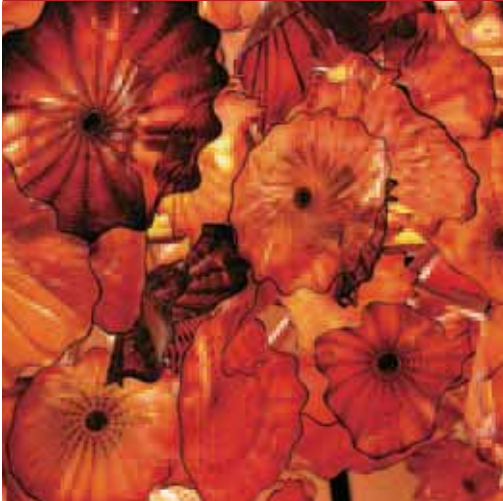
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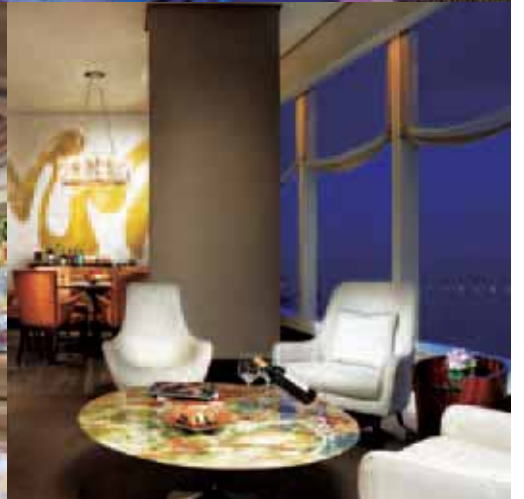




# Art









# Corporate Information

## Board of Directors

### Executive Directors

Pansy Catilina Chiu King Ho (*Chairperson*)  
James Joseph Murren (*Co-Chairperson*)  
Chen Yau Wong  
William Joseph Hornbuckle  
Grant R. Bowie (*Chief Executive Officer*)

### Non-executive Directors

William M. Scott IV  
Daniel J. D'Arrigo  
Kenneth A. Rosevear

### Independent Non-executive Directors

Zhe Sun  
Tommei Mei Kuen Tong  
Sze Wan Patricia Lam

## Audit Committee

Tommei Mei Kuen Tong (*Chairman*)  
Kenneth A. Rosevear  
Zhe Sun

## Remuneration Committee

Zhe Sun (*Chairman*)  
William Joseph Hornbuckle  
Pansy Catilina Chiu King Ho  
Tommei Mei Kuen Tong  
Sze Wan Patricia Lam

## Nomination and Corporate Governance Committee

Sze Wan Patricia Lam (*Chairman*)  
William M. Scott IV  
Chen Yau Wong  
Tommei Mei Kuen Tong  
Zhe Sun

## Joint Company Secretaries

Antonio Jose Menano  
Yee Har Yeung

## Authorized Representatives

Antonio Jose Menano  
William M. Scott IV

## Auditor

Deloitte Touche Tohmatsu  
Certified Public Accountants

## Legal Advisors

As to Hong Kong law:

Herbert Smith  
23rd Floor, Gloucester Tower, 15 Queen's Road Central  
Hong Kong

As to Macau law:

DSL Lawyers  
Avenida da Praia Grande no. 409  
China Law Building 16th Floor  
Macau

## Compliance Advisor

Anglo Chinese Corporate Finance, Limited  
40th Floor, Two Exchange Square  
8 Connaught Place  
Central, Hong Kong

## Registered Office in Cayman Islands

Walker House  
87 Mary Street, George Town  
Grand Cayman KY1-9005  
Cayman Islands

## Principal Place of Business and Head Office in Macau

Avenida Dr. Sun Yat Sen, Edificio MGM MACAU  
NAPE, Macau

## Place of Business in Hong Kong Registered Under Part XI of the Companies Ordinance

1402 China Merchants Tower.  
200 Connaught Road  
Central, Hong Kong

## Hong Kong Listed Share Registrar Computershare

Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## Cayman Islands Unlisted Share Registrar and Transfer Office

Walkers Corporate Service Limited  
Walker House, 87 Mary Street  
George Town, Grand Cayman KY1-9005  
Cayman Islands

## Company Website

[www.mgmchinaholdings.com](http://www.mgmchinaholdings.com)

## Stock Code

2282

# Financial Highlights

	For the year ended December 31,	
	2011 HK\$'000	2010 HK\$'000
Casino revenue	19,974,556	12,126,848
Other revenue	319,071	307,880
Adjusted EBITDA (unaudited)	4,932,962	2,830,838
Adjusted EBITDA before the license fee (unaudited)	5,045,969	2,830,838
Profit attributable to owners of the Company <sup>(1)</sup>	3,279,060	1,566,035
Earnings per Share — basic and diluted	<b>HK86.3 cents</b>	HK41.2 cents

Note:

- (1) The amounts presented herein differ from the pro-forma US GAAP amounts presented by MGM Resorts International concerning the Company in its filing with the Securities and Exchange Commission in the United States on February 22, 2012. This is primarily due to the purchase price allocation resulting from the acquisition of 51% of the Company by MGM Resorts International during the year as well as adjustments for IFRS and US GAAP differences.



## CHAIRPERSON'S STATEMENT

We continue to reinvest, enhance and modernize our market-leading assets to strengthen our competitive position for the future.







# Chairperson's Statement



Dear Shareholders,

In our business, we don't leave things to chance. In order to succeed and deliver sustainable results for you, our shareholders, we are driven by a constant desire to excel and innovate.

Our successful IPO on June 3, 2011 was the culmination of four years of hard work. Hard work which in 2011 produced a very pleasing result in terms of our financial performance and confirmed the enormous progress we've made in growing our business in a sustainable way for all our shareholders and employees.

Through the payment of a special dividend this year, we are delighted to be able to share our success with you and at the same time we can assure you that this does not come at the cost of future expansion at our current property and beyond, which are financially supported from our operating cash flow and existing credit facilities.

Our healthy financial position is strengthened by our ongoing initiatives to manage costs and improve productivity. They are also a result of a successful marketing strategy to widen our customer base, through a string of promotions, celebrity events and strategic alliances both within our MGM family and with key external brand partners. Through strategic deployment of our resources, we look forward to maintaining a strong balance sheet and positioning ourselves for future sustainable growth.

With regards to our Cotai project, the planning and financing are well advanced so as to create what will be a uniquely MGM experience featuring exciting elements which will enhance our competitiveness and support the diversification of the Macau market as a whole. While the exact timing of when this project will commence is dependent on approvals from the Macau SAR government we continue to refine our design to ensure that we are ready to proceed as soon as these approvals are received.

In addition, we continue to reinvest, enhance and modernize our market-leading assets to strengthen our competitive position for the future. The Macau market is very competitive. Our customers are becoming more demanding in terms of expecting quality and innovation. Over the next twelve to eighteen months we will be enhancing our product offering at MGM MACAU with a new concept Chinese restaurant as well as upgrading and expanding our gaming and entertainment areas.

With all the outstanding achievements we've made over the years, we recognize that our most valuable assets are our people. We





will continue to do our utmost to cultivate a positive working environment, to invest in training and to make room for our team members to grow. Through the MGM Academy, we provide ongoing learning opportunities that empower our team members to achieve both their personal and professional goals.

A vast majority of our team members have deep roots in Macau and it is very encouraging to see we have one of the most active and energized volunteer teams in Macau. The MGM Volunteer Program, established in 2010, provides opportunities for our team members to give back to the community, and one of our main goals is to help build a brighter future for Macau. As a company, we also set aside significant resources to support the community in a number of areas of interests, with a particular emphases on education, youth and senior citizen support . To cultivate the next generation of business leaders, we have been working with the major local tertiary institutions to provide scholarship and internship opportunities for local students.

It has been a landmark year for all of us at MGM CHINA and I'd like to take this opportunity to thank our team members for their many and ongoing efforts in building a solid foundation so that we all may benefit from the prosperous future that lays ahead.

Thank you all for the confidence you've placed in MGM CHINA.

Pansy Catilina Chiu King Ho  
*Chairperson*

# Directors and Senior Management



From left to right

Front row

Pansy Ho, Jim Murren, Grant Bowie

Middle row:

Tommei Tong, CY Wong, Patti Lam, Bill Hornbuckle, Zhe Sun

Back row:

Ken Rosevear, William Scott, Dan D'Arrigo



## Members of our Board

### Executive Directors

**Pansy Catilina Chiu King Ho**, aged 49, is the Managing Director of Shun Tak Holdings Limited, a leading business conglomerate listed on the Hong Kong Stock Exchange, a position she has held since 1999. She has served as a director of MGM Grand Paradise since June 1, 2005. Ms. Ho is also a director of a number of privately held companies, including Grand Paradise Macau Limited, Grand Paradise Grupo S.A., New Corporate Enterprises Limited, Bright Elite Holdings Limited and Grand Paradise Group (HK) Limited. In addition, Ms. Ho is a Vice Chairman of Macau International Airport Company Limited, an independent non-executive director of Sing Tao News Corporation Limited and a non-executive director of Qin Jia Yuan Media Services Company Limited (both of which are also listed on the Hong Kong Stock Exchange). She is also a Standing Committee Member of the Chinese People's Political Consultative Conference of Beijing, a Standing Committee Member of the All-China Federation of Industry and Commerce, a Vice President of the Chamber of Tourism of All-China Federation of Industry and Commerce, and a Vice Chairperson of the China Society for Promotion of the Guangcai Program. In Macau, Ms. Ho is a Member of the Government of Macau SAR Tourism Development Committee, a Vice President of the Macau Chamber of Commerce and a Vice President of Macau Convention & Exhibition Association. Internationally, she is also an Executive Committee Member of World Travel & Tourism Council and a member of Sotheby's International Advisory Board. Ms. Ho graduated with a Bachelor's degree in marketing and international business management from the University of Santa Clara in the United States. Ms. Ho does not hold any position in MGM Resorts International.

**James Joseph Murren**, aged 50, is the President, Chairman of the Corporate Board and Chief Executive Officer of MGM Resorts International, a position he has held since 2008. He has served as a director of MGM Grand Paradise since January 19, 2010. In 1998, Mr. Murren joined MGM Grand Inc. (a predecessor of MGM Resorts International) as Chief Financial Officer and a member of the board. He completed significant acquisitions over the next seven years, overseeing the transformation of MGM Resorts International into one of the world's leading gaming companies. In 1999, the board promoted Mr. Murren to President and then to Chief Operating Officer in 2007. As Chief Financial Officer, Mr. Murren directed the implementation of an extensive reorganization of MGM Grand Inc. and started the development of City Center. Before he joined MGM Grand Inc., Mr. Murren served as a Managing Director of U.S. Equity Research at Deutsche Bank AG. Mr. Murren graduated with a Bachelor's degree in art history and urban studies from Trinity College, Hartford in 1983. Mr. Murren does not hold any position in the PH Group. Prior to joining the board of MGM Grand Paradise, Mr. Murren was involved in the design, development, financing, management and operations of MGM Grand Paradise.

**Chen Yau Wong**, aged 58, is a director of MGM Grand Paradise, a position he has held since September 2007. Mr. Wong is also a director of Grand Paradise Group (HK) Limited and Grand Paradise Grupo S.A. Prior to that, Mr. Wong was appointed by Shun Tak Holdings Limited as a financial advisor and operations controller between 2000 and 2007. Mr. Wong qualified as a chartered accountant in England and Wales in 1980 and graduated with a Bachelor's degree in mechanical engineering science from the University of Salford in the United Kingdom. Mr. Wong does not hold any position in MGM Resorts International.

## Directors and Senior Management

### Executive Directors *(Continued)*

**William Joseph Hornbuckle**, aged 54, is the Chief Marketing Officer for MGM Resorts International. In this role, he provides corporate oversight for all marketing functions across MGM Resorts International's properties, including its joint venture operations with MGM MACAU. Mr. Hornbuckle has served as a director of MGM Grand Paradise since November 16, 2009. From 2005 until August 2009, Mr. Hornbuckle served as President and Chief Operating Officer of Mandalay Bay Resort & Casino in Las Vegas. He previously served as President and Chief Operating Officer of MGM MIRAGE-Europe, where he worked on the development of the company's gaming operations in the United Kingdom. He also served as President and Chief Operating Officer of MGM Grand Hotel & Casino and of Caesars Palace, Las Vegas. He spent the majority of his earlier career with Mirage Resorts Inc. in various senior management positions, including the Vice President of Hotel Operations of Golden Nugget, the Vice President of Hotel Operations of MGM Mirage, the President of Laughlin, the Executive Vice President and Chief Operating Officer of Treasure Island and the Executive Vice President of Operations of MGM Grand, from 1986 to 1998. He obtained a Bachelor's degree in hotel administration from the University of Nevada, Las Vegas. Mr. Hornbuckle does not hold any position in the PH Group. Prior to joining the board of MGM Grand Paradise, Mr. Hornbuckle was involved in the design, development, financing, management and operations of MGM Grand Paradise.

**Grant R. Bowie**, aged 54, is the Chief Executive Officer of MGM China Holdings Limited. He has been the President of MGM Grand Paradise since August 1, 2008. With over two decades of experience working in the hospitality industry, Mr. Bowie joined our Company after approximately four years as the President and General Manager of Wynn Macau. Prior to that, he contributed to the growth and development of Park Place Entertainment Corporation's Jupiter operations in Australia from 1987 to 2003. In his 16 years with Park Place Entertainment, he held senior positions in casino, general finance and hotel operations before being appointed General Manager of both Park Place Entertainment's properties in Australia. Mr. Bowie is also an Adjunct Professor in Tourism and Leisure Management at the University of Queensland. Mr. Bowie holds a Bachelor's degree in commerce from the University of Otago in New Zealand. Mr. Bowie does not hold any position in either MGM Resorts International or the PH Group.

### Non-executive Directors

**William M. Scott IV**, aged 52, is the Executive Vice President - Corporate Strategy and Special Counsel of MGM Resorts International, a position he has held since July 2010. Mr. Scott previously served as Senior Vice President and Deputy General Counsel of MGM Resorts International from August 2009 to July 2010. Mr. Scott was a partner in the law firm of Sheppard, Mullin, Richter & Hampton LLP, specializing in financing transactions, having joined the firm in 1986. Mr. Scott holds a Bachelor's degree in history from the Dartmouth College in 1982 and a Juris Doctor degree from Union University in 1985. He also obtained a Master of Laws degree from Boston University in 1986. Mr. Scott does not hold any position in the PH Group.

**Daniel J. D'Arrigo**, aged 43, is the Executive Vice President, Chief Financial Officer and Treasurer of MGM Resorts International. He has held the position of Executive Vice President and Chief Financial Officer since August 2007 and the position of Treasurer since 2009. Mr. D'Arrigo previously served as Senior Vice President-Finance of the MGM Resorts International from February 2005 to August 2007 and as Vice President-Finance of MGM Resorts International from December 2000 to February 2005. Mr. D'Arrigo holds a Bachelor's degree in Business Administration from West Virginia University in 1991. Mr. D'Arrigo does not hold any position in the PH Group.



## Non-executive Directors (Continued)

**Kenneth A. Rosevear**, aged 62, is President of MGM Resorts Development, LLC (a subsidiary of MGM Resorts International), a position he has held since 1995. He has served as Director of MGM Grand Paradise since December 4, 2008. Prior to joining MGM Resorts International, Mr. Rosevear was President of Development for Caesars World for two years. Mr. Rosevear was Chief Executive of Sun International Group, which operated casino resorts in southern Africa, from 1985 to 1989, and 1990 to 1993. He was its Deputy Managing Director from 1983 to 1985. He held the position of Financial Director of Southern Sun Group from 1982 to 1983. Mr. Rosevear began his career at Price Waterhouse in 1967 and rose to partnership in 1979, a position he held until 1982. During his career, Mr. Rosevear has overseen the design, construction and development of a number of gaming resorts internationally, including MGM MACAU. Mr. Rosevear obtained a Certificate in the Theory of Accountancy from the University of the Witwatersrand, Johannesburg and was qualified as a chartered accountant by the Chartered Accountants of South Africa in 1973. Mr. Rosevear does not hold any position in the PH Group.

## Independent Non-executive Directors

**Zhe Sun**, aged 46 is a professor at the Institute for International Studies and director of the Center for U.S.-China Relations at Tsinghua University. Prior to that, he was a professor and deputy director of the Center for American Studies at Fudan University between 2000 and 2007. Professor Sun has also taught at the East Asian Institute, Columbia University and Ramapo College, New Jersey. Professor Sun is the author and editor of 18 books on comparative politics and U.S.-China relations. He has a Bachelor's and a Master's degree in law from Fudan University in 1987 and 1989, respectively, and obtained a Doctor's degree in political science from Columbia University in 2000. He also obtained a Master of Art degree from Indiana State University in 1992.

**Tommei Mei Kuen Tong**, aged 47, was the Executive Director of TOM Group Limited, from 2003 to 2008. She also served as the Chief Financial Officer and Chief Operating Officer of Ping An Insurance (Group) of China, Ltd., a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange. She acts as an independent non-executive director of Shanghai Pharmaceuticals Holdings Co., Ltd (上海醫藥集團股份有限公司), a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange. Prior to that, Ms. Tong spent 14 years with Arthur Andersen & Co. She has received the "Top Ten Private Female Entrepreneurs" award from the All-China Federation of Industry and Commerce and the All-China Women's Federation. Ms. Tong is a Fellow of both the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. She obtained a Bachelor's degree in social science with a major in management studies from the University of Hong Kong.

**Sze Wan Patricia Lam ("Mrs Wong")**, aged 45, is the Chairman of Sotheby's Asia. Based between London and Hong Kong, Mrs. Wong held the post of Head of Sotheby's Private Client Services Department in London before her appointment as Chairman of Sotheby's Asia in 2004. Mrs. Wong was also appointed Chairman of Sotheby's Diamonds, a retail joint venture established in December 2005 between Sotheby's and the Steinmetz Diamond Group. Mrs. Wong received her bachelor's degree in Monetary Economics from the London School of Economics in 1990 and completed the Asian Arts Course at the School of Oriental and African Studies & Sotheby's Educational Studies in 1991.

## Directors and Senior Management

### Senior Management

*Yiu Ling Kwong*, aged 66, is the Executive Vice President, Casino Operation of our Company, a position he has held since August 2010. Mr. Kwong is responsible for the overall management and the strategic development of the gaming operations in MGM MACAU. Commencing his gaming career with STDM in 1975, Mr. Kwong has been at the forefront of the transformation and modernization of the Macau gaming industry. He set up, in the wake of the opening of Macau gaming licenses, Macau's first themed casino, Pharaoh's Palace Casino, introducing new games and concepts, such as Caribbean Stud Poker and 9-seat Midi Baccarat table, and creating a customer service focus for Pharaoh's. Mr. Kwong then joined Altira Macau as Chief Operating Officer. Mr. Kwong obtained a Bachelor's degree in social science from the Chinese University of Hong Kong.

*Zhi Qi (Hubert) Wang*, aged 45, is our new Vice President - Finance & Chief Financial Officer. Mr. Wang joined us on July 18, 2011. Mr. Wang brings with him a wealth of knowledge in Gaming and Finance. He worked for a number of large gaming companies in the United States and Canada, including Harrah's Entertainment Inc., Aztar Corporation, Las Vegas Sands Corporation and Asian Coast Development Limited in either Property Operations or Corporate Finance. Prior to joining us, he served as Senior Vice President & Chief Financial Officer at one of the largest properties owned by Penn National Gaming. Mr. Wang was also involved in several casino development projects in Asia. At Asian Coast Development Ltd he played a key role in the MGM Grand Ho Tram management contract negotiation with MGM Resorts International. When he worked for Las Vegas Sands, he participated in the pre-opening process of Venetian Macau and Marina Bay Sands in Singapore. Mr. Wang holds a graduate degree in Master of Business Administration from University of Memphis. He also received dual bachelor's degrees in Industrial Management and in English language from Shanghai Jiaotong University.

*Brian Fraser Fiddis*, aged 60, is the Senior Vice President, Casino Marketing of our Company, a position he has held since September 1, 2008. Mr. Fiddis brings over two decades of experience running comprehensive marketing and sales programs for prestigious casinos in Australia. He previously held the position of General Manager, International Sales at Tabcorp Holdings Limited, Casinos Division, where he was responsible for the growth and development of Star City, Sydney and the Jupiters Queensland properties. While there, he led the strategic development of a marketing plan for the re-entry of the Sydney property into the international commission business. Mr. Fiddis has also held various positions within the International Sales Division of Conrad Jupiters Casino. Mr. Fiddis obtained a Master of Arts degree from Glasgow University and a Diploma of Education from the University of Tasmania.

*Mark J. Whitmore*, aged 64, is the Senior Vice President, VIP Operations, Marker and Collections of our Company, a position he has held since March 31, 2008. Mr. Whitmore originally joined our Company as Vice President, Cage, Collection and Marker Operations on August 1, 2006. Mr. Whitmore brings over 30 years of experience in the gaming industry, the last 12 of which have been with MGM Resorts International. Before arriving in Macau, Mr. Whitmore was the Vice President of Cage, Credit and Collections at the MGM Grand Hotel & Casino in Las Vegas. Prior to joining MGM Resorts International, he spent ten years with Imperial Palace Hotel & Casino as the Casino Manager. Mr. Whitmore began his career in gaming in 1972 with MGM Grand in Las Vegas. He graduated with a Bachelor of Science degree in hotel administration from the University of Nevada in Las Vegas.



## Senior Management *(Continued)*

*Antonio Jose Menano*, aged 49, is the Joint Company Secretary and Vice President, Legal & Administrative Affairs of our Company, a position he has held since November 17, 2006. Mr. Menano originally joined MGM Grand Paradise as Company Secretary and Director, Legal & Administrative Affairs on September 1, 2005. Before joining us, he was the director of Air Law, Air Transport & International Relations for the Civil Aviation Authority of Macau for more than 10 years. In this capacity, he was responsible for negotiation of air service agreements, drafting of Macau Special Administrative Region civil aviation laws and regulations and providing legal support to the Civil Aviation Authority. Simultaneously, Mr. Menano worked as a Government Delegate in Air Macau Company Limited and previously worked in Instituto de Acao Social de Macau and Sorefoz Electrodomesticos e Equipamentos Lda. in Portugal. He graduated with a law degree from the University of Coimbra.

*Yueu Ying (Wendy) Yu*, aged 44, is the Vice President, Human Resources of our Company, a position she has held since July 1, 2009. Ms. Yu started her hospitality career with the Hyatt Regency Macau and then became the Human Resources Manager of Holiday Inn Macau from its pre-opening stages. Moving from a corporate to an educational role, Ms. Yu spent one year as a Lecturer for the Institute of Tourism Education in Macau after her hotel job assignment in Shanghai with the New World Group. She then moved to the Westin Resort, Macau as Director of Human Resources. Ms. Yu subsequently joined Wynn Macau in 2003 as Vice President - Human Resources and was responsible for the human resources department for the opening of Wynn Macau. Before joining our Company, Ms. Yu spent a year with Starwood Hotels and Resorts for their Sheraton and St. Regis pre-opening project in Cotai. Ms. Yu graduated with a Bachelor's degree in business administration in personnel management from the University of East Asia Macau.

*Toby Kwok Wai Leung*, aged 49, is the Vice President, Marketing and Communications of our Company, a position he has held since February 28, 2011. Mr. Leung has more than 20 years experience in marketing and communications, most notably in the tobacco and luxury liquor industries. Before joining us, Mr. Leung was based in Shanghai for 10 years. He was the founding Managing Director of Auditoire China, a leading global experiential events, PR and marketing agency originated from Paris. Mr. Leung obtained a Professional Diploma in business management from Hong Kong Polytechnic University in 1985 and a Master of Science degree in marketing from the University of Salford, U.K. in 1987.



## MANAGEMENT DISCUSSION AND ANALYSIS

MGM MACAU, a world-class luxury resort and a glowing icon on the Macau skyline, stands impressively along the waterfront at the heart of Macau's central entertainment district.







# Management Discussion and Analysis

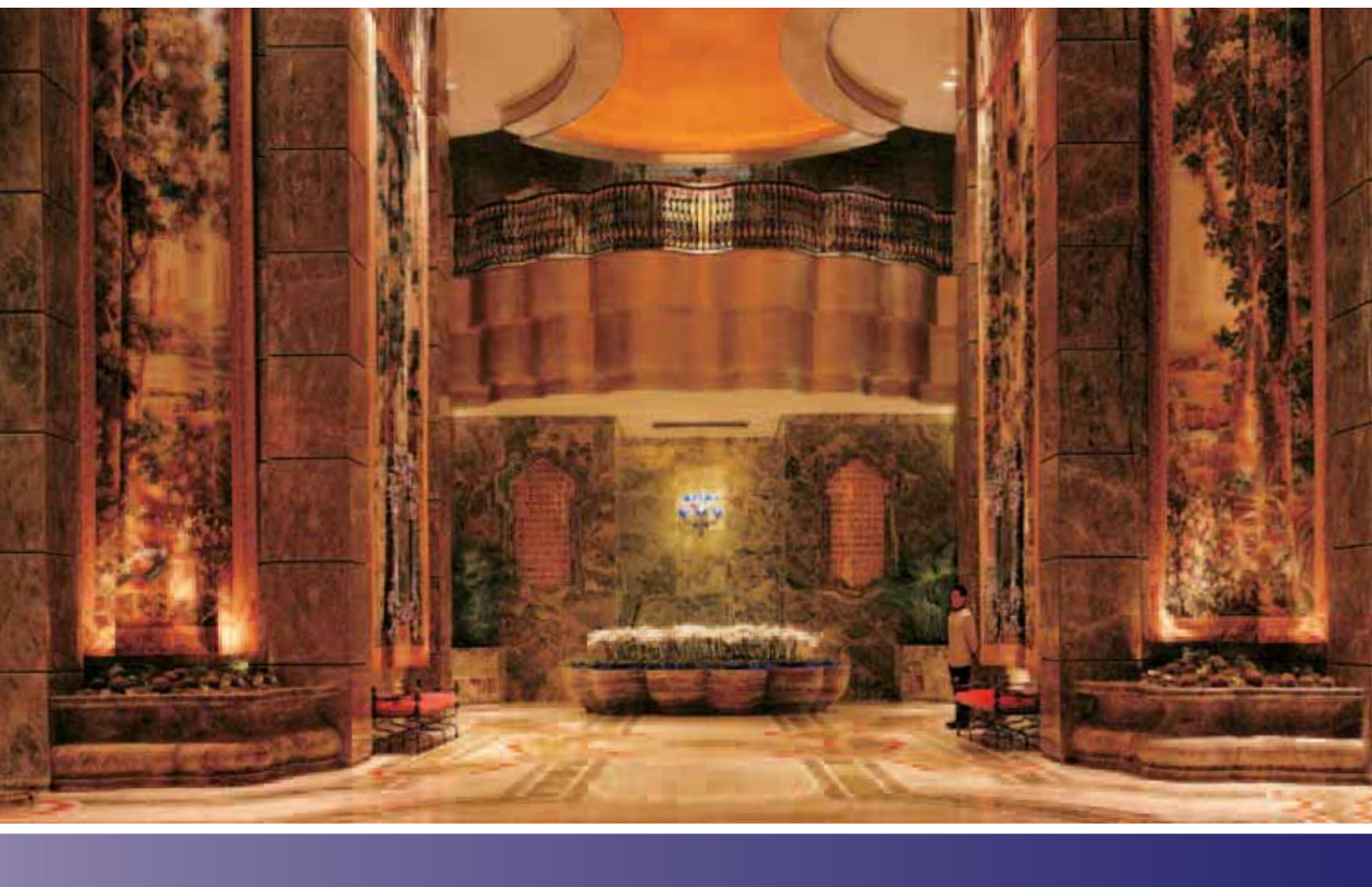
## Overview

MGM China, one of the leading casino gaming resort developers, owns and operates MGM MACAU, an award-winning, five-star integrated casino and luxury hotel resort located on the Macau Peninsula, the center of gaming activity in the greater China region.

The resort's focal point is the signature Grande Praça and features Portuguese-inspired architecture, dramatic landscapes and a glass ceiling rising 25 meters above the floor of the resort. The property opened in December 2007 and has a casino floor area of approximately 29,496 square meters, with 1,184 slot machines, 427 gaming tables and multiple VIP and private gaming areas. The hotel comprises a 35-story tower with 582 deluxe rooms, including 468 standard guest rooms, 99 luxury suites, 15 private luxury villas. In addition, the resort offers luxurious amenities, including 9 diverse restaurants and bars, world-class pool and spa facilities, and 1,593 square meters of convertible convention space. Our property is directly connected to the One Central complex, which features many of the world's leading luxury retailers and includes a Mandarin Oriental Hotel and serviced apartments.







We have identified a site of approximately 17.8 acres in Cotai and have submitted an application to the Macau Government to obtain the right to lease this parcel of land for the purpose of constructing an integrated casino hotel and entertainment complex. There is currently no definitive timetable for finalizing the application process with the Macau Government. We are currently working towards finalizing the concept and design of the project and will be prepared to commence the project upon approval by the Macau Government.

On June 3, 2011, we completed a Reorganization and a Global Offering and the Company's Shares were listed on the Main Board of the Hong Kong Stock Exchange. Through the Reorganization and Global Offering, MGM Resorts International now owns 51% of the overall share capital of our Company and has therefore obtained a controlling interest in our Company.

For the year ended December 31, 2011, our Company generated HK\$20,293.6 million in operating revenue, HK\$4,933.0 million in adjusted EBITDA and HK\$3,279.1 million in net profit, representing respectively 63.2%, 74.3% and 109.4% increase over the results for the year ended December 31, 2010. Our operating results were positively impacted by the market growth and our operating strategies, but at the same time constrained by competition.

# Management Discussion and Analysis

## Growth of Macau's Gaming and Tourism Markets

Propelled by the vibrant economic development in China, both the Macau gaming market and visitation to Macau have grown significantly in the last few years. Additional capacity has been added in recent years with several new hotels and casinos including City of Dreams, Encore at Wynn Macau, and Galaxy Macau, which opened in June 2009, April 2010, and May 2011, respectively. For the year ended December 31, 2011, total casino gross win in Macau market was approximately HK\$260.1 billion, up 42.2% over the same period in 2010.

We have benefited from the rise in visitation to Macau. According to statistics published by the Statistics and Census Service of the Macau Government, visitor arrivals increased 12.2% from prior year and reached 28.0 million in 2011. Gaming customers travelling to Macau typically come from nearby regions in Asia including mainland China, Hong Kong, Taiwan, South Korea and Japan, with approximately 89% of visitors to Macau in 2011 coming from mainland China, Hong Kong and Taiwan. We are optimistic that visitation levels and gross gaming revenue in Macau will continue to grow. A combination of factors will drive the growth. These factors include the economic growth of China, which continues to create a large and growing middle class with rising disposable income, infrastructure improvements that are expected to facilitate more convenient travel to and within Macau, and the efforts and investments made by gaming concessionaires to solidify Macau as a destination market with superior integrated resort products.

## Our Competitive Strengths and Operation Strategies

Our competitive strengths lie principally in our high-end product and service offerings; our ability to access large and established marketing networks of our major Shareholders; our ability to segment and conduct targeted marketing to various customer groups through our Golden Lion Club customer relationship program; and our strong partnership with gaming promoters.

Our strategy is to leverage our competitive strengths and to grow our business by continuously improving customer experience, employee engagement and operation efficiency. In 2011, we expanded key gaming areas in our property to provide our high value customers with a first-class facility that embodies luxury, intimacy and inspiration. We provide regular professional and service training to our employees with the goal of building a culture of execution excellence. The investment we made in our products and our employees was an indispensable factor that allowed us to achieve the impressive growth and financial results in 2011.

We have taken full advantage of our strengths and executed our strategies throughout our business units, particularly in casino operations, which contribute to the vast majority of our financial results. Our casino operations can be divided into three segments:



## (1) VIP Casino Gaming Operations

A significant amount of our VIP casino play is brought to us by gaming promoters, who have historically played an important role in the Macau gaming market and are important to the revenues of our casino business. Gaming promoters introduce high-spending VIP players to us and often assist those customers with their travel and entertainment arrangements. In addition, gaming promoters often extend credit to their players. Gaming promoters also rely upon sub-promoters or collaborators to bring in the VIP gaming customers.

In exchange for their services, we compensate the gaming promoters in two ways. Some gaming promoters are paid a percentage of the actual win, plus a monthly allowance based on a percentage of the rolling chip turnover their customers generate, which can be applied to hotel rooms, food and beverages and other discretionary customers-related expenses. Other gaming promoters are paid a percentage of the rolling chip turnover, plus discounted offering on our non-gaming amenities.

The Company has established good business relationships with our gaming promoters. While some have partnered with us since opening, we have been able to add new promoters over the years who have contributed significantly to our growth. In 2011, we added two new gaming promoters. Our commission levels have in general remained stable throughout our operating history and consistent with the overall market practice.

In addition to VIP players introduced to us by gaming promoters, we also have in-house VIP players sourced through the Company's own marketing channels. These in-house VIP players typically receive a commission and an allowance for room, food and beverages all based on a percentage of the rolling chip turnover.

For the year ended December 31, 2011, our VIP table games experienced strong growth. This segment of our business generated HK\$701.3 billion in rolling chip turnover, an increase of 72.1% over the same period in the prior year.

Operationally, we have successfully increased VIP business volume by maximizing productivity from existing capacity and by making capital improvements to enhance our facilities and to increase capacity for our in-house VIP customers. We have converted a number of high-end villas on top floors of MGM MACAU into VIP gaming areas during the year and the VIP spa area into a new in-house VIP gaming areas in December 2011. In addition, we constantly review our service processes to meet or exceed our customer expectation. Our efforts to grow the VIP business will continue to center around maintaining a close partnership with gaming promoters and enhancing the gaming experience of our customers.

### (2) Main Floor Casino Gaming Operations

The main floor gaming operation in the Macau market is also referred to as the “mass gaming operation”. Unlike VIP players, main floor players do not receive commissions from us. The main floor business represents the most profitable segment for us. We also believe that this segment represents the most potential for sustainable growth in the future.

For the year ended December 31, 2011, revenue from this segment increased year-over-year by 32.2% to HK\$4,574.9 million. The strong growth is in part attributable to the overall market growth, but more importantly due to our successful customer segmentation approach with a product and service focus on the mid to premium main floor business. We have invested capital to improve the gaming experience of our high-end main floor customers by creating dedicated exclusive gaming space for their use. We also leveraged our player club, Golden Lion Club, as a vehicle to attract and retain those high value main floor players through exclusive customer service and promotion.

The launch of Supreme Lounge and Platinum Lounge on the main floor in December 2010 and September 2011 respectively, have helped us to target the premium main floor players to grow our revenue and to improve our yield on the gaming floor. We will continue to leverage our strengths in market segmentation to identify opportunities to grow our business through customer experience and service enhancement.

We also recognize the importance of brand awareness in growing this business segment. As a result, this year, we have enhanced our marketing activities to take advantage of our internationally recognized brand. Brand-building initiatives will be driven through promotions, events, strategic alliances and public relation activities. In 2011, we have organized events such as the Ink Painting Exhibition in collaboration with Mr. Charles Chauderlot in October, and Christmas themed ice-skating performance “Christmas Wonderland 2011” throughout December, which successfully drew record traffic to our property in October and December and created crossover main floor casino gaming activities. In addition, MGM MACAU was the hosting venue for China’s Got Talent — Hong Kong and Macau Grand Audition. China’s Got Talent is the one of most watched shows in China. The event and subsequent airing of the event in China exposed our brand to millions of Chinese consumers.

### (3) Slot Machine Operations

Our slot business generated HK\$1,584.2 million in revenue during the year ended December 31, 2011, up 60.7% from the prior year. The growth is driven by our customer segmentation strategies as described previously, coupled with our focus on superior service and building brand awareness and loyalty. In addition, we also keep our slot product updated with the objective to increase the floor yield and to improve the customer gaming experience.



## Competition

While we generated very solid financial results in 2011, we are not immune from competitive pressure. Currently, there are six gaming concessionaires in Macau, each of whom has commenced casino operating activities and several of which have expansion plans announced or underway. As at December 31, 2011, there were 34 casinos in the Macau. We expect competition in the Macau market to continue to increase in the future, as newly opened properties ramp up their business and more capacity is brought on line in the near future.

Our competition is not just limited to the Macau market. We compete with similar business establishments in other parts of Asia as well as elsewhere in the world, including, but not limited to integrated resorts in Singapore and Las Vegas.

## Segment Information

The 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 Group's Chief Executive Officer (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 Group does not present separately segment information.

For the years ended December 31, 2011 and 2010, all revenue is derived from customers in Macau and almost all the non-current assets of the Group are located in Macau. None of the customers of the Group contributed more than 10% of the total revenues in 2011 and 2010.

# Management Discussion and Analysis

## Discussion of Results of Operations

Financial results for the year ended December 31, 2011 compared to financial results for the year ended December 31, 2010

### Summary Statistics

The following table presents certain selected income statement line items and certain other data.

(in thousands, except for averages, number of tables and slot machines)	For the year ended December 31,	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Number of VIP gaming tables	200	172
VIP table games turnover	701,305,426	407,610,681
VIP gross table games win	21,244,065	11,863,641
VIP table games win percentage	3.0%	2.9%
Average daily gross win per gaming table	291.5	188.6
Number of main floor gaming tables	220	230
Main floor table games drop	17,095,457	14,617,353
Main floor gross table games win	4,566,208	3,443,849
Main floor table games win percentage	26.7%	23.6%
Average daily gross win per gaming table	56.8	41.1
Number of slot machines	1,184	1,006
Slot machine handle	28,353,743	17,735,546
Slot machine gross win	1,589,602	992,272
Slot hold percentage	5.6%	5.6%
Average daily win per slot	3.7	2.7
Commission and discounts	(7,434,992)	(4,187,303)
Room occupancy rate	96.5%	93.7%
REVPAR <sup>(1)</sup>	2,149	1,709

Note:

- (1) Revenue per room, expressed in Hong Kong dollars, arrived after inclusion of services provided for hotel rooms to certain customers and guests without charges.

## Operating Revenue

The following table sets forth the operating revenue for the years ended December 31, 2011 and 2010.

	For the year ended December 31,	
	2011 HK\$'000	2010 HK\$'000
<b>Casino revenue</b>	19,974,556	12,126,848
VIP gaming operations	13,815,407	7,681,219
Main floor gaming operations	4,574,915	3,459,606
Slot machine gaming operations	1,584,234	986,023
<b>Other revenue</b>	319,071	307,880
Hotel rooms	86,214	101,203
Foods and beverages	188,985	171,088
Retail and other services	43,872	35,589
<b>Operating revenue</b>	<b>20,293,627</b>	<b>12,434,728</b>

Total operating revenue increased by 63.2% to HK\$20,293.6 million in 2011. We believe this increase was due to a combination of factors, including strong overall Macau market growth, enhanced marketing efforts and property improvements such as conversion of a number of high-end villas on top floors of MGM MACAU into VIP gaming areas and the VIP spa area into a new in-house VIP gaming areas, and introduction of Supreme Lounge and Platinum Lounge on the main floor. All these projects were completed in December 2010 and throughout 2011.

## Casino Revenue

Casino revenue increased by 64.7% to HK\$19,974.6 million in 2011. The components and reasons for this increase were:

### (1) VIP Gaming Operations

Revenue from VIP gaming operations increased by 79.9% to HK\$13,815.4 million in 2011. VIP table games turnover increased by 72.1% to HK\$701,305.4 million in 2011. The increases primarily resulted from increased levels of VIP business brought to us by gaming promoters, in response to our new gaming products and areas to cater to the preferences of our VIP patrons. We have converted a number of high-end villas and the VIP spa area into a new in-house VIP gaming areas with a total of 63 tables in 2011, which helped the growth in our VIP business. Meanwhile, the addition of 2 new gaming promoters in September and October 2011 also increased our VIP business level. In 2011, MGM MACAU had 200 VIP gaming tables in operation, as compared with 172 VIP gaming tables in 2010. VIP table games win percentage increased from 2.9% to 3.0% over the comparable periods in 2010 and 2011.



## Management Discussion and Analysis

Approximately 80% of the commissions are netted against casino revenue, which corresponds to the amount of the commission returned to the VIP players by the gaming promoters, and approximately 20% of the commissions are included in operating expenses, which corresponds to the amount ultimately retained by gaming promoters for their compensation. The total amounts of commissions netted against casino revenue were HK\$7,435.0 million and HK\$4,187.3 million in 2011 and 2010, respectively.

### (2) Main Floor Gaming Operations

Revenue from main floor gaming operations increased by 32.2% to HK\$4,574.9 million in 2011. Main floor table games drop increased by 17.0% to HK\$17,095.5 million in 2011. The increases primarily resulted from increases in general foot traffic, continued success of the tiered-customer relationship program, and introduction of new gaming areas — Supreme Lounge and Platinum Lounge, which tailored for the high end segment of the mass market, and enhanced our marketing activities including organizing events such as the Ink Painting Exhibition in the month of October, Christmas Wonderland 2011 in the month of December and the hosting of the China's Got Talent — Hong Kong and Macau Grand Audition stop. In 2011, MGM MACAU had 220 main floor gaming tables in operation, as compared with 230 main floor gaming tables in 2010. The main floor table games win percentage increased from 23.6% to 26.7% over the comparable periods in 2010 and 2011.

### (3) Slot Machine Gaming Operations

Revenue from slot machine gaming operations increased by 60.7% to HK\$1,584.2 million in 2011. Slot machine handle increased by 59.9% to HK\$28,353.7 million in 2011. The increases primarily resulted from an increase in foot traffic and improvements to slot machine product mix, continued success of the tiered-customer relationship program driving performance of the high denomination slot machines, and introduction of the Supreme Lounge and Platinum Lounge gaming areas tailored for the high end segment of the market. In 2011, MGM MACAU had 1,184 slot machines in operation, as compared with 1,006 slot machines in 2010. The slot machine win percentage remained stable at 5.6% over the comparable periods in 2010 and 2011.

### Other Revenue

Other revenue, which include hotel rooms, foods and beverages and retail and other services, increased by 3.6% to HK\$319.1 million in 2011. The increase in revenue was due to the increase in our overall casino business volume and foot traffic into the property. The non-gaming facilities and services are critical for MGM MACAU to establish its brand and maintain its popularity in Macau and the region, in order to encourage visitations and extend the length of customers' stay within the hotel.

## Operating Costs and Expenses

The following table sets forth the major operating costs and expenses for the years ended December 31, 2011 and 2010.

	For the year ended December 31,	
	2011 HK\$'000	2010 HK\$'000
Special gaming tax and special levy to the Macau Government	10,816,702	6,480,269
Staff costs	1,414,686	1,188,424
Operating and administrative and other expenses	3,348,214	1,967,699
Depreciation and amortization	746,580	777,780
Finance costs	240,366	450,516
Taxation	458,812	292

*Special Gaming Tax and Special Levy to the Macau Government.* Special gaming tax and special levy to the Macau Government increased by 66.9% to HK\$10,816.7 million in 2011. This increase resulted directly from the increased casino revenue over the comparable period in 2010.

*Staff costs.* Staff costs increased by 19.0% to HK\$1,414.7 million in 2011. The increase was primarily due to hiring of additional staff to cater to the increase in casino business volumes as well as a 5% staff salary increment to line level staff implemented in March 2011.

*Operating and administrative and other expenses.* Operating and administrative and other expenses increased by 70.2% to HK\$3,348.2 million in 2011. The increases were driven by higher commission expense to gaming promoters resulting from the increase in VIP business volume and higher advertising promotion expense consistent with the increase in business volume. Provision for doubtful debts, net increased by 41.6% from HK\$81.3 million in 2010 to HK\$115.2 million in 2011. There were no changes in the provision for doubtful debts policy; the increase is in line with the increase in the number of in-house VIP customers and the corresponding increase in VIP business volume in 2011. License fees and marketing fees due to related companies of approximately HK\$133.1 million were incurred in 2011. No such costs were incurred in 2010. There was also a one-off cost incurred associated with the listing of the Company on the Hong Kong Stock Exchange of approximately HK\$74.6 million.

*Depreciation and amortization.* Depreciation and amortization decreased by 4.0% to HK\$746.6 million in 2011 due to full depreciation of certain assets in 2011.

*Finance costs.* Finance costs decreased by 46.6% to HK\$240.4 million in 2011. The decrease primarily resulted from a lower average loan balance in 2011 when compared to 2010 and the refinancing of the loan facility in July 2010. Further, all shareholders' loans were repaid in full as at December 2010.

## Management Discussion and Analysis

*Taxation.* Taxation for the year 2011 mainly consisted of the deferred tax liability of HK\$458.8 million the Company provided on the distributable profits of MGM Grand Paradise, calculated at the applicable rate at the balance sheet date. No such taxation was provided in 2010 as MGM Grand Paradise was not a subsidiary of the Company in 2010. Details of taxation are set out in note 12 to the consolidated financial statements.

### Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by 109.4% from HK\$1,566.0 million in 2010 to HK\$3,279.1 million in 2011.

### Adjusted EBITDA

The following table sets forth a quantitative reconciliation of Adjusted EBITDA to its most directly comparable IFRS measurement, operating profit, for the years ended December 31, 2011 and 2010.

	For the year ended December 31,	
	2011 HK\$'000	2010 HK\$'000
Profit attributable to owners of the Company	3,279,060	1,566,035
Add/(less):		
Depreciation and amortization	746,580	777,780
Interest income	(11,946)	(1,299)
Finance costs	240,366	450,516
Net foreign currency difference	1,153	5,012
Taxation	458,812	292
Share-based payments <sup>(1)</sup>	50,184	—
Property charges and others <sup>(2)</sup>	168,753	32,502
<b>Adjusted EBITDA <sup>(3)</sup> (unaudited)</b>	<b>4,932,962</b>	<b>2,830,838</b>
<b>Adjusted EBITDA before the license fee <sup>(4)</sup> (unaudited)</b>	<b>5,045,969</b>	<b>2,830,838</b>



Notes:

- (1) Share-based payments for the year 2011 consisted of the stock compensation expense to Eligible Persons. Details of the share-based payments are set out in note 30 to the consolidated financial statements.
- (2) Property charges and others for the years 2011 and 2010 primarily consisted of loss on the disposal or write-off of property and equipment of HK\$93.8 million in 2011 and HK\$31.4 million in 2010 and a one-off cost incurred associated with the listing of the Company on the Hong Kong Stock Exchange of HK\$74.6 million in 2011.
- (3) Adjusted EBITDA is profit before finance costs, taxes, depreciation and amortization, interest income, net foreign currency difference, share-based payments, and property charges and other items which mainly include loss on disposal/write-off of property and equipment and other non-recurring expenses. Adjusted EBITDA is used by management as the primary measure of our operating performance and to compare our operating performance with that of our competitors. However, adjusted EBITDA should not be considered in isolation, construed as an alternative to profit or operating profit, treated as an indicator of our IFRS operating performance, or other combined operations or cash flow data, or interpreted as an alternative to cash flow as a measure of liquidity. Adjusted EBITDA presented in this report may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors.
- (4) Adjusted EBITDA before the license fee paid to a related company is HK\$5,046.0 million and HK\$2,830.8 million in 2011 and 2010 respectively. No such fee was charged in 2010. Details of the license fee are set out in note 39 to the consolidated financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Resources

Working capital and recurring expenses as well as capital expenditures were funded from equity, bank borrowings, and cash generated from operations.

Our cash balance as at December 31, 2011 was HK\$5,590.4 million. This cash was available for operations, new development activities and enhancement to existing properties. In addition, HK\$3,120.0 million remains undrawn under the HK\$7,410.0 million total banking facilities available to our Group.

### Gearing Ratio

The gearing ratio is an indicator of our Group's capital structure and capacity. The gearing ratio is calculated as net debt divided by equity plus net debt. Net debt comprised long and short-term bank borrowings, where equity comprised all capital and reserves of the Group that are managed as capital. As at December 31, 2011, the gearing ratio of the Group is zero (December 31, 2010: 72.8%), due to the fact that we have more cash than total debt as at the year end.

## Management Discussion and Analysis

### Group Cash Flows

The following table presents a summary of the Group's cash flows for the years ended December 31, 2011 and 2010.

	For the year ended December 31,	
	2011 HK\$'000	2010 HK\$'000
Net cash generated by operating activities	6,356,136	3,359,528
Net cash used in investing activities	(303,204)	(255,134)
Net cash used in financing activities	(2,385,250)	(3,157,382)
Net increase (decrease) in cash and cash equivalents	3,667,682	(52,988)
Cash and cash equivalents at the beginning of the year	1,922,723	1,975,711
Cash and cash equivalents at the end of the year	5,590,405	1,922,723

#### Net cash generated by operating activities

Our net cash generated from operating activities is primarily affected by operating income generated by MGM Grand Paradise as a result of increased casino revenue. Net cash from operating activities was HK\$6,356.1 million in 2011 compared to HK\$3,359.5 million in 2010.

#### Net cash used in investing activities

Net cash used in investing activities was HK\$303.2 million in 2011 compared to HK\$255.1 million in 2010. The major components of the cash flow used in investing activities relates to payment for the construction in progress and purchase of property and equipment totaling HK\$296.6 million and HK\$244.8 million in 2011 and 2010, respectively. Payment for the construction in progress relates mostly to the renovation work carried out throughout the property. It included but is not limited to conversion of gaming villas, renovation and reconfiguration of gaming areas on the main floor. They were part of our ongoing effort to maintain and upgrade our products to enhance our customer experience at our property.

#### Net cash used in financing activities

Net cash used in financing activities was HK\$2,385.3 million in 2011 compared to HK\$3,157.4 million in 2010. The decrease in the net cash used in financing activities reflected the full repayment of shareholders' loan in 2010.

## Capital Commitments

Future commitments in respect of construction and development of the casino and hotel complex of the Group that are not recorded in the consolidated financial statements herein are as follows:

	As at December 31,	
	2011	2010
	HK\$'000	HK\$'000
Authorized but not contracted for	134,270	43,081
Contracted but not accounted for	29,192	30,900
	163,462	73,981

## Indebtedness

The following table presents a summary of our indebtedness as at December 31, 2011 and 2010.

	As at December 31,	
	2011	2010
	HK\$'000	HK\$'000
Secured revolving credit facility	—	1,800,000
Secured term loan facility	4,290,000	4,290,000
<b>Total</b>	<b>4,290,000</b>	<b>6,090,000</b>

The Group had approximately HK\$3,120.0 million available to draw under the MGM Grand Paradise credit facilities as at December 31, 2011.

## Contingent Liabilities

As at December 31, 2011, the Group has given bank guarantees totaling HK\$300.0 million in relation to our gaming subconcession.

## Term Loan Facility and Revolving Facility

### Overview

On July 27, 2010, MGM Grand Paradise entered into a new HK\$7,410.0 million credit agreement with a syndicate of lenders and repaid the outstanding amounts under its prior credit facility in full on July 30, 2010.



## Management Discussion and Analysis

The new credit facilities include a HK\$4,290.0 million term loan facility and a HK\$3,120.0 million revolving credit facility. The credit facilities may be used for a variety of purpose, including refinancing, casino operation and all proper corporate purposes. The credit facilities are secured by a charge over the shares and substantially all the assets of MGM Grand Paradise and its subsidiaries.

### Principal and Interest

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

MGM Grand Paradise pays interest at HIBOR plus an initial margin of 4.5% per annum. Depending on MGM Grand Paradise's adjusted leverage ratio, the margin may decrease to a minimum of 3.0% per annum. As at December 31, 2011, MGM Grand Paradise paid interest at HIBOR plus a margin of 3.0%.

### General Covenants

The facilities contain general covenants restricting the ability of the obligor group (MGM Grand Paradise and certain of its subsidiaries, but not our Company) to, among other things, enter into, dispose of or amend to certain commitments and/or investments. With the approval of the lenders, there are certain permitted exceptions to these restrictions.

### Financial Covenants

MGM Grand Paradise is required to maintain a specified adjusted leverage ratio at the end of each quarter while the loans are outstanding. For the year 2011, the specified adjusted leverage ratio is to be no greater than 4.00 to 1.00 for each quarter. The adjusted leverage ratio is required to be no greater than 3.50 to 1.00 for each quarter thereafter. In addition, MGM Grand Paradise is required to maintain a debt service coverage ratio of no less than 1.50 to 1.00 at each quarter end.

### Compliance with Covenants

MGM Grand Paradise has complied with the general and financial covenants contained in the credit facilities as set forth above.

### Mandatory Prepayments

The facilities contain mandatory prepayment provisions which include, among other things, prepayment of all outstanding loans, together with accrued interest and all other amounts due thereunder, upon a change of control, a revocation, repudiation, termination or otherwise the unenforceability of the Subconcession Contract or the land concession contract or a sale of the MGM Grand Paradise business.

### Dividend Restrictions

MGM Grand Paradise is not allowed to declare, make or pay any dividends if its adjusted leverage ratio exceeds 4.00 to 1.00 and, to the extent its adjusted leverage ratio exceeds 3.50 to 1.00, may only pay dividends if it concurrently prepays the loans outstanding under the credit agreement. As at December 31, 2011, our adjusted leverage ratio is approximately 0.88.

### Events of Default

The facilities contain certain events of default, and certain insolvency-related proceedings relating to our Group. Pursuant to the facilities, a divestment of holdings in MGM Grand Paradise by MGM Resorts International would constitute a change of control unless MGM Resorts International retains direct or indirect beneficial ownership of at least 25% of the issued share capital of MGM Grand Paradise.

### Security and Guarantees

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

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

### Foreign Exchange Risk

The cash received from gaming activities is primarily in HK\$. The Group reports gross gaming win to the Macau Government in Patacas and the gaming taxes are paid in HK\$. Our costs and expenses are primarily denominated in Patacas and HK\$. The value of a Pataca is directly linked to the value of a HK\$, and accordingly, we do not expect fluctuations in the values of these currencies to have a material impact on our operations. The majority of its foreign currency exposures comprises assets denominated in US\$, Taiwan Dollars and Singapore Dollars. The exchange rate of the HK\$ is pegged to the US\$ and has remained relatively stable. Further details are set out in note 33 to the consolidated financial statements.

### Interest Rate Risk

One of our primary exposures to market risk is interest rate risk associated with our credit facilities that bear interest based on floating rates. We manage our interest rate risk by maintaining a level of cash and cash equivalents which management considers adequate to finance our operations and mitigate the effects of fluctuations in cash flows. We cannot assure you that these risk management strategies will have the desired effect, and interest rate fluctuations could have a negative impact on our results of operations. We do not hedge our interest rate risk. Further details are set out in note 33 to the consolidated financial statements.

### **OFF BALANCE SHEET ARRANGEMENTS**

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

### **OTHER LIQUIDITY MATTERS**

We expect that we will fund our operations and capital expenditure requirements from operating cash flows, cash on hand and standby credit facilities. However, we cannot be sure that operating cash flows will be sufficient for this purpose. We may raise additional debt or refinance all or a portion of our indebtedness on or before maturity, but there can be no assurance that we will be able to do so on acceptable terms or at all.

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

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

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

### **RELATED PARTY TRANSACTIONS**

Details of related party transactions are set out in note 39 to the consolidated financial statements. Our Directors confirm that all related party transactions are conducted on normal commercial terms and that their terms are fair and reasonable and are in the best interest of all the Shareholders as a whole.

### **BUSINESS REVIEW AND PROSPECTS**

MGM China achieved strong growth and excellence financial performance throughout 2011. The adjusted EBITDA and net profit increased by 74.3% and 109.4% to HK\$4,933.0 million and HK\$3,279.1 million, respectively, in 2011 over the comparable period in 2010. We attribute our strong financial performance to not only the strong growth of the overall Macau market, but also our investments in the upgrade of our physical facility, which greatly enhanced customer experience. Furthermore, these financial results would not have been possible without a highly engaged employee base that strives for service excellence and operation efficiency.



While having generated very solid financial results in 2011, MGM China was not immune from the competitive pressure. There was a new entrant to the market in May 2011 and more new capacity is expected to be brought online in the near future. In face of increased competition in the market, we have adopted strategies to protect and grow our earnings by focusing on customer experience, employee engagement and operating efficiency. In the near future, we plan to expand the gaming area and add a new restaurant in our property that will help us defend our market share. We will continue to provide professional and service training to our employees to implement continuous improvement processes.

We believe in the long-term growth prospect of the Macau market, driven by (1) a large and growing mainland Chinese middle class with increasing disposable income; (2) continuous infrastructure improvements that will facilitate convenient travel to and within Macau and enhance the visitation levels; and (3) the efforts and investments made by gaming concessionaires to solidify Macau as a destination market with superior integrated resort products. MGM China will be an active participant contributing to as well as benefitting from the Macau market growth. We are confident that we will continue to grow and create value for our Shareholders and other stakeholders.







# Life





# Sustainability

## Human Capital

### Our Employees

#### Human Resources Philosophy

##### Our Values

MGM China aims to be a premier entertainment resort respected by its employees for rewarding opportunities. The guiding principles that govern our management and employees' daily behavior while striving to achieve our vision and mission are through our Trust, Integrity and Excellence principles.

##### We Care

Creating a culture of caring lies at the heart of the human resources philosophy. To support this, we pioneer cutting edge activities and programs to our employees and their families.

##### *Employee Fun*

Equal employment opportunities are provided to all candidates in regardless of age, race, color, sex, sexual inclination, marital status, religion or disability. We strive to create a harmonious work environment which is exciting and full of action. To boost team spirit and sense of belonging amongst employees, we regularly organize sporting activities, social events and gatherings such as Carnival Staff Night and Oktoberfest Staff Night and 4th anniversary staff party. We have built up our own sports teams like Dragon Boat, Soccer, Basketball and Badminton teams and actively participate in different kinds of local competition. We encourage work-life balance through supporting MGM sport teams in regular practices and competitions. Through team work and spirit and with the support of employee as cheerleaders, our sport teams have always been winners in industry competitions.

In addition, we have events to include employees' families too such as MGM Movie Carnival and "A Day with MGM" which is a familiarization program for children of employees to experience the 'on job' environment, with the objective to enhance communication skills, broaden their horizons, and enrich their profile.

##### *Employee Communications*

We want to create an environment for employees to be at their BEST.

We believe good, open communication can engage and empower our employees to make a difference. Through our intranet, back of the house notice boards, internal TV, we make sure our employees always stay in the know, whether it is about professional awards won by our employees or new F&B, marketing program. We deliver information that matters to the team as well to the business. We create an open environment where opinions/ideas count. Open communication avenues are set up to foster open dialogue between management and employees to update, and to seek ideas to improve work and work environment, such as Tea Time with President, and Employee Suggestion Scheme.

Our employee communications channels include but not limited to:

- Hotlines
- Email Announcement
- Posters
- Leaflets
- Notice Board
- Departmental Internal Communication Meeting
- Daily Briefings
- Employee Opinions Forms
- Digital Signage System

#### *Employee Recognition*

We want to cultivate a motivational work environment where team members are recognized and rewarded for their accomplishments. The “Golden Lion” and “Leo Award” are recognition programs recognizing employees who exemplify company core values and demonstrate outstanding behavior. In the year of 2011, 120 employees from different departments were awarded the Golden Lion Award while 1,000 employees were awarded the Leo Award.

#### *Listen & Resolve*

We know how important it is for every employee to be comfortable at work and with fellow colleagues. The Employee Relations team is dedicated to address to any work related issues and concerns with fairness and impartiality.

#### *Employee Assistance Program — Enrich Your Life*

We believe that personal well-being is as important as professional development. Just as we are committed to helping our employees to grow, we want to help them to thrive as individuals, even when bad times come. That is why we provide the Employee Assistance program to help our employees to cope with personal concern. Supported by Sheng Kung Hui Service Coordination Office, the “Enrich Your Life” program offers professional counseling services, including “Let’s meet’ face-to-face consultation and “Let’s Char” support hotline, to help employees to resolve any personal concern on financial problems, work-life balance and family issues through objective assessment, expert guidance and coaching. The ‘Let’s Meet’ service is also extended to employees’ family.

We also provide On Site EAP Support whereby the counselor is stationed in the property on a weekly basis as to reach out the employees easier.

# Sustainability

## We Excel

We recruit the best talents, nurturing them with patience and dedication, guidance and support.

Employees are always the most important assets in our organization. The Group is committed to the growth and development of all employees and actively promotes life-time learning within the organization, even before potential employees join our Group. We believe that training and development initiatives for a sustainable organization should be three fold:

- To identify potential employees in the market and prepare them for joining
- To provide essential knowledge and skills to employees once they join the Group
- To develop employees of good potential and performance for further advancement

Other than new hire orientation, departmental induction and various other job-related skills and knowledge training, we also focus on the long term development of potential employees and existing team members with focus in the following key areas:

### *MGM Academy*

Established on December 18, 2009, the MGM Academy aims to provide an organized, structured, life-long learning environment for all team members. The motto for the Academy is “Where Excellence Starts”. The organization’s training & development programs are based on Core Competencies which are identified by focus group. Using a 4-tiered competency-based model, a series of mandatory programs have been developed to meet the development needs of all team members with different levels of job responsibilities. These programs help enhancing their self-development and prepare for further advancement in the Group. With the overwhelming participation, within 2 years’ time, we have launched many programs including leadership and supervisory skills; managing and coaching techniques targeting to all levels of team members. The Academy courses are offered regularly and on a year-round basis.



#### *MGM LEAD Program*

The name LEAD was taken from Learning, Education Assistance & Development. We believe that to support the vision and mission of the Company, it is important that we identify high potential local individuals and develop them, even before they join the Company. This is a sponsorship program to nurture local students of higher tertiary education whom we identify as high potential leaders of tomorrow with a passion in the gaming and hospitality industry. The sponsorship program aims to prepare local students for full time employment at MGM MACAU right after graduation.

A tuition sponsorship will be honored to selected students who are undergoing a 4-year degree program when they are entering their 3rd year of study. Selected students will be working with the Company for a minimum of 400 hours per year while studying so that they will get a head start in gaining practical working experience before they are promised a minimum of 2 years full time employment with MGM MACAU.

#### *MGM PRIDE Program*

While “PRIDE” stands of a group of lions, the MGM PRIDE program is a management development program for a group of proud and high flying team members. The program is launched in preparing for the development and expansion of MGM China. We aim to be one of the finest management development programs in the industry and recognized as being the program that will produce high potential management and supervisory employees of the Group.

This program is targeted for internal candidates with excellent performance with an outstanding score under the MGM MACAU’s Performance Review Program (PMS). Selected employees are required to participate in a structured management development program. Those employees will attend at least 2 days of management development training per month and have to lead and work on projects to develop skills in leadership and knowledge on management under a mentorship structure. Job rotation within department will also be arranged to give the selected employee a wider perspective on management at departmental level.



# Community







## Sustainability

# Community Commitment

### We Share

“Creating a better Macau” is the belief that everyone shares at the Group. We believe it is a vital part of the Group’s social responsibility to take an active leadership role in giving back. We lead our team to reach out to the Macau community through events and charitable work that benefit those who are less fortunate. It is our aim to put in place programs and initiatives for employees to contribute their talent and skills to making Macau a better place to work, live and raise families.

The Group has been recognized for our leadership in corporate social responsibility and we had taken a holistic approach to community outreach, supporting nonprofit organizations on food and health care for human sustainability, to education for talent sustainability, to people suffer from natural disasters and more. Our community engagement programs and commitment to social and environmental responsibility have led the Macau gaming industry by receiving local awards and reputations.

### *MGM Volunteer Team*

Our employee volunteer team celebrated its first anniversary with the “Weaving for Warmth” campaign kickoff ceremony well attended by Macau officials and dignitaries. 1,200 scarves were hand knitted by our employees and they will be given to the community before the Chinese New Year.

Additionally, we organized regular visits to elderly homes and community centers for people with disabilities. For young people, we offered a 72 hour certified F&B training program to the students at Macau Youth Correctional Institution.

### *Achievement in the Group Community Activities*

The following are some of the achievements which the Group has made.

- 1) Attained rewards from Macau Blood Donation Centre for being the organization with the highest number of blood donors in 2008, 2009 and 2010.
- 2) Organization with the highest donation for ORBIS raffle sales in 2008, 2009, 2010 and 2011.
- 3) The first and only one sponsor organization to launch “Macau 10 Outstanding Teenagers Award” with YMCA.
- 4) The first gaming organization to visit Macau Youth Correctional Institution under Macau SAR Government Legal Bureau. We initiated and organized a 3-month Western Restaurant Service Training Program (75 hours in total) for students who were leaving the institution. In addition to the training course, a 1 month on-the-job training was provided to the students as F&B Trainees in the Company F & B outlets.



- 5) The first gaming organization to hold “Chinese Medicine Health Day for Elderly” for 100 and 200 elderly in 2010 and 2011 respectively.
- 6) The first gaming organization to launch the “A Day with MGM” which is a familiarization program for local students, age of 12-17 to experience one day work in a real work environment.
- 7) Received the “2011 Macau Outstanding Volunteer Organization” organized by the “Association for Social Service Volunteers of Macau”

### *Responsible Gaming*

The Group believes gaming should always be handled responsibly. That is why our “Responsible Gaming” program extends to many aspects of our Group’s operation. It is a topic which employees from every department learn on the first day of their job and are reminded of regularly through classroom instruction or internal communications. There are regular roadshows to promote responsible gaming to employees to increase their alertness on this subject, how this affects them and the external customers.

For the past 3 consecutive years, the Group fully supported the Annual “Macau Responsible Gaming Week” which is co-organized by the Macau Social Welfare Bureau, Macau Gaming Inspection and Coordination Bureau and the University of Macau’s Institute for the Study of Commercial Gaming. Our management and employees are all encouraged to support the “kick off ceremony”, the annual conference, the promotion week communication and every year we have representative in the panel discussion during the Symposium.

In 2010 and 2011, we have enrolled our Gaming supervisory staff to attend the Train-the-Trainer program and the Responsible Gambling Ambassador program both organized the University of Macau. In 2012, two of our Training Managers had completed a “Certified Gambling Counselors Training” course co-organized by the HK Caritas Addicted Gamblers Counseling Centre and Gabinete Coordenador dos Servicos Sociais Sheng Kung Hui.

It is a concept we make readily available to guests through communications posted throughout the casino.

It is a philosophy our executive team embraces and supports both on property and in the community where we live and do business.

# Sustainability

## Preserving Our Environment

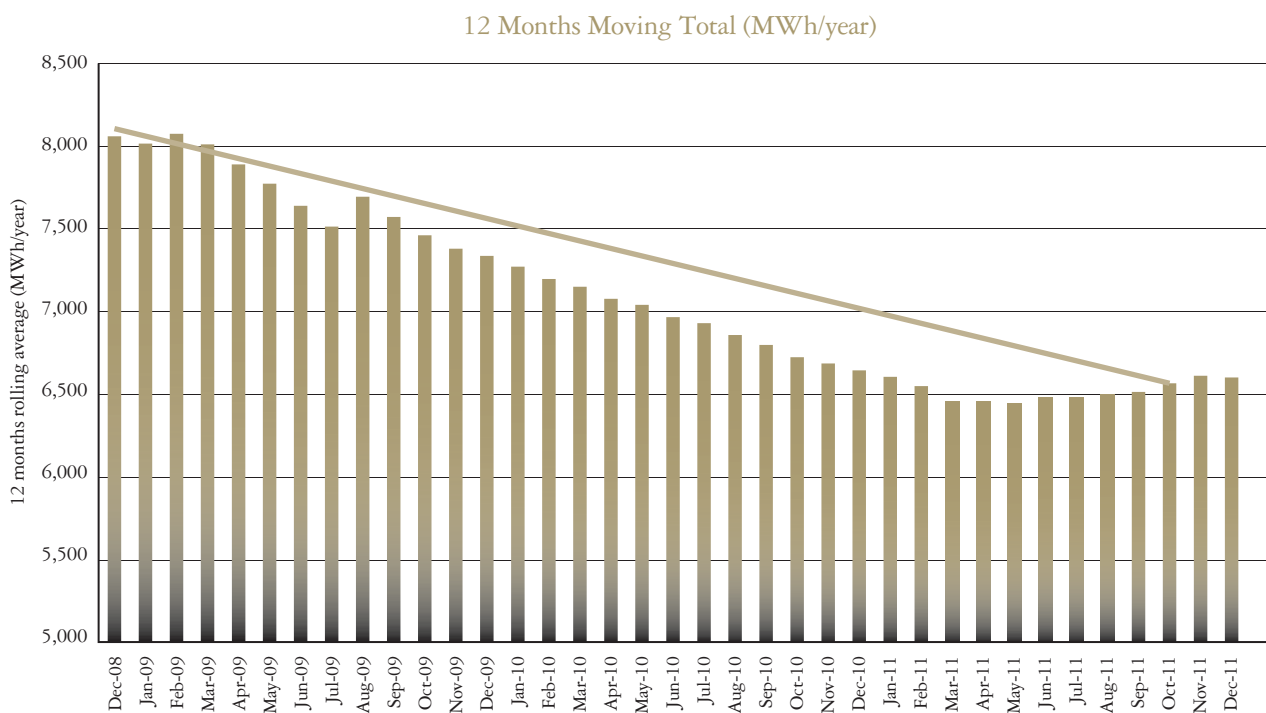
The Group has been actively investigating opportunities to reduce energy consumption at the site since opening; this is reflected in figure 1 below. In more recent times, efforts have increased to incorporate water reduction and other sustainability initiatives with a detailed water efficiency audit and the initial stages of the sustainability strategy now complete.

### Energy Efficiency

In late 2010, an independent consultant was engaged to assist with understanding additional opportunities and an internal task force within the Facilities Management team has been formed to drive identified projects through to implementation.

Bi-monthly energy reports are now generated to actively monitor energy and manage any anomalies in consumption trends. Analysis is carried out at both a site and equipment level using the comprehensive network of electricity meters at the site. Figure 1 shows the 12 month moving consumption since the beginning of 2008. Since then the electricity consumption has been reduced by 18%. Recent factors such as improved air flow in the casino have improved the air quality while increasing energy consumption slightly. Ongoing energy consumption is expected to decrease further as additional energy efficiency projects are implemented over the coming 12 months.

**Figure 1: 12 Months Moving Total Electricity Consumption**



Note: Consumption has been normalized to account for additional casino floor area that has been opened over the past 36 months.

To date a lot of the Group's efforts have been in investigation of potential projects, working through the financial returns and investigating the savings potential. Some of the projects which have been implemented or approved for implementation include:

## Implemented Projects

- Variable speed drives on cooling towers
- Chiller plant optimization including condenser and chilled water reset control, staging optimization, SCHWP fine tuning and balancing of chilled water flow
- A site wide LED lighting replacement strategy is currently being implemented
- Re-commissioning of casino AHU's
- Steam trap survey and repair program
- Temperature set point adjustments for back of house
- Wireless thermostats in the Grande Praça for improved space temperature control
- Time-scheduling and setback mode for back of house AHU's and PAU's
- De-lamping over lit areas in the back of house areas
- Thermal energy metering strategy in place

## Projects Approved for Implementation

- Time delay switches for back of house plant-room lighting
- VSD's on selected chilled water and hot water pumps
- Kitchen exhaust fan control system for cooking and preparation mode
- Chiller performance monitoring system
- Back of house FCU time scheduling control
- Back of house lighting occupancy control
- Re-commissioning of Hotel Air Handling Plant

Recognizing that energy and water management is a continuous process, the Group is committed to ensuring that this remains a high priority and forms part of the day to day operations at the site. In addition to the above, an exciting list of projects are either under investigation or undergoing trial studies and will likely be included in the ongoing plan to drive down energy and water consumption at the site.

# Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures to attain high ethical standards as well as to ensure accountability, transparency and equity in all areas of its operations and in all interactions with its stakeholders. It is believed that effective corporate governance is fundamental to enhancing Shareholders' value and safeguarding the interests of employees, business partners, and the communities in which it operates.

The Company has complied with all code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the period from its date of listing on June 3, 2011 to December 31, 2011. It has also adopted certain recommended best practices stated therein. The key corporate governance principles and practices of the Company are as follows:

## Role of the Board

The Board is collectively responsible for promoting the success of the Group and its businesses by directing and supervising the Group's affairs. It focuses on the overall leadership and control of the Group. The principal functions of the Board are to determine strategic directions and performance objectives of the Group, set management targets and monitor management performance, approve financial budgets, funding and investment proposals.

## Board Composition

The Board is comprised of eleven Directors of whom five are Executive Directors, three are Non-executive Directors and three are Independent Non-executive Directors. Details of the membership of the Board (including the Independent Non-executive Directors) are posted on the Company's website and such information will be updated following any changes. There is no family or other material relationship (including financial and business) among members of the Board. Biographical details of the Directors are set out on pages 11 to 13 and on the Company's website.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers that all the three Independent Non-executive Directors as at the date of this report, namely, Ms. Tommei Mei Kuen Tong, Professor Zhe Sun, and Ms. Sze Wan Patricia Lam are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. They are expressly identified as such in all corporate communications that disclose the names of the Directors of the Company.

## Chairpersons and Chief Executive Officer

The Chairperson, Ms. Pansy Catilina Chiu King Ho, jointly with the Co-Chairperson, Mr. James Joseph Murren take the lead of the Board. The role of the Chief Executive Officer is held separately by Mr. Grant R. Bowie. While the Chairperson and Co-Chairperson oversee the Board's overall direction and functions, the Chief Executive Officer, supported by his management team, is responsible for the day-to-day management of the business of the Group.

## Non-Executive Directors

Non-executive Directors are appointed for an initial term of three years and are subject to retirement by rotation and re-election by Shareholders at annual general meeting in accordance with the Company's Articles of Association.



## Appointment and Re-election of Directors

All the Directors are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association. Any new Director appointed to fill a casual vacancy or as an addition to the existing Board shall be re-elected at the next following annual general meeting after appointment.

## Board Meetings

The Board held two meetings during the period from June 3, 2011 to December 31, 2011. Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings. The attendance of individual Directors at Board and Board Committee meetings held in 2011 is set out in the following table:

The attendances of Board and Board Committee meetings during the period from June 3, 2011 to December 31, 2011 are summarized as follows:

Name of Directors	Board Meeting	Number of meetings attended/held			Nomination and Corporate Governance Committee (Note)
		Audit Committee	Remuneration Committee		
<b>EXECUTIVE DIRECTORS</b>					
Ms. Pansy Catilina Chiu King Ho	2/2	—	2/2	—	
Mr. James Joseph Murren	2/2	—	—	—	
Mr. Chen Yau Wong	2/2	—	—	0/0	
Mr. William Joseph Hornbuckle	2/2	—	2/2	—	
Mr. Grant R. Bowie	2/2	—	—	—	
<b>NON-EXECUTIVE DIRECTORS</b>					
Mr. William M. Scott IV	2/2	—	—	0/0	
Mr. Daniel J. D'Arrigo	2/2	—	—	—	
Mr. Kenneth A. Rosevear	2/2	2/2	—	—	
<b>INDEPENDENT NON-EXECUTIVE DIRECTORS</b>					
Professor Zhe Sun	2/2	2/2	2/2	0/0	
Ms. Tommei Mei Kuen Tong	2/2	2/2	2/2	0/0	
Ms. Sze Wan Patricia Lam	1/2	—	1/2	0/0	

Note: No meeting of the Nomination and Corporate Governance Committee was held during the year ended December 31, 2011.

## Delegation by the Board

The Board delegates day-to-day operations of the Group to Executive Directors and senior management under the leadership of the Chief Executive Officer while reserving certain major matters for its approval. These major matters include, but are not limited to strategic policies, funding and capital investment decisions. The Board delegates certain functions and matters as set out in the terms of reference of the Board committees.

## BOARD COMMITTEES

The Board has established the following committees with specific and clear written terms of reference:-

### Audit Committee

The Audit Committee is comprised of three members: Ms. Tommei Mei Kuen Tong (Chairman) and Professor Zhe Sun, both of whom are Independent Non-executive Directors, and Mr. Kenneth A. Rosevear, a Non-executive Director. The Committee held two meetings during the year ended December 31, 2011.

The major duties of the Audit Committee under its terms of reference include overseeing the relationship between the Company and its external auditor, monitoring the integrity of the financial statements, annual and interim reports and reviewing significant financial reporting judgment contained therein, monitoring compliance with statutory and Listing Rules requirements in relation to financial reporting and reviewing the Group's financial controls and internal control systems.

The work of the Audit Committee during the period from June 3, 2011 to December 31, 2011 included reviewing, discussing and considering the following:

- the announcement relating to the Group's 2011 interim results and 2011 interim report;
- significant accounting and audit issues arising in respect of the audit for the six months period ended June 30, 2011;
- periodic reports from Internal Audit Department ("IA") and progress in resolving any matters identified therein and the progress of 2011 internal audit plan;
- the continuing connected party transactions; and
- the fees for the audit and non-audit services rendered to the Group by its external auditor.

## Remuneration Committee

The Remuneration Committee is comprised of five members: Mr. William Joseph Hornbuckle, Ms. Pansy Ho, both of whom are Executive Directors, Ms. Tommei Mei Kuen Tong, Professor Zhe Sun and Ms. Sze Wan Patricia Lam, all of whom are Independent Non-executive Directors. Professor Zhe Sun was designated as the Chairman of the Committee in place of Mr. William Joseph Hornbuckle with effect from April 1, 2012. The Committee held two meetings during the year supplemented by circulation of written resolutions of all committee members.

The principal functions of the Remuneration Committee include recommending to the Board remuneration policies for the remuneration packages of Directors and members of senior management of the Group, approving the terms of the Directors' service contract and making recommendations on compensation-related issues.

Matters reviewed and recommended for the approval by the Board during the period from June 3, 2011 to December 31, 2011 included:

- policies and guidelines in relation to the duties of Remuneration Committee;
- revision of senior management performance incentive program and payout budget;
- remuneration packages for the Chief Executive Officer and senior executives;
- share options awards for the Chief Executive Officer and other eligible employees; and
- share option grant dates guidelines.

## Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee is comprised of five members: Mr. William M. Scott IV, a Non-executive Director, Mr. Chen Yau Wong, an Executive Director, Ms. Tommei Mei Kuen Tong, Professor Zhe Sun and Ms. Sze Wan Patricia Lam, all of whom are Independent Non-executive Directors. Ms. Sze Wan Patricia Lam was designated as the Chairperson of the Committee in place of Mr. William M. Scott IV with effect from April 1, 2012. The Committee will meet at least once in each financial year.

The Nomination and Corporate Governance Committee is responsible for making recommendations to the Board on nominations and appointments of Directors, reviewing the size and composition of the Board, assessing the independence of Independent Non-executive Directors and reviewing the Company's policies and practices on corporate governance.

The Nomination and Corporate Governance Committee did not hold any meeting during the period from June 3, 2011 to December 31, 2011 and no candidate has been selected and recommended for directorship since the Company was listed on June 3, 2011. From 2012 onwards, the Nomination and Corporate Governance Committee will hold meeting at least once a year.

## Disclosure Committee

The Disclosure Committee was established by written resolutions of the Board on August 8, 2011 which comprises of all the Executive Directors.

The Disclosure Committee is delegated with the powers of the Board to make a prompt assessment of the likely impact of any unexpected and significant events that the Company may face on its share price or activities and to decide consciously whether the relevant information would be price-sensitive and need to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules.

No meeting was held during for the period from June 3, 2011 to December 31, 2011. Resolutions in writing were circulated to all Executive Directors to approve the releases of announcements made pursuant to Rule 13.09 of the Listing Rules in relation to unaudited results of second quarter and the first half, the third quarter and the nine months of fiscal 2011 and Form 10Q quarterly report of MGM Resorts International.

## DIRECTORS' AND OFFICERS' INSURANCE

The Group has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

## CODE FOR SECURITIES TRANSACTIONS BY OFFICERS

The Company has adopted its own code of conduct regarding securities transactions by Directors and senior management of the Group (the "Code") in terms which are more exacting than the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules.

Having made specific inquiries of all Directors of the Company, the Company has received written confirmations from all Directors that they have complied with the required standard set out in the Code during the accounting period covered by this Annual Report.

## FINANCIAL REPORTING

### Directors' Responsibility

The Board acknowledges its responsibility for preparing the financial statements which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. In preparing the interim and annual financial statements, the Directors have selected suitable accounting policies and applied them consistently and made judgments and estimates that are prudent and reasonable.



Management recognizes the importance of providing the Board with sufficient explanation as well as appropriate and relevant information on an accurate and timely basis. Annual and interim business review and financial reports comparing the Group's actual performance with budget and highlighting major relevant issues are provided to the Board to enable it to make an informed assessment on the Group's performance, position and prospects.

## Auditor's Responsibility and Auditor's Remuneration

A statement by the external auditor of the Company, Deloitte Touche Tohmatsu, about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report on pages 77 to 78 of this Annual Report.

During the year ended December 31, 2011, the remuneration paid and payable to the Company's external auditor, is set out below:

Type of Services	HK\$'000
<b>Audit services</b>	
initial public offering	24,887
annual audit	7,353
<b>Non-audit services</b>	
taxation	236

## COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of maintaining a clear, timely and effective communication with the Shareholders of the Company and investors. The Group is committed to ensuring the investors and the Shareholders of the Company will receive timely information of the Group through the publication of annual and interim reports, results announcement and press release. All Shareholders' communications are also available on the Company's website.

## INVESTOR RELATIONS

The Board recognizes that effective communication to investors is the key to establish investors' confidence and to attract new investors. The Company maintains regular dialogues with institutional investors, financial analysts and financial media from time to time to keep them informed of the Group's strategy, operations, management and plans.

There have been no changes in the Company's Articles of Association during the period from June 3, 2011 to December 31, 2011.

## INTERNAL CONTROLS

The Board has overall responsibility for maintaining sound and effective internal control system to safeguard Shareholders' investment and the Group's assets. The Group conducts regular reviews of the internal control system. Management is primarily responsible for the design, implementation, and maintenance of internal controls, with the Board and the Audit Committee overseeing the performance of management and monitoring the effectiveness of the internal controls that have been put in place.

The system is designed to provide reasonable, but not absolute, assurance against mis-statement or loss, and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. The Group's internal control system encompasses policies and procedures with the aims to:

- facilitate effective and efficient operation by ensuring the internal control system to being able to respond appropriately to significant business, operational, financial, compliance and other risks in a timely manner with a view to achieving business objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
- ensure maintenance of proper accounting records for the provision of reliable financial information for internal or external reporting; and
- ensure compliance with relevant legislation and regulations and also with internal policies with respect to the conduct of business.

The IA plays an important role in monitoring the internal control system by conducting independent reviews of the adequacy and effectiveness of the internal controls and reporting the review results to the Board through the Audit Committee on a quarterly basis. IA plans its internal audit projects annually based on applicable regulatory requirements and risk assessments. In accordance with the annual audit plan approved by the Audit Committee, IA conducts statutory required gaming compliance audits, as well as risk-based audits on the business operations. IA communicates with the management the audit findings and recommendations for remedial actions, and performs follow up to confirm that the implementation of remedial actions by management occurred. Status of follow up and management remedial actions are also reported to the Audit Committee. To preserve IA's independence, the director of IA reports directly to the Audit Committee on audit matters and to the Chief Executive Officer administratively.

In respect of the year ended December 31, 2011, the Board considered the Group's internal control system effective and adequate.

# Report of the Directors

The Directors present their annual report together with the audited consolidated financial statements of MGM China Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended December 31, 2011.

## Group Reorganization

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 2, 2010. Through a group reorganization to rationalize the structure of the Group in preparation for the Listing of the Company’s Shares (the “Group Reorganization”), the Company became the holding company of the Group on June 2, 2011 upon completion of the Group Reorganization. Details of the Group Reorganization are more fully explained in note 1 to the consolidated financial statements. The Company’s Shares were listed on the Hong Kong Stock Exchange on June 3, 2011.

## Principal Activities and Subsidiaries

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are the development and operation of casino games of chance and other casino games and the related hotel and resort facilities in Macau. A list of the Company’s subsidiaries, together with their places of incorporation, principal activities and other particulars, is set out in note 40 to the consolidated financial statements.

## Financial Results and Appropriations

The results of the Group for the year ended December 31, 2011 are set out in the consolidated statement of comprehensive income on page 79.

## Dividends

On March 23, 2011, prior to the Group Reorganization, an amount of MOP50.0 million (equivalent to approximately HK\$48.5 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 to approximately MOP490.0 million (equivalent to approximately HK\$475.7 million) in aggregate were declared and approved by the then shareholders of MGM Grand Paradise. These dividends were paid to those shareholders on March 24, 2011.

The Board recommended that no final dividend be paid in respect of the year ended December 31, 2011.

## Report of the Directors

Subsequent to the end of the reporting period, on February 16, 2012, our principal subsidiary, MGM Grand Paradise declared the payment of a dividend to the Company of approximately HK\$3,816 million. This dividend declaration complied with MGM Grand Paradise's constitutional documents and the laws and regulations of Macau.

Consequently, the Board announced that it resolved to declare the payment of a special dividend of HK81.6 cents per Share ("Special Dividend"), amounting to approximately HK\$3,100 million in aggregate, representing approximately 83% of the Group's consolidated profit before taxation for the year ended December 31, 2011. This Special Dividend was expected to be paid on or about March 20, 2012 to the Shareholders of the Company whose names would appear on the register of members on March 9, 2012. The Board approved the payment of the Special Dividend after reviewing the Group's general financial position as at February 22, 2012, its capital requirements going forward and other factors that the Board considered relevant, and determined that the Group had sufficient resources, after the payment of the Special Dividend, to finance its operations and expansion of its business, including the development of an additional casino and hotel complex in Cotai. The Special Dividend should not be taken as an indication of the level of profit or dividend for the full year.

### Use of Proceeds from the Company's Initial Public Offering

The entire net proceeds from the Listing, after deduction of expenses incurred in connection with the issue of Shares of the Company, amounting to approximately HK\$11.2 billion, were used to satisfy the Company's obligations under an acquisition note issued to Grand Paradise Macau Limited (the "Acquisition Note") as partial consideration in settlement of the transfer of Class A shares by Grand Paradise Macau Limited in MGM Grand Paradise to the Company as part of the Group Reorganization. The Company fully settled the Acquisition Note immediately after the Listing.

### Property and Equipment

Details of movements in the property and equipment during the year are set out in note 18 to the consolidated financial statements.

### Bank Borrowings

Particulars of bank borrowings are set out in note 27 to the consolidated financial statements.

### Share Capital and Warrants

Details of movements in the share capital of the Company during the year are set out in note 29(a) to the consolidated financial statements.

There have been no convertible securities, warrants or similar rights issued or granted by the Company, or any of its subsidiaries.



## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

## Purchase, Sale or Redemption of Company's Listed Securities

There has been no exercise of any conversion or subscription rights, nor any purchase, sale or redemption by the Group of its listed Shares during the year ended December 31, 2011.

## Distributable Reserves of the Company

As at December 31, 2011, the Company's reserves available for distribution to Shareholders were as follows:

	2011 HK\$'000	2010 HK\$'000
Share premium	10,434,193	—
Deficit	(540,574)	—
	9,893,619	—

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the Shareholders of the Company subject to the provisions of its Articles of Association and provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

## Charitable Contributions

During the year ended December 31, 2011, the Group made charitable contributions totaling HK\$1.5 million.

## Major Customers and Suppliers

We depend on our suppliers to provide us with products and services such as slot machines, security and surveillance systems, retail goods, gaming equipment and accessories, and construction and other administrative services. For the year ended December 31, 2011, purchases from our five largest suppliers accounted for less than 30% of the total purchases.

Revenues from our five largest customers accounted for less than 30% of our total operating revenues for the year ended December 31, 2011.

With the exception of MGM Resorts International, who has an interest in MGM Branding and Development Holdings, and Pansy Ho, who has an interest in STCTSM, none of our Directors, their respective associates or any of our Shareholders had any interest in any of our top five suppliers in 2011. None of our Directors, their respective associates or any Shareholders had any interest in any of our top five customers in 2011.

## Directors

The Directors of the Company during the year and up to the date of this report were:

### *Executive Directors:*

Pansy Catilina Chiu King Ho (*Chairperson*)

James Joseph Murren (*Co-Chairperson*)

Chen Yau Wong

William Joseph Hornbuckle

Grant R. Bowie (*Chief Executive Officer*)

### *Non-executive Directors:*

William M. Scott IV (appointed on March 16, 2011)

Daniel J. D'Arrigo (appointed on March 16, 2011)

Kenneth A. Rosevear

### *Independent non-executive Directors:*

Zhe Sun

Tommei Mei Kuen Tong

Sze Wan Patricia Lam (appointed on March 16, 2011)

In accordance with article 105 of the Company's Articles of Association, one-third of the Directors (or if their number is not a multiple of three, then the number nearest to but not less than one third) for the time being will retire by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Details of the Directors who shall retire from office of the Company and, being eligible, offer themselves for re-election at the forthcoming annual general meeting will be set out in the circular and notice of the annual general meeting to be sent to the Shareholders.

The Company has received annual confirmations of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent.

## Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## Directors' Remuneration

Details of the remuneration of the Directors are set out in note 14 to the consolidated financial statements. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

## Directors' Interest in Contracts

Save as disclosed in note 39 set out in the consolidated financial statements on pages 139 to 142, there is no contract of significance in relation to the Group's business subsisting at the end of the year or during the year ended December 31, 2011 in which the Group was a party and in which a Director was materially interested.

## Deed of Non-Compete Undertakings with Pansy Ho and MGM Resorts International

The Company entered into a Deed of Non-compete Undertakings with Pansy Ho and MGM Resorts International on May 17, 2011 so as to maintain a clear delineation of the respective businesses of each party as set out in pages 134 to 137 of the Company's IPO Prospectus. The Company has received annual written declarations on their compliance with the undertakings under the Deed of Non-compete Undertakings from Pansy Ho and MGM Resorts International during the year ended December 31, 2011. Based on the confirmations received from Pansy Ho and MGM Resorts International and after review, our independent non-executive Directors considered that Pansy Ho and MGM Resorts International have complied with the terms set out in the Deed of Non-compete Undertakings during the year ended December 31, 2011.

## Directors' Interests in a Business which May Compete with our Business

Pansy Ho is the managing director of Shun Tak and has an interest in approximately 12.67% of the total issued share capital of Shun Tak as at December 31, 2011. Shun Tak's hospitality businesses do not involve casino gaming. Shun Tak's ordinary shares are listed on the Main Board of the Hong Kong Stock Exchange. Shun Tak is a corporate director of STDM and Pansy Ho is the appointed representative. However, STDM is not a business which competes or is likely to compete, either directly or indirectly with the Company's business. The Company's business is casino gaming resorts in the greater China region, in which STDM does not operate. As Pansy Ho is a Director and substantial Shareholder of the Company, she does not intend to participate in board decisions of STDM which concern the exercise of rights attaching to its indirect majority shareholding in SJM. SJM is a company independent of the Company whose ordinary shares are listed on the Main Board of the Hong Kong Stock Exchange and operates casino games of fortune and other games of chance in casinos in Macau. Pansy Ho is not a director of SJM and she does not hold any share in SJM. Her only indirect economic interest in SJM arises as a result of her minority shareholding in STDM, the controlling shareholder of SJM.

Save as the above, none of our Directors had any interest in any business which competes with our Group's business during the year ended December 31, 2011.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2011.

## Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at December 31, 2011, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of the SFO (including interests and short positions which the Directors and the chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register maintained by the Company referred to therein, or were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code or as the Company was aware, were as follows:

### (a) Long Position in the Shares and Underlying Shares of the Company

Name of Director	Personal Interests	Family Interests	Corporate Interests	Total	Percentage of issued share capital
Pansy Ho	380,000,000 <sup>(1)</sup>	—	662,661,200 <sup>(2)</sup>	1,042,661,200	27.44%
Grant R. Bowie	3,500,000 <sup>(3)</sup>	—	—	3,500,000	0.09%



## (b) Long Position in the Shares of Associated Corporations — MGM Grand Paradise

Name of Director	Personal Interests	Family Interests	Corporate Interests	Total	Percentage of issued share capital
Pansy Ho	20,000 <sup>(4)</sup>	—	—	20,000	10.00%

(c) Long Position in the Common Stocks and Underlying Shares of Associated Corporations - MGM Resorts International<sup>(5)</sup>

Name of Director	Personal Interests	Family Interests	Corporate Interests	Total	Percentage of issued common stocks
James Joseph Murren	1,700,000 <sup>(6)</sup>	—	—	1,700,000	0.3478%
	956,250 <sup>(7)</sup>	—	—	956,250	0.1956%
	1,756,250 <sup>(8)</sup>	—	—	1,756,250	0.3593%
	61,250 <sup>(9)</sup>	—	—	61,250	0.0125%
	5,560 <sup>(10)</sup>	—	—	5,560	0.0011%
	—	169,324 <sup>(11)</sup>	—	169,324	0.0346%
William Joseph Hornbuckle	235,000 <sup>(12)</sup>	—	—	235,000	0.0481%
	159,375 <sup>(13)</sup>	—	—	159,375	0.0326%
	290,625 <sup>(14)</sup>	—	—	290,625	0.0595%
	26,366 <sup>(15)</sup>	—	—	26,366	0.0054%
	13,294 <sup>(16)</sup>	—	—	13,294	0.0027%
	—	20,000 <sup>(17)</sup>	—	20,000	0.0041%
William M. Scott IV	105,625 <sup>(18)</sup>	—	—	105,625	0.0216%
	143,125 <sup>(19)</sup>	—	—	143,125	0.0293%
	5,750 <sup>(20)</sup>	—	—	5,750	0.0012%
	551 <sup>(21)</sup>	—	—	551	0.0001%
Daniel J. D'Arrigo	185,000 <sup>(22)</sup>	—	—	185,000	0.0378%
	48,375 <sup>(23)</sup>	—	—	48,375	0.0099%
	402,125 <sup>(24)</sup>	—	—	402,125	0.0823%
	9,421 <sup>(25)</sup>	—	—	9,421	0.0019%
	17,002 <sup>(26)</sup>	—	—	17,002	0.0035%
Kenneth A. Rosevear	810,000 <sup>(27)</sup>	—	—	810,000	0.1657%
	15,000 <sup>(28)</sup>	—	—	15,000	0.0031%
	15,000 <sup>(29)</sup>	—	—	15,000	0.0031%
	2,000 <sup>(30)</sup>	—	—	2,000	0.0004%
	11,349 <sup>(31)</sup>	—	—	11,349	0.0023%

## Report of the Directors

### (d) Long Position in the Convertible Senior Notes of Associated Corporations - MGM Resorts International (the “Notes”)<sup>(32)</sup>

Name of Director	Personal Interests	Family Interests	Corporate Interests	Total
Pansy Ho	—	—	US\$300,000,000 <sup>(33)</sup>	US\$300,000,000

Notes:

- (1) These represent the Shares beneficially held by Pansy Ho in her personal capacity.
- (2) Pansy Ho was deemed to be interested in 662,661,200 Shares held by Grand Paradise Macau Limited, a company which she controls.
- (3) This represents 3,500,000 unvested share options of the Company granted to Grant R. Bowie.
- (4) These represent 50% of total issued class B shares of MGM Grand Paradise which carry 10% of the total voting power at any meetings of shareholders of MGM Grand Paradise. On each occasion upon which dividends are paid by MGM Grand Paradise, each holder of class B shares will be entitled to receive dividends of up to MOP1 only.
- (5) MGM Resorts International adopted an omnibus incentive plan in 2005 which, as amended, allows it to grant stock options, stock appreciation rights (“SARs”), restricted stock, restricted stock units (“RSUs”), and other stock-based awards to eligible directors, officers and employees of MGM Resorts International and its subsidiaries. Stock options and SARs granted under all plans generally have terms of either seven or ten years, and in most cases vest in either four or five equal annual installments. RSUs granted vest ratably over four years. MGM Resorts International’s practice is to issue new shares upon exercise or vesting of awards.
- (6) This represents 1,700,000 vested employee stock options in the common stock of MGM Resorts International granted to James Joseph Murren.
- (7) This represents 956,250 vested SARs in the common stock of MGM Resorts International granted to James Joseph Murren.
- (8) This represents 1,756,250 unvested SARs in the common stock of MGM Resorts International granted to James Joseph Murren.
- (9) This represents 61,250 RSUs in the common stock of MGM Resorts International held by James Joseph Murren.
- (10) These represent the common stock of MGM Resorts International held by James Joseph Murren.
- (11) These 169,324 shares in the common stock of MGM Resorts International were held by the family trust of James Joseph Murren.
- (12) This represents 235,000 vested employee stock options in the common stock of MGM Resorts International granted to William Joseph Hornbuckle.
- (13) This represents 159,375 vested SARs in the common stock of MGM Resorts International granted to William Joseph Hornbuckle.

- (14) This represents 290,625 unvested SARs in the common stock of MGM Resorts International granted to William Joseph Hornbuckle.
- (15) This represents 26,366 RSUs in the common stock of MGM Resorts International held by William Joseph Hornbuckle.
- (16) These represent the common stock of MGM Resorts International held by William Joseph Hornbuckle.
- (17) These 20,000 shares in the common stock of MGM Resorts International were held by the IV 2004 trust of William Joseph Hornbuckle.
- (18) This represents 105,625 vested SARs in the common stock of MGM Resorts International granted to William M. Scott IV.
- (19) This represents 143,125 unvested SARs in the common stock of MGM Resorts International granted to William M. Scott IV.
- (20) This represents 5,750 RSUs in the common stock of MGM Resorts International held by William M. Scott IV.
- (21) These represent the common stock of MGM Resorts International held by William M. Scott IV.
- (22) This represents 185,000 vested employee stock options in the common stock of MGM Resorts International granted to Daniel J. D'Arrigo.
- (23) This represents 48,375 vested SARs in the common stock of MGM Resorts International granted to Daniel J. D'Arrigo.
- (24) This represents 402,125 unvested SARs in the common stock of MGM Resorts International granted to Daniel J. D'Arrigo.
- (25) This represents 9,421 RSUs in the common stock of MGM Resorts International held by Daniel J. D'Arrigo.
- (26) These represent the common stock of MGM Resorts International held by Daniel J. D'Arrigo.
- (27) This represents 810,000 vested employee stock options in the common stock of MGM Resorts International granted to Kenneth A. Rosevear.
- (28) This represents 15,000 vested SARs in the common stock of MGM Resorts International granted to Kenneth A. Rosevear.
- (29) This represents 15,000 unvested SARs in the common stock of MGM Resorts International granted to Kenneth A. Rosevear.
- (30) This represents 2,000 RSUs in the common stock of MGM Resorts International held by Kenneth A. Rosevear.
- (31) These represent the common stock of MGM Resorts International held by Kenneth A. Rosevear.
- (32) The Notes will pay interest semi-annually at a rate of 4.25% per annum and will mature on April 15, 2015. The Notes will be convertible into shares in the common stock of MGM Resorts International at an initial conversion rate of 53.83 shares in the common stock of MGM Resorts International per US\$1,000 principal amount of the Notes.
- (33) Pansy Ho was deemed to be interested in the Notes by virtue of her indirect beneficial interests in the entity which acquired the Notes.

## Report of the Directors

Save as disclosed above, as at December 31, 2011, none of the Directors or the chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the Shares, underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange or recorded in the register maintained by the Company as required pursuant to Section 352 of the SFO as aforesaid.

### Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at December 31, 2011, so far as is known to any Director or the chief executive of the Company, the persons who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO or as otherwise notified to the Company were as follows:

#### (a) Long Position in the Shares of the Company

##### Number of Shares

Name	Capacity/nature of interest	Total	Percentage of shareholding
MGM Resorts International <sup>(1)</sup>	Interest of a controlled corporation	1,938,000,001	51.00%
MGM International, LLC <sup>(1)</sup>	Interest of a controlled corporation	1,938,000,001	51.00%
MGM Resorts International Holdings, Ltd. <sup>(1)</sup>	Direct interest	1,938,000,001	51.00%
Pansy Ho <sup>(2)</sup>	Direct interest	380,000,000	10.00%
	Interest of a controlled corporation	662,661,200	17.44%
Grand Paradise Macau Limited <sup>(2)</sup>	Direct interest	662,661,200	17.44%

##### Notes:

- (1) MGM Resorts International Holdings, Ltd. is a wholly owned subsidiary of MGM International, LLC, which in turn is wholly owned by MGM Resorts International. Therefore, MGM International, LLC and MGM Resorts International are deemed or taken to be interested in 1,938,000,001 Shares which are directly held by MGM Resorts International Holdings, Ltd.
- (2) Grand Paradise Macau Limited is a company controlled by Pansy Ho and therefore Pansy Ho is deemed or taken to be interested in 662,661,200 Shares which are directly held by Grand Paradise Macau Limited.



Save as disclosed above, the Company had not been notified of any other corporation or person, who, as at December 31, 2011, had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

## Remuneration Policy

As at December 31, 2011, MGM Grand Paradise employed 5,800 full-time and part-time employees in Macau and Hong Kong.

The Group's remuneration philosophy is a market-based job leveling approach to pay administration, which we believe is the best strategy to fulfill the Company's fundamental goal of attracting and retaining a diverse and highly skilled workforce. To accomplish this, the Company intends its remuneration system to be:

- Competitive — in the Macau labor market, considering both MGM China's market niche and the larger industries in which we compete for talent.
- Comprehensive — to be viewed through the lens of total rewards, including base pay, health benefits, incentive pay, bonus, equity and retirement plans, etc.
- Objective — to be consistent with Macau market rates.
- Developmental — to encourage career and professional development within the workforce.

A group-wide performance based incentive program was implemented since 2011 for all managerial level employees. The objective of developing such an incentive bonus program is to focus all members of the team in creating and sustaining the enterprise value of the Group. The program consists of several components designed to encourage targeted individuals and groups based on clear and measurable objectives designed to support the Group's strategy.

In addition to the above performance incentives, it is customary in Macau to provide additional months of salary to line staff during the Chinese New Year period as a gratuity for their hard work during the year. Such additional bonus is subject to the Board's discretion.

## Share Option Scheme

The Company operates a share option scheme under which options to subscribe for ordinary shares in the Company are granted to selected qualifying grantees. A summary of the Company's share option scheme, particulars of the number of share options granted during the year, vesting and exercise periods, exercise prices and values of share options granted are set out in note 30 to the consolidated financial statements.

## Connected Transactions

During the year ended December 31, 2011, the Group entered into certain transactions with MGM Resorts International, Pansy Ho and their respective affiliates described below which constitute continuing connected transactions under the Listing Rules.

### Non-exempt continuing connected transactions

*Continuing Connected Transactions exempt from the Independent Shareholders' Approval Requirements under Rule 14A.34 of the Listing Rules*

#### 1. MGM Marketing Agreement

On May 17, 2011, MGM Resorts International, MGM Resorts International Marketing, Ltd., MGM Grand International Pte, Ltd., MGM Grand Paradise and our Company entered into the MGM Marketing Agreement pursuant to which MGM Resorts International and its designated affiliates will be paid certain marketing fees in consideration of referrals of gaming customers made to resort, hotel and casino properties owned or operated by our Group. The marketing fee payable pursuant to the MGM Marketing Agreement is equal to 3% of the theoretical win (refer to note on page 69) associated with gaming play by customers referred (excluding any play with junket operators at our property). The fee has been determined based on the assessment of the incremental costs that the Group would have to incur to attract gaming customers.

The MGM Marketing Agreement entitles MGM Resorts International to have a marketing presence at MGM MACAU and our future gaming developments during the term of the agreement. The major reason for this marketing arrangement is to utilize the established international marketing network of MGM Resorts International to direct additional gaming customers to our Company's present and any future properties. The arrangement formalizes the existing manner in which our Company has benefited from the international marketing efforts of MGM Resorts International in the past. The term of the MGM Marketing Agreement commenced on July 1, 2010 and continues for three years from June 3, 2011. Subject to compliance with the Listing Rules requirements or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the initial term or any subsequent renewal term, the agreement is automatically renewed for a three year term (or such other period permitted under the Listing Rules).

MGM Resorts International is a connected person of our Company as it is our controlling Shareholder. MGM Resorts International Marketing, Ltd. and MGM Grand International Pte, Ltd. are both wholly-owned subsidiaries of MGM Resorts International and are therefore also connected persons of the Company. As MGM Resorts International, MGM Resorts International Marketing, Ltd. and MGM Grand International Pte, Ltd. are connected persons, the MGM Marketing Agreement constitutes continuing connected transactions of our Company pursuant to Rule 14A.14 of the Listing Rules.

The aggregate total consideration to be paid to MGM Resorts International by our Group for such referrals for each of the years ended December 31, 2012 and 2013 on an annual basis will not exceed US\$5 million. The annual cap is based on the amount which must be paid to properly compensate for the services of the marketing executives, sufficient additional fee capacity to address the expected increase in the revenues during the three-year term of the agreement and the fact that the marketing fee rates payable in respect of the fees are similar to those payable to independent agents in connection with referrals of gaming business. For the year ended December 31, 2011, the total amount of theoretical win attributable to qualifying referrals received by our Group from MGM Resorts International and its Affiliates was US\$86.0 million and the aggregate total consideration paid to MGM Resorts International by our Group was HK\$20.1 million (equivalent to approximately US\$2.6 million) which fell within the annual cap of US\$5 million for the calendar year of 2011 as disclosed in our IPO Prospectus.

## 2. Macau Marketing Agreement

On May 17, 2011, MGM Resorts International, MGM Grand Paradise and our Company entered into the Macau Marketing Agreement pursuant to which our Group will be paid certain marketing fees in consideration of the referral of gaming customers to resort, hotel and casino properties owned or operated by MGM Resorts International and its designated affiliates in the United States or elsewhere.

The major reason for this arrangement is to provide an additional revenue stream to our Company for gaming customers referred to MGM Resorts International and to facilitate cooperative marketing efforts between our in-house marketing staff and the international marketing staff of MGM Resorts International. The term of the Macau Marketing Agreement commenced on July 1, 2010 and continues for three years from June 3, 2011. Subject to compliance with the Listing Rules requirements or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the initial term or any subsequent renewal term, the agreement is automatically renewed for a three year term (or such other period permitted under the Listing Rules). The marketing fees payable to the Company are also calculated on the basis of 3% of the theoretical win (refer to note on page 69) associated with customers gaming play by customers referred (excluding any play with gaming promoters at our property). The fee has been determined based on the assessment of the incremental costs that the Group would have to incur to attract these gaming customers.

MGM Resorts International is a connected person of our Company as it is our controlling Shareholder. As MGM Resorts International is a connected person, the Macau Marketing Agreement constitutes continuing connected transactions of our Company pursuant to Rule 14A.14 of the Listing Rules.

The aggregate total consideration to be paid for such services provided by our Company to MGM Resorts International and its subsidiaries for each of the years ended December 31, 2012 and 2013 on an annual basis will not exceed US\$1 million. The annual cap is based on the amount which must be paid to properly compensate for the services of the marketing executives, sufficient additional fee capacity to address the expected increase in the revenues during the three-year term of the agreement and the fact that the marketing fee rates payable in respect of the fees are similar to those payable to independent agents in connection with referrals of gaming business. For the year ended December 31, 2011, the aggregate total consideration paid for services provided under the Macau Marketing Agreement by the Company to MGM Resorts International and its subsidiaries was HK\$820,000 (equivalent to approximately US\$105,000) which fell within the annual cap of US\$1 million for the calendar year of 2011 as disclosed in our IPO Prospectus.

### 3. Bright Elite Holdings Marketing Agreement

On May 17, 2011, Bright Elite Holdings Limited (“BEH”), MGM Grand Paradise and our Company entered into the BEH Marketing Agreement pursuant to which BEH will be entitled to receive marketing fees in consideration of referrals of gaming customers to our Company’s resort, hotel and casino properties owned and operated by our Group. The marketing fees payable to BEH by our Company are calculated on the basis of 3% of the theoretical win (refer to note on page 69) associated with customers referred (excluding any play with gaming promoters at our property). The fee has been determined based on the assessment of the incremental costs that the Group would have to incur to attract these gaming customers.

The major reason for this arrangement is to stimulate referrals from BEH to our Company’s resort, hotel and casino facilities and to thereby extend our client base in Macau. The BEH Marketing Agreement commenced on June 3, 2011 and continues for three years from June 3, 2011. Subject to compliance with the Listing Rules requirements or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the initial term or any subsequent renewal term, the agreement is automatically renewed for a three year term (or such other period permitted under the Listing Rules).

BEH, a wholly-owned company by Pansy Ho, is a connected person of our Company as Pansy Ho is one of our substantial Shareholders and Directors. As BEH is a connected person, the BEH Marketing Agreement constitutes continuing connected transactions of our Company pursuant to Rule 14A.14 of the Listing Rules.

The aggregate total consideration to be paid for such services provided by PH Group to our Group for each of the years ended December 31, 2012 and 2013 on an annual basis will not exceed US\$3.0 million. Our Company will benefit from Pansy Ho's marketing team because they are able to directly leverage Pansy Ho's expertise and extensive contacts in the casino gaming business in Macau, which is expected to attract further customers and revenue to our Company. No consideration had been paid by the Company under BEH Marketing Agreement for the year ended December 31, 2011 since no referrals of gaming customers to our Company's resort, hotel and casino properties owned and operated by our Group from BEH during the year.

The proposed annual caps for the years ended December 31, 2012 and 2013 in relation to each of the MGM Marketing Agreement, the Macau Marketing Agreement and the BEH Marketing Agreement have been determined after taking into account the expected growth of the Group's business through referrals in the next two years and in general the trend of the gaming market's gaming revenue growth in Macau. Further details of these three agreements were included in our IPO Prospectus.

Note:

For the purposes of the MGM Marketing Agreement, Macau Marketing Agreement and BEH Marketing Agreement, "theoretical win" means, in respect of any customer (i) in the case of cash chip play, the total amount wagered multiplied by the game house advantage, and (ii) in the case of rolling chip, the turnover amount multiplied by the theoretical rolling chip win percentage of 2.7%, in each case ignoring the actual win or loss experienced as a result of that customer's play and provided in each case that "theoretical win" shall not exceed, as to any customer, 12.5% of the available credit line for that customer on the related visit.

#### 4. Development Agreement

On May 17, 2011, our Company, MGM Grand Paradise, MGM Branding and Development Holdings, MGM Resorts International, MGM Resorts International Holdings and New Corporate Enterprises Limited entered into a Development Agreement. The Development Agreement sets forth the terms on which we have appointed MGM Branding and Development Holdings to provide certain development services to our Group in connection with future expansion of the existing project and development of future resort gaming projects. We are the third party beneficiaries of these support agreements. These development services will enable us to access MGM Resorts International's and Grand Paradise Macau Limited's expertise in the design, construction, management and operation of high quality resort casino projects.

The development fee is calculated separately for each resort casino property upon which we commence development during the term of the agreement (whether or not completed during the term). For each such property, the fee is 2.625% of project costs, to be paid in installments as certain benchmarks are achieved. The fee is based on the possibility of an increase in the requirement for development services for the potential Cotai project, the expected increase in the aggregate costs and expenses for the development services our Group has to pay for anticipated routine and potential enhancements to MGM MACAU and the assumption that there will be no significant increase in the aggregate costs and expenses.



## Report of the Directors

MGM Resorts International is our controlling Shareholder. Pansy Ho is our substantial Shareholder. According to the Listing Rules, MGM Resorts International, MGM Resorts International Holdings, New Corporate Enterprise and Pansy Ho are connected persons of our Company. As such, the Development Agreement constitutes continuing connected transactions of our Company pursuant to Rule 14A.14 of the Listing Rules.

The development fee is subject to an annual cap of US\$20 million per annum for the initial financial year for each property, which amount shall increase by 10% per annum for each succeeding financial year during the term of the Development Agreement.

### Development fees

Period	Annual cap (US\$)
1	20,000,000
2	22,000,000
3	24,200,000

The proposed annual caps for the of the development fees have been determined based on the development fees paid for MGM MACAU and the Group's expected future developments, which are at a very preliminary stage. As such, the Group will place substantial reliance on the expertise and support of MGM Resorts International and Pansy Ho. Both parties have provided support in developing MGM MACAU and will continue to provide similar development services in future.

The initial term of the Development Agreement is for three years commenced on June 3, 2011. Subject to compliance with the Listing Rules requirements or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the initial term or any subsequent renewal term, the agreement is automatically renewed for a three year term (or such other period permitted under the Listing Rules). Further details of this agreement were included in our IPO Prospectus. No fees have been paid by the Company under the Development Agreement for the year ended December 31, 2011 since no development services related to the expansion of the existing project and development of future resort gaming projects were incurred during the year.

A waiver from strict compliance with the announcement requirements under Rule 14A.42(3) of the Listing Rules for the MGM Marketing Agreement, Macau Marketing Agreement, Bright Elite Holdings Marketing Agreement and Development Agreement has been granted by the Hong Kong Stock Exchange.

## 5. Master Service Agreement and Related Arrangements

As announced by Shun Tak on October 8, 2010, Shun Tak and MGM Grand Paradise entered into the Master Service Agreement which provides a continuing framework for the provision of products and services between our Group and the Shun Tak group. Such transactions include the Shun Tak group providing various services and products, including ferry tickets, travel products, rental of hotel rooms, laundry services, advertising services and property cleaning services to our Group and our Group providing rental of hotel rooms at wholesale room rates to the Shun Tak group and receiving rebates for ferry tickets from the Shun Tak group.

The term of the Master Service Agreement came into effect from January 1, 2011 and runs until December 31, 2013 and is thereafter renewable for successive terms of three years by mutual agreement in writing.

Terms of each specific service are or will be further detailed separately in an agreement or a service contract which may be constituted by the acceptance of a price quotation, sales order or other written documents and have been or will be negotiated on arms length normal commercial terms and by reference to prevailing market prices. Details of the terms of the relevant agreements or service contracts in relation to the transactions under the Master Service Agreement were set out in the Company's announcement dated June 3, 2011.

In accordance with the ferry ticket agreement, dated December 1, 2007, between STCTSM and MGM Grand Paradise, for sale of ferry tickets for STCTSM, MGM Grand Paradise shall be entitled to a 5% discount on the original selling price net of departure tax and levy (where applicable) for all ferry tickets sold. Such discount accords with market practice in granting discounts to other bulk purchases of ferry tickets. The term is currently extended on a day-by-day basis pending for formal renewal.

Pansy Ho, one of our substantial Shareholders, Chairperson and Executive Director of our Company, is the managing director and a substantial shareholder of Shun Tak. By virtue of a number of direct and indirect interests in Shun Tak, the Stock Exchange has determined that Shun Tak is an associate of Pansy Ho and therefore a connected person of the Company.

## Report of the Directors

Set out below are the annual caps on net amounts payable by our Group to the Shun Tak group after the rebates for discounts on bulk purchases of ferry tickets and the amounts payable by the Shun Tak group to our Group in respect of the transactions contemplated by the Master Service Agreement in respect of the financial years ended December 31, 2012 and 2013 respectively:

Period (for the year ended)	Annual cap on payments from Shun Tak (HK\$)	Annual cap on payments to Shun Tak (HK\$)
December 31, 2012	4,000,000	132,000,000
December 31, 2013	4,500,000	135,000,000

The annual caps on amounts payable to Shun Tak group have been determined by reference to (i) historical amounts paid to the Shun Tak group for the services contemplated by the Master Service Agreement; and (ii) the estimated quantity of ferry ticket sales and the volume of services in respect of travel agency services, rental of hotel rooms, laundry services, advertising services and property cleaning services which may be required by our Group during each of the years ended December 31, 2012 and 2013.

The annual caps on amounts payable by Shun Tak group have been determined by reference to (i) historical amounts of revenues received for services contemplated by the Master Service Agreement; (ii) the anticipated demand for the relevant products and services; and (iii) the anticipated room rates for hotel rooms during each of the years ended December 31, 2012 and 2013.

For the year ended December 31, 2011, the aggregate net payments made by the Group to the Shun Tak group after the rebates for discounts on bulk purchases of ferry tickets was HK\$106,047,000 which fell within the annual cap of HK\$128,000,000 for the calendar year 2011 and the aggregate amount received by the Group from the Shun Tak group was HK\$536,000 which fell within the annual cap of HK\$3,500,000 for the calendar year 2011 as disclosed in our Company's announcement dated June 3, 2011.

Our Company's continuing connected transactions with Shun Tak fall under Rule 14A.34 of the Listing Rules which are exempt from the independent shareholders' approval requirements. Our Company will comply with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47, the annual review requirements set out in Rules 14A.37 to 14A.40 and the requirements set out in Rules 14A.35(1) and 14A.35(2) of the Listing Rules.

*Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements under Rule 14A.33 of the Listing Rules*

### Branding Agreement

Pursuant to the Branding Agreement entered into on May 17, 2011 entered into among our Company, MGM Grand Paradise, MGM Branding and Development Holdings, MGM Resorts International, MGM Resorts International Holdings, and New Corporate Enterprises Limited, and related upstream trademark license agreements, our Company has been granted the use of certain trademarks owned by MGM Resorts International and its subsidiaries for a term co-extensive with that of the Subconcession, ending on March 31, 2020 (the date upon which the Subconcession in Macau is currently scheduled to expire).

Under the Branding Agreement, our Company and the Group have been granted a revocable, non-assignable and non-transferable sublicense to use the marks “MGM”, “MGM Grand”, “MGM Grand Macau” and the MGM lion and other MGM-related service marks, trademarks, registrations and domain names owned by MGM Resorts International and its subsidiaries (the “Subject Marks”) in connection with the marketing and operation of our casino resort businesses within the Restricted Zone (as defined in the Branding Agreement), excluding certain reserved zones within the PRC in which MGM Resorts International will not license the parties to conduct casino gaming business within the Restricted Zone and will only create reserved zones if it permits the Company to either use MGM Resort International’s alternative proprietary branding or permits the Company to develop and use our own intellectual property.

MGM Resorts International is our controlling Shareholder. Pansy Ho is our substantial Shareholder. According to the Listing Rules, MGM Resorts International, MGM Resorts International Holdings, New Corporate Enterprise and Pansy Ho are connected persons of our Company. As such, the Branding Agreement will constitute continuing connected transactions of our Company pursuant to Rule 14A.14 of the Listing Rules.

The license fee for MGM MACAU is calculated on a basis equal to 1.75% of our consolidated gross monthly revenues (determined in accordance with IFRS) and is subject to an annual cap of US\$25 million for the calendar year 2011. This annual cap will increase by 20% for each subsequent calendar year during the term of the Branding Agreement.

### License fees of MGM MACAU

Period (for the year ended)	Annual cap (US\$)
December 2012	30,000,000
December 2013	36,000,000
December 2014	43,200,000
December 2015	51,840,000
December 2016	62,208,000
December 2017	74,649,600
December 2018	89,579,520
December 2019	107,495,424
December 2020	128,994,509

In the event that we open additional properties during the term of the Branding Agreement, the amount of the annual cap will also increase by US\$20 million during the calendar year in which the relevant property is opened for business (the “Additional Property Cap Increase”). The Additional Property Cap Increase will also apply to subsequent calendar years, and shall also increase at the rate of 20% per year.

## Report of the Directors

### License fees of any additional property

Period	Annual cap (US\$)
1	20,000,000
2	24,000,000
3	28,800,000
4	34,560,000
5	41,472,000
6	49,766,400
7	59,719,680
8	71,663,616
9	85,996,339
10	103,195,607

Note: The above assumes, for illustrative purposes, that the additional property opens on January 1, 2011 and has the right to use the Subject Marks for approximately nine years under the initial term.

The Branding Agreement shall remain in effect for a term of approximately nine years commenced on June 3, 2011 and ending on March 31, 2020, which is co-extensive with the term of the Subconcession, unless terminated earlier as set out in this agreement. Further details of the Branding Agreement were included in our IPO Prospectus.

Pursuant to the Branding Agreement, the license fees for MGM MACAU paid by the Group for the year ended December 31, 2011 amounted to HK\$113.0 million (equivalent to approximately US\$14.5 million) which was within the pro-rated annual cap of US\$14.5 million for the calendar year 2011 since the date of Listing.

A waiver from the announcement and independent shareholders' approval requirements, as required under the Listing Rules, for the initial term of the Branding Agreement which will expire on March 31, 2020, has been granted by the Hong Kong Stock Exchange.

Under Chapter 14A of the Listing Rules, the above transactions constitute non-exempt continuing connected transactions of the Group and require disclosure in the Annual Report of the Company.

Save as disclosed above, related party transactions that did not constitute connected transactions or continuing connected transactions of the Group made during the year are disclosed in note 39 to the consolidated financial statements.

Pursuant to Rule 14A.38 of the Listing Rules, our Board engaged Deloitte Touche Tohmatsu, the Company's auditor, to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.



The auditor has issued an unqualified letter containing their factual findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules, and reported to the Board and confirmed that for the year ended December 31, 2011:

- (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;
- (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iv) with respect to the aggregate amount of each of the continuing connected transactions set out on pages 66 to 74, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions exceeded the maximum aggregate annual value disclosed in the prospectus of the Company dated May 23, 2011 and the previous announcement dated June 3, 2011 made by the Company in respect of each of the disclosed continuing connected transactions.

A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange. In addition, all of the non-exempt continuing connected transactions of the Company disclosed herein constitute related party transactions set out in note 39 to the consolidated financial statements.

The independent non-executive Directors of the Company have reviewed these transactions and the report of the auditor and confirmed that the continuing connected transactions have been entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) either on normal commercial terms or on terms no less favorable to the Company than the terms available to and from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

### Sufficiency of Public Float

The Hong Kong Stock Exchange granted to the Company a waiver from strict compliance with Rule 8.08(1) of the Listing Rules (the “Public Float Waiver”). Pursuant to the Public Float Waiver, the Company’s prescribed minimum percentage of shares which must be in public hands must not be less than 21.6% of the total issued share capital of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at this Annual Report, the Company maintained the prescribed public float under the Listing Rules and as required by the Public Float Waiver.

### Auditor

Deloitte Touche Tohmatsu will retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Pansy Catilina Chiu King Ho**  
*Chairperson and Executive Director*

**James Joseph Murren**  
*Co-Chairperson and Executive Director*

Hong Kong, February 22, 2012

# Independent Auditor's Report

## **Deloitte.** **德勤**

TO THE MEMBERS OF

MGM CHINA HOLDINGS LIMITED

美高梅中國控股有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of MGM China Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 79 to 144, which comprise the consolidated and the Company’s statements of financial position as at December 31, 2011 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### **Directors’ Responsibility for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong

February 22, 2012

# Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
<b>OPERATING REVENUE</b>			
Casino revenue	6	19,974,556	12,126,848
Other revenue	7	319,071	307,880
		20,293,627	12,434,728
<b>OPERATING COSTS AND EXPENSES</b>			
Special gaming tax and special levy to the Macau Government	9	(10,816,702)	(6,480,269)
Staff costs		(1,414,686)	(1,188,424)
Operating and administrative and other expenses	10	(3,348,214)	(1,967,699)
Depreciation and amortization		(746,580)	(777,780)
		(16,326,182)	(10,414,172)
Operating profit		3,967,445	2,020,556
Interest income		11,946	1,299
Finance costs	11	(240,366)	(450,516)
Net foreign currency loss		(1,153)	(5,012)
Profit before taxation		3,737,872	1,566,327
Taxation	12	(458,812)	(292)
Profit for the year and total comprehensive income attributable to owners of the Company	13	3,279,060	1,566,035
Earnings per share — Basic and diluted	16	HK86.3 cents	HK41.2 cents



# Consolidated Statement of Financial Position

At December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property and equipment	18	4,964,656	5,351,259
Sub-concession premium	19	1,047,148	1,174,048
Land use right premium	20	351,651	370,950
Other assets	21	7,655	6,058
Construction in progress	18	31,290	28,827
Deposit	24	2,102	—
		<b>6,404,502</b>	<b>6,931,142</b>
<b>CURRENT ASSETS</b>			
Inventories	22	79,099	63,848
Trade receivables	23	549,423	1,137,422
Prepayments, deposits and other receivables	24	46,043	77,314
Land use right premium — short term	20	19,299	19,246
Amounts due from related companies	39(a)(i)	284	72,471
Bank balances and cash	25	5,590,405	1,922,723
		<b>6,284,553</b>	<b>3,293,024</b>
<b>CURRENT LIABILITIES</b>			
Payables and accrued charges	26	3,466,324	2,706,145
Bank borrowings - due within 12 months	27	206,805	—
Deposits and advances	28	200,433	135,103
Construction retention payable — due within 12 months		4,712	3,433
Amounts due to related companies	39(a)(ii)	8,192	11,681
Taxation payable		457	225
		<b>3,886,923</b>	<b>2,856,587</b>

# Consolidated Statement of Financial Position

At December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
NET CURRENT ASSETS		2,397,630	436,437
TOTAL ASSETS LESS CURRENT LIABILITIES		8,802,132	7,367,579
NON-CURRENT LIABILITIES			
Bank borrowings — due after 12 months	27	3,929,304	5,886,730
Deferred tax liability	34	458,779	—
NET ASSETS		4,414,049	1,480,849
CAPITAL AND RESERVES			
Share capital	29(a)	3,800,000	194,175
Share premium and reserves	29(b)(i)&(ii)	614,049	1,286,674
SHAREHOLDERS' FUNDS		4,414,049	1,480,849

The consolidated financial statements on pages 79 to 144 were approved and authorized for issue by the Board of Directors on February 22, 2012 and are signed on its behalf by:

*DIRECTOR*

*DIRECTOR*

# Statement of Financial Position

At December 31, 2011

	NOTES	2011 HK\$'000	2010 HK\$'000
<b>NON-CURRENT ASSET</b>			
Investment in subsidiaries	17	14,286,509	—
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		1,161	—
Bank balances and cash	25	8,809	—
		9,970	—
<b>CURRENT LIABILITIES</b>			
Payables and accrued charges	26	3,957	—
Amounts due to subsidiaries	39(a)(iii)	8,124	—
		12,081	—
<b>NET CURRENT LIABILITIES</b>			
		(2,111)	—
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		14,284,398	—
<b>NON-CURRENT LIABILITY</b>			
Deferred tax liability	34	458,779	—
<b>NET ASSETS</b>			
		13,825,619	—
<b>CAPITAL AND RESERVES</b>			
Share capital	29(a)	3,800,000	—
Share premium and reserves	29(b)(iii)	10,025,619	—
<b>SHAREHOLDERS' FUNDS</b>			
		13,825,619	—

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2011

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Equity reserve HK\$'000 (note 29(b)(i))	Other reserves HK\$'000 (note 29(b)(ii))	(Deficit) retained earnings HK\$'000	Share premium and reserves total HK\$'000	Shareholders' funds total HK\$'000
At January 1, 2010	194,175	—	—	630,256	778,485	(1,351,571)	57,170	251,345
Profit for the year and total comprehensive income	—	—	—	—	—	1,566,035	1,566,035	1,566,035
Reversal of equity reserve upon early repayment of shareholders' loans	—	—	—	(336,531)	—	—	(336,531)	(336,531)
At December 31, 2010 and January 1, 2011	194,175	—	—	293,725	778,485	214,464	1,286,674	1,480,849
Profit for the year and total comprehensive income	—	—	—	—	—	3,279,060	3,279,060	3,279,060
Arising on group reorganization	2,845,825	—	—	—	(14,092,334)	—	(14,092,334)	(11,246,509)
Issue of shares	760,000	10,898,400	—	—	—	—	10,898,400	11,658,400
Expenses incurred in connection with issue of shares	—	(464,207)	—	—	—	—	(464,207)	(464,207)
Contribution by shareholders	—	—	—	—	132,000	—	132,000	132,000
Transfer to legal reserve	—	—	—	—	48,544	(48,544)	—	—
Share-based payments	—	—	50,184	—	—	—	50,184	50,184
Dividends paid	—	—	—	—	—	(475,728)	(475,728)	(475,728)
At December 31, 2011	3,800,000	10,434,193	50,184	293,725	(13,133,305)	2,969,252	614,049	4,414,049

# Consolidated Statement of Cash Flows

For the year ended December 31, 2011

	2011 HK\$'000	2010 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	3,737,872	1,566,327
Adjustments for:		
Allowance for doubtful debts, net	115,201	81,330
Depreciation and amortization	746,580	777,780
Interest expense	184,056	326,632
Bank fees and charges	56,310	123,884
Loss on disposal/write-off of property and equipment	93,826	31,362
Interest income	(11,946)	(1,299)
Share-based payments	50,184	—
Exchange loss in relation to bank borrowings and loans from shareholders and a related company	—	20,535
Operating cash flows before movements in working capital	4,972,083	2,926,551
Increase in inventories	(15,251)	(19,608)
Decrease (increase) in trade receivables	472,798	(378,061)
Decrease (increase) in prepayments, deposits and other receivables	30,504	(35,082)
Decrease (increase) in amounts due from related companies	72,187	(72,374)
Increase in payables and accrued charges	749,885	996,698
Increase (decrease) in deposits and advances	65,330	(66,169)
Increase (decrease) in construction retention payable	1,279	(4,886)
(Decrease) increase in amounts due to related companies	(3,489)	11,501
Cash generated from operations	6,345,326	3,358,570
Tax paid	(32)	(341)
Tax refund	231	—
Interest received	10,611	1,299
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>	<b>6,356,136</b>	<b>3,359,528</b>
<b>INVESTING ACTIVITIES</b>		
Payments for construction in progress	(147,198)	(167,281)
Payments of developers' fee capitalized to property and equipment	—	(4,157)
Proceeds from sale of property and equipment	1,502	2,643
Purchase of other assets	(8,061)	(8,866)
Purchase of property and equipment	(149,447)	(77,473)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(303,204)</b>	<b>(255,134)</b>



# Consolidated Statement of Cash Flows

For the year ended December 31, 2011

	2011 HK\$'000	2010 HK\$'000
<b>FINANCING ACTIVITIES</b>		
Bank borrowings raised	—	7,425,943
Repayment of bank borrowings	(1,800,000)	(8,074,292)
Repayment of loans from shareholders	—	(1,049,159)
Repayment of loans from a related company	—	(969,369)
Interest paid	(182,275)	(196,812)
Bank fees and charges paid	(6,931)	(293,693)
Dividends paid	(475,728)	—
Contribution by shareholders	132,000	—
Expenses incurred in connection with issue of shares	(52,316)	—
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(2,385,250)</b>	<b>(3,157,382)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,667,682</b>	<b>(52,988)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>1,922,723</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>5,590,405</b>	<b>1,922,723</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 1. General

MGM China Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on July 2, 2010. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on June 3, 2011. The Company’s immediate holding company is MGM Resorts International Holdings, Ltd., a company incorporated in Isle of Man. The Company’s ultimate holding company is MGM Resorts International, a company incorporated in Delaware, the United States of America, and listed on the New York Stock Exchange. The address of the registered office of the Company is Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands and its principal place of business is Avenida Dr. Sun Yat Sen, Edificio MGM MACAU, NAPE, Macau.

Through a group reorganization to rationalize the structure of the Company, MGM Grand Paradise Limited (“MGM Grand Paradise”) and its subsidiaries (together with the Company hereinafter collectively referred to as the “Group”) in preparation for the listing of the Company’s shares (the “Group Reorganization”), the Company became the holding company of the Group on June 2, 2011 upon completion of the Group Reorganization. Details of the Group Reorganization are more fully explained in the section headed “History and Corporate Structure — Reorganization” of the prospectus of the Company dated May 23, 2011 (the “Prospectus”). The Group resulting from the Group Reorganization is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting. The consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended December 31, 2010 and 2011 have been prepared on the basis as if the current group structure had been in existence throughout those periods. The consolidated statement of financial position of the Group as at December 31, 2010 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at that date.

The financial statements are presented in Hong Kong dollars (“HK\$”), the functional currency of the Company and its subsidiaries.

## 2. Application of New and Revised International Financial Reporting Standards (“IFRSs”)

In the current period, the Group has applied, for the first time, the following new or revised Standards Amendments and Interpretations (“new or revised IFRSs”):

IFRSs (Amendments)	Improvements to IFRSs 2010
IAS 24 (Revised)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 2. Application of New and Revised International Financial Reporting Standards (“IFRSs”) (Continued)

The application of the above new or revised IFRSs in the current period has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

### Standards and Interpretations in issue not yet adopted

The Group has not early applied the following new or revised IFRSs that have been issued but are not yet effective:

IFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets <sup>1</sup>
IFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities <sup>4</sup>
IFRS 9	Financial Instruments <sup>6</sup>
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date and Transition Disclosures <sup>6</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 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>3</sup>
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
IAS 19 (Revised 2011)	Employee Benefits <sup>4</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)	Offsetting Financial Assets and Financial Liabilities <sup>5</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after July 1, 2011

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2012

<sup>3</sup> Effective for annual periods beginning on or after July 1, 2012

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2013

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2014

<sup>6</sup> Effective for annual periods beginning on or after January 1, 2015

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 3. Change of Accounting Estimate

### Deferred tax liability on distributable reserves of MGM Grand Paradise

The Company's wholly-owned subsidiary is MGM Grand Paradise. MGM Grand Paradise's exemption from Macau Complementary Tax as detailed in note 12 below does not apply to the dividends to be distributed by MGM Grand Paradise. The Company is subject to Macau Complementary Tax at a progressive rate of up to a maximum of 12% for dividends it receives from MGM Grand Paradise. Accordingly, the Company will be required to recognize deferred tax liabilities for taxable temporary differences associated with its investment in MGM Grand Paradise except where the Company will be able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

As at June 30, 2011, MGM Grand Paradise had distributable reserves of approximately HK\$2 billion and the Company determined that the profits of MGM Grand Paradise would not be distributed in the foreseeable future and therefore the Company did not recognize a deferred tax liability at that date. The Company reassesses the plans of whether the profits of MGM Grand Paradise will be reinvested or distributed to shareholders on an on-going basis. As at December 31, 2011, the Company has reviewed its position and now considers that cash dividends will be distributed to the shareholders of MGM Grand Paradise in the foreseeable future. Consequently a deferred tax charge and the corresponding liability amounting HK\$458.8 million on the distributable reserves of MGM Grand Paradise as at December 31, 2011 was recognized during the year.

## 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 consolidated financial statements include 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 the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company 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 period 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 Group.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

### Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

### Investment in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

### 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, commissions to casino customers and consideration allocated to award points earned in customer relationship programs.

Other revenue comprises hotel, food and beverage, retail and other operating revenue and is recognized when services are rendered and goods are sold and it is probable that the economic benefits associated with the transaction will flow to the 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.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

### Players' Club Customer Relationship Programs

The Group has established promotional clubs to encourage repeat business from frequent and active slot machine customers and table games patrons. Members earn points primarily based on gaming activity and such points can be redeemed for free play and other free goods and services. The award points are recognized as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the consideration allocated to the award points is measured by reference to the fair value of the awards for which they could be redeemed. The Group recognizes the consideration allocated to award points as revenue when award points are redeemed and it fulfills its obligations to supply awards. The amount of revenue recognized is based on the number of award points that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

### 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. Assets in 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 of items of property and equipment (other than for 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

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

At the end of each period, the 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 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

### 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 period. 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 periods and items that are never taxable or deductible. The 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 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 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 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 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

### 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 and which are subject to an insignificant risk of changes in value, which are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

### 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### Financial assets

The Group's financial assets are loans and receivables.

### Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset 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 financial asset, or, where appropriate, a shorter period of the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for loans and receivables.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### 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, amounts due from related companies 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).

Loans and receivables are assessed for indicators of impairment at the end of the period. Loans and receivables 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.

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 loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of the allowance account. When a trade 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.

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.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### 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 payable and amounts due to related companies and subsidiaries) are subsequently measured at amortized cost using the effective interest method.

#### Equity instruments

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

### Financial instruments *(Continued)*

#### Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company not designated at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group and the Company measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the revenue recognition policy.

#### Derecognition

The 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 Group has transferred substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the 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 sub-concession for the operation of casino games of chance and other casino games in the Macau SAR (the "Sub-Concession Contract") 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 Sub-Concession Contract.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 4. Significant Accounting Policies *(Continued)*

### 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. Forfeitures of unvested contributions are used to reduce the Group's liability for its contributions payable under the plans.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## Equity-settled share-based payment transactions

### Share options granted to directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimate of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimation, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits.

## 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, sub-concession premium and land use right premium

Determining whether property and equipment, the sub-concession 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, 2011, the carrying amounts of property and equipment, the sub-concession premium and the land use right premium are HK\$5.0 billion, HK\$1.0 billion and HK\$371 million (December 31, 2010: HK\$5.4 billion, HK\$1.2 billion and HK\$390 million) respectively and, based on management's assessment, no impairment loss was recognized. Should there be any changes in such estimates, the impairment loss of property and equipment, the sub-concession premium and the land use right premium will affect profit or loss in the period of the change.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 5. Key Sources of Estimation Uncertainty *(Continued)*

### Depreciation of property and equipment

The Group's carrying amounts of property and equipment other than construction in progress and art works and paintings as at December 31, 2011, is HK\$4.9 billion (December 31, 2010: HK\$5.3 billion). The 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 Group estimated for property and equipment reflects the Group management's estimate of the period that the 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 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 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 and affect profit or loss in the period of change. As at December 31, 2011, the carrying amount of trade receivables is HK\$549 million (December 31, 2010: HK\$1,137 million), net of allowance for doubtful debts of HK\$161 million (December 31, 2010: HK\$232 million), respectively.

### Deferred tax on unutilized tax losses

As at December 31, 2011, no deferred tax asset has been recognized on the tax losses of HK\$4,237.0 million (December 31, 2010: HK\$3,689.2 million) due to the unpredictability of future profit streams as described in note 12. The realizability of the deferred tax asset mainly depends on whether sufficient profits will be available in the future. In cases where sufficient actual future taxable profits are generated against which unutilized tax losses can be utilized, a material deferred tax asset may arise and affect profit or loss in the period of change.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 6. Casino Revenue

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

	2011 HK\$'000	2010 HK\$'000
Casino revenue from		
— VIP gaming operations	13,815,407	7,681,219
— Main floor table gaming operations	4,574,915	3,459,606
— Slot machine operations	1,584,234	986,023
	19,974,556	12,126,848

## 7. Other Revenue

Other revenue comprises:

	2011 HK\$'000	2010 HK\$'000
Hotel rooms	86,214	101,203
Food and beverages	188,985	171,088
Retail goods and other services	43,872	35,589
	319,071	307,880

From time to time, the Group provides hotel rooms, food and beverages, retail goods and other services to certain guests and customers without charges (the "Promotional Allowances") and no consideration is received for such promotional activities. The retail value of the Promotional Allowances incurred during the year is as follows:

	2011 HK\$'000	2010 HK\$'000
Hotel rooms	365,946	258,496
Food and beverages	332,214	234,898
Retail goods and other services	20,130	10,282
	718,290	503,676



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 8. Segment Information

The 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 Group's Chief Executive Officer (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 Group does not present separately segment information.

During the current and prior year, all revenue is derived from customers in Macau and almost all the non-current assets of the Group are located in Macau. None of the customers of the Group contributed more than 10% of the total revenues during the current and prior year.

## 9. Special Gaming Tax and Special Levy to the Macau Government

According to the Sub-Concession 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 levies include (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 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 10. Operating and Administrative and Other Expenses

Operating and administrative and other expenses comprise:

	2011 HK\$'000	2010 HK\$'000
Advertising and promotion	502,485	335,261
Allowance for doubtful debts, net	115,201	81,330
Cost of food and beverages	223,005	173,940
Junket commission	1,712,177	912,835
Listing expenses	74,631	—
Operating supplies	101,046	95,882
Others	500,373	258,482
Utilities and fuel	119,296	109,969
	3,348,214	1,967,699

## 11. Finance Costs

	2011 HK\$'000	2010 HK\$'000
Interest on		
— Bank borrowings wholly repayable within five years	184,056	198,142
— Loan from a related company not wholly repayable within five years	—	75,612
Effective interest on loans from shareholders	—	52,878
Bank fees and charges	56,310	123,884
Total borrowing costs	240,366	450,516

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 12. Taxation

	2011 HK\$'000	2010 HK\$'000
Current tax:		
Macau	(135)	(98)
Hong Kong	—	(194)
	(135)	(292)
Over provision in prior years:		
Macau	—	—
Hong Kong	102	—
	102	—
Deferred tax (note 3):		
Current year	(458,779)	—
	(458,812)	(292)

Macau Complementary Tax is calculated at progressive rates up to a maximum of 12% of the estimated assessable profits for the current and prior year. Hong Kong profits tax is calculated at 16.5% for the year ended December 31, 2011 of the estimated assessable profits for the current and prior year.

Macau Complementary Tax and Hong Kong profits tax was provided by one of the subsidiaries of the Group on its estimated taxable profit for the year ended December 31, 2011.

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. During the year, pursuant to the approval notice 267/2011 issued by the Macau Government dated September 22, 2011, the tax exemption was renewed for another 5 years from 2012 to 2016.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 12. Taxation (Continued)

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

	2011 HK\$'000	2010 HK\$'000
Profit before tax	3,737,872	1,566,327
Tax at applicable income tax rate of 12%	(448,545)	(187,959)
Effect of tax exemption granted to MGM Grand Paradise	586,560	322,231
Effect of tax losses not recognized	(138,015)	(134,272)
Effect of different tax rates of group entities operating in jurisdictions other than Macau	—	(194)
Overprovision in respect of prior years	102	—
Deferred tax recognized on distributable reserves of a subsidiary	(458,779)	—
Others	(135)	(98)
	(458,812)	(292)

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

	2011 HK\$'000	2010 HK\$'000
Arising from unused tax losses	4,236,951	3,689,232
Arising from pre-opening expenses	190,905	290,165
	4,427,856	3,979,397

At December 31, 2011, tax losses of approximately HK\$4,237.0 million (December 31, 2010: HK\$3,689.2 million) will expire in three years from the year of assessment.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 12. Taxation *(Continued)*

The directors of the 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 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.

As discussed in note 3 above, a deferred tax charge of HK\$458.8 million in respect of the taxable temporary difference associated with the Group's investment in MGM Grand Paradise was recognized during the year. Also, during the year, MGM Grand Paradise made an application to the Macau Government for a tax concession arrangement (the "Concession Arrangement") for its shareholders. By making reference to precedent cases of similar arrangements, the directors of the Company believe that once the Concession Arrangement is granted, the Group may pay an annual lump sum payment to the Macau Government in lieu of the Macau Complementary Tax on dividend distributions to the shareholders of MGM Grand Paradise from gaming profits. As at December 31, 2011 and at the date of approval of these consolidated financial statements, this application is still being processed and subject to approval by the Macau Government. Also, the various terms and conditions of the Concession Arrangement, including the duration of the concession and the amount of the annual lump sum payment required to be paid are still to be determined by the Macau Government. As a result, as at December 31, 2011, the Company continues to recognize deferred tax liabilities in respect of the taxable temporary difference associated with the Group's investment in MGM Grand Paradise at the statutory progressive rate. Should the Company obtain the necessary approval of the Concession Arrangement in the future, the amount of the deferred tax liability associated with this temporary difference, or income tax liability where appropriate, may be adjusted accordingly in the year when the Concession Arrangement is granted. However, as the result of the application and the detailed terms of the Concession Arrangement are still uncertain as at the date of this report, the directors of the Company are unable to quantify the potential financial impact at this stage.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 13. Profit for the Year

	2011 HK\$'000	2010 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration	29,326	—
Retirement benefits scheme contributions for other staff	24,186	22,750
Share-based payments for other staff	40,531	—
Other staff costs	1,320,643	1,165,674
	1,414,686	1,188,424
Amortization in respect of:		
— land use right premium	19,246	19,246
— sub-concession premium	126,900	127,248
— other assets	6,464	8,149
Depreciation of property and equipment	593,970	623,137
	746,580	777,780
Auditor's remuneration	7,353	1,811
Loss on disposal/write-off of property and equipment	93,826	31,362
Operating lease rentals in respect of:		
— leasehold land	2,844	2,844
— office equipment	15,432	9,892
— office premises	2,066	2,151
— staff accommodation	231	31
— warehouse	4,503	9,196



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 14. Directors' and Employees' Emoluments

The emoluments paid or payable to the directors during the year were as follows:

	Fees HK\$'000	Salary and other benefits HK\$'000	Contributions to retirement benefits scheme HK\$'000	Share-based payments HK\$'000	Discretionary and performance related incentive payments (note) HK\$'000	Total HK\$'000
Year ended December 31, 2011						
<i>Executive Directors:</i>						
Pansy Ho	—	—	—	—	—	—
James Joseph Murren	—	—	—	—	—	—
Chen Yau Wong	—	—	—	—	—	—
William Joseph Hornbuckle	—	—	—	—	—	—
Grant R. Bowie	—	8,870	842	9,652	8,418	27,782
<i>Non-executive Directors:</i>						
William M. Scott IV	—	—	—	—	—	—
Daniel J. D'Arrigo	—	—	—	—	—	—
Kenneth A. Rosevear	—	—	—	—	—	—
<i>Independent Non-executive Directors:</i>						
Zhe Sun	587	—	—	—	—	587
Tommei Mei Kuen Tong	587	—	—	—	—	587
Sze Wan Patricia Lam	370	—	—	—	—	370
Total emoluments	1,544	8,870	842	9,652	8,418	29,326

No emoluments were paid by the Group to the directors during the year ended December 31, 2010 as their emoluments were borne by the shareholders and were not charged to the Group during that year. It is not practical to allocate the remuneration for their services to the Group and other entities related to the shareholders. None of the directors has waived any emoluments in the year ended December 31, 2011.

No emoluments were paid to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended December 31, 2011.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 14. Directors' and Employees' Emoluments (Continued)

Of the five individuals with the highest emoluments in the Group, one (2010: Nil) was a director of the Company whose emoluments are included in the disclosures set out above. The emoluments of the remaining four (2010: five) individuals were as follows:

	2011 HK\$'000	2010 HK\$'000
Salaries and other benefits	16,207	21,901
Contributions to retirement benefits scheme	1	783
Share-based payments	15,857	—
Discretionary and performance related incentive payments (Note)	8,418	14,445
	40,483	37,129

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
HK\$3,500,001 to HK\$4,000,000	—	1
HK\$4,000,001 to HK\$4,500,000	—	1
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$6,500,001 to HK\$7,000,000	1	—
HK\$7,000,001 to HK\$7,500,000	—	1
HK\$8,000,001 to HK\$8,500,000	1	—
HK\$11,500,001 to HK\$12,000,000	1	—
HK\$13,500,001 to HK\$14,000,000	1	—
HK\$16,500,001 to HK\$17,000,000	—	1

No emoluments were paid to any of the individuals with the highest emoluments (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended December 31, 2011.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 15. Dividends Paid

On March 23, 2011, prior to the Group Reorganization, dividends of MOP2,450 per share (equivalent to approximately HK\$2,379 per share) amounting to approximately MOP490 million (equivalent to approximately HK\$476 million) in aggregate were declared and approved by the then shareholders of MGM Grand Paradise. These dividends were paid to those shareholders on March 24, 2011.

## 16. Earnings per Share

The calculation of the basic earnings per share for the year is based on the consolidated net profit attributable to owners of the Company and on the weighted average number of shares in issue during the year on the assumption that the Group Reorganization has been effective on January 1, 2010 and is set out as follows:

	2011 HK\$'000	2010 HK\$'000
<b>Profit</b>		
Profit for the year and total comprehensive income attributable to owners of the Company for the purpose of basic earnings per share	3,279,060	1,566,035
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	3,800,000	3,800,000
Earnings per share — Basic and diluted	HK86.3 cents	HK41.2 cents

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares during the period in which they are outstanding.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 17. Investment in Subsidiaries

	2011 HK\$'000	2010 HK\$'000
Unlisted shares, at cost	14,286,509	—

Details of the Company's principal subsidiaries at December 31, 2011 are set out in note 40.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 18. 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, 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/write-off	(28,361)	(12,891)	(5,754)	(8,822)	(333)	(164)	—	(56,325)	—	(56,325)
At December 31, 2010 and January 1, 2011	4,795,704	1,338,120	449,299	272,084	169,212	64,516	7,954	7,096,889	28,827	7,125,716
Additions	28,041	61,926	21,315	30,937	20,926	901	—	164,046	148,332	312,378
Transfers	67,793	38,847	14,540	13,077	10,466	185	—	144,908	(144,908)	—
Reclassification	(3,497)	—	507	2,412	507	71	—	—	—	—
Adjustment upon finalization of costs	(120)	(3,960)	(825)	(352)	(1,002)	—	—	(6,259)	(961)	(7,220)
Disposal/write-off	(112,710)	(1,287)	(10,855)	(4,926)	(2,409)	(87)	—	(132,274)	—	(132,274)
At December 31, 2011	4,775,211	1,433,646	473,981	313,232	197,700	65,586	7,954	7,267,310	31,290	7,298,600
<b>DEPRECIATION</b>										
At 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 and January 1, 2011	(715,635)	(453,272)	(266,153)	(151,947)	(153,622)	—	(5,001)	(1,745,630)	—	(1,745,630)
Eliminated on disposal/write-off	22,550	631	7,792	3,577	2,396	—	—	36,946	—	36,946
Charge for the year	(265,502)	(181,542)	(83,222)	(52,526)	(9,679)	—	(1,499)	(593,970)	—	(593,970)
At December 31, 2011	(958,587)	(634,183)	(341,583)	(200,896)	(160,905)	—	(6,500)	(2,302,654)	—	(2,302,654)
<b>CARRYING AMOUNT</b>										
At December 31, 2011	3,816,624	799,463	132,398	112,336	36,795	65,586	1,454	4,964,656	31,290	4,995,946
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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 18. Property and Equipment and Construction in Progress *(Continued)*

At December 31, 2011, borrowing costs of HK\$396 million (December 31, 2010: HK\$496 million) have been capitalized in the Group's property and equipment. The additions to construction in progress during the year mainly include renovation works of the casino and hotel complex of the Group (the "Complex").

According to the Sub-Concession 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 Sub-Concession 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 Sub-Concession 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



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 19. Sub-Concession Premium

	HK\$'000
<b>COST</b>	
At January 1, 2010, December 31, 2010 and December 31, 2011	1,560,000
<b>AMORTIZATION</b>	
At January 1, 2010	(258,704)
Charge for the year	(127,248)
At December 31, 2010 and January 1, 2011	(385,952)
Charge for the year	(126,900)
At December 31, 2011	(512,852)
<b>CARRYING AMOUNT</b>	
At December 31, 2011	1,047,148
At December 31, 2010	1,174,048

Pursuant to the agreement dated June 19, 2004 between MGM Grand Paradise and Sociedade de Jogos de Macau ("SJM"), a company in which a close family member of a director of the Group has controlling beneficial interests, a sub-concession 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 20. Land Use Right Premium

	HK\$'000
<b>COST</b>	
At January 1, 2010, December 31, 2010 and December 31, 2011	481,470
<b>AMORTIZATION</b>	
At January 1, 2010	(72,028)
Charge for the year	(19,246)
At December 31, 2010 and January 1, 2011	(91,274)
Charge for the year	(19,246)
At December 31, 2011	(110,520)
<b>CARRYING AMOUNT</b>	
At December 31, 2011	370,950
At December 31, 2010	390,196

Included in the consolidated statement of financial position as:

	2011 HK\$'000	2010 HK\$'000
Current land use right premium	19,299	19,246
Non-current land use right premium	351,651	370,950
	370,950	390,196

The land use right premium represents payments made for the Complex, which is located in Macau, 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 21. Other Assets

	HK\$'000
<b>COST</b>	
At January 1, 2010	134,239
Additions during the year	8,866
Disposal during the year	(63,812)
At December 31, 2010 and January 1, 2011	79,293
Additions during the year	8,061
Disposal during the year	(1,502)
At December 31, 2011	85,852
<b>AMORTIZATION</b>	
At January 1, 2010	(128,898)
Charge for the year	(8,149)
Eliminated on disposal	63,812
At December 31, 2010 and January 1, 2011	(73,235)
Charge for the year	(6,464)
Eliminated on disposal	1,502
At December 31, 2011	(78,197)
<b>CARRYING AMOUNT</b>	
At December 31, 2011	7,655
At December 31, 2010	6,058

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 22. Inventories

	2011 HK\$'000	2010 HK\$'000
Retail merchandise	4,015	1,375
Operating supplies	24,310	20,072
Food and beverages	50,774	42,401
	79,099	63,848

## 23. Trade Receivables

	2011 HK\$'000	2010 HK\$'000
Trade receivables	710,739	1,369,780
Less: Allowance for doubtful debts	(161,316)	(232,358)
	549,423	1,137,422

The Group grants unsecured credit lines, drawn by way of non-negotiable chips, to gaming promoters based on pre-approved credit limits. The directors consider the outstanding receivables from gaming promoters are of good credit quality based on their credit histories and subsequent settlements. The 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 Group allows a credit period up to 30 days on issuance of markers to gaming promoters and its VIP gaming customers and an average of 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:

	2011 HK\$'000	2010 HK\$'000
Within 30 days	475,608	1,071,999
31 - 60 days	53,049	62,063
61 - 90 days	20,574	2,668
91 - 120 days	192	692
	549,423	1,137,422

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 23. Trade Receivables *(Continued)*

The 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 Group usually recognizes full allowance against receivables due from casino customers that are long overdue without subsequent settlement because historical experience has been that receivables with prolonged outstanding balances 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 Group has considered not impaired as they have either been 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 58 days as at December 31, 2011 (December 31, 2010: 50 days). Aging of trade receivables which are past due but not impaired is as follows:

	2011 HK\$'000	2010 HK\$'000
31 - 60 days	53,049	62,063
61 - 90 days	20,574	2,668
91 - 120 days	192	692
	73,815	65,423

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

	2011 HK\$'000	2010 HK\$'000
At January 1,	232,358	151,314
Impairment losses recognized on trade receivables	155,868	186,097
Impairment losses reversed upon recovery	(40,667)	(104,767)
Amount written off as uncollectible	(186,243)	(286)
At December 31,	161,316	232,358

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 23. Trade Receivables *(Continued)*

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 was not past due. However, after taking into account the determination of the credit worthiness of this debtor, full provision of approximately HK\$120 million was made by management against this receivable as at December 31, 2010. During the year ended December 31, 2011, this amount was written off as uncollectible.

The allowance recognized during the year ended December 31, 2011 represents impairment on a wide number of casino debtors who are individually determined to be impaired as they have defaulted in repayment of their debts.

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

## 24. Prepayments, Deposits and Other Receivables

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

	2011 HK\$'000	2010 HK\$'000
Prepaid goods and services	21,212	40,902
Rental and other deposits	19,155	28,844
Other receivables	7,778	7,568
	48,145	77,314
Current	46,043	77,314
Non-current	2,102	—
	48,145	77,314

## 25. Bank Balances and Cash

Bank balances carry interest at market rates which range from 0.0006% to 1.7% per annum as at December 31, 2011 (December 31, 2010: 0.0006% to 0.07%).



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 26. Payables and Accrued Charges

### The Group

	2011 HK\$'000	2010 HK\$'000
Accrued commission and incentives	377,383	82,034
Accrued construction and renovation costs	10,148	33,256
Accrued liability for customer relationship program	60,927	43,372
Accrued staff costs	220,199	180,843
Other payables and accrued charges	197,442	150,256
Outstanding chips liabilities	1,622,048	1,301,709
Special gaming tax and special levy payables	907,278	865,807
Trade payables	70,899	48,868
	3,466,324	2,706,145

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

	2011 HK\$'000	2010 HK\$'000
Within 30 days	47,228	39,789
31 - 60 days	17,550	7,530
61 - 90 days	1,643	1,120
91 - 120 days	1,308	199
Over 120 days	3,170	230
	70,899	48,868

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 26. Payables and Accrued Charges *(Continued)*

### The Company

	2011 HK\$'000	2010 HK\$'000
Accrued charges	3,590	—
Other payables	367	—
	3,957	—

All other payables of the Company are aged within 30 days based on the invoice date. The average credit period on purchase of goods and services is one month. The Company has financial risk management policies to ensure that all payables are paid within the credit time frame.

## 27. Bank Borrowings

	2011 HK\$'000	2010 HK\$'000
Bank borrowings represent:		
Secured term loan facilities of HK\$4,290,000,000	4,290,000	4,290,000
Secured revolving credit loan facilities of HK\$3,120,000,000	—	1,800,000
	4,290,000	6,090,000
Less: Debt finance costs	(153,891)	(203,270)
	4,136,109	5,886,730
Carrying amount repayable:		
On demand or within one year	206,805	—
More than one year, but not exceeding two years	620,416	214,500
More than two years, but not exceeding five years	3,308,888	5,672,230
	4,136,109	5,886,730
Current	206,805	—
Non-current	3,929,304	5,886,730
	4,136,109	5,886,730

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 27. Bank Borrowings *(Continued)*

In July 2010, the Group entered into a credit agreement with a limit of HK\$7,410 million with a syndicate of banks. The 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 equal to the aggregate of a margin ranging from 3% to 4.5% and Hong Kong Interbank Offered Rate (“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 London Interbank Offered Rate as appropriate. As at December 31, 2011, the interest rate under the credit agreement is HIBOR plus 3%. 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 Group incurred and paid miscellaneous charges and bank fees of approximately HK\$222 million in relation to the credit facilities. There are no transaction costs of a similar nature paid in 2011.

The 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. During the current year, the Company provided a corporate guarantee to the banks to secure the credit facilities.

## 28. 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 29. Share Capital, Share Premium and Reserves

### (a) Share capital

		Number of shares	Share Capital HK\$
Ordinary shares of HK\$1 each			
Authorized			
At January 1, 2010 and December 31, 2010	(i)	5,000,000,000	5,000,000,000
Increased on May 11, 2011	(ii)	5,000,000,000	5,000,000,000
At December 31, 2011		10,000,000,000	10,000,000,000
Issued and fully paid			
At July 2, 2010 (date of incorporation) and December 31, 2010	(iii)	1	1
Shares issued in connection with the Group Reorganization	(iv)	3,040,000,000	3,040,000,000
Shares issued in connection with the global offering	(v)	760,000,000	760,000,000
At December 31, 2011		3,800,000,001	3,800,000,001

- (i) Upon the date of incorporation of the Company, its authorized share capital was HK\$5,000,000,000 comprising 5,000,000,000 ordinary shares of HK\$1.00 each.
- (ii) On May 11, 2011, the authorized share capital was increased from HK\$5,000,000,000 to HK\$10,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$1.00 each.
- (iii) On July 2, 2010, one share of HK\$1.00 was issued at par.
- (iv) Pursuant to the Board of Directors' Resolutions passed on May 13, 2011 and approval of the Group Reorganization which was completed on June 2, 2011, 3,040,000,000 shares of HK\$1.00 each in the Company were issued as partial consideration for the acquisition of the entire issued Class A shares in the share capital of MGM Grand Paradise.
- (v) On June 3, 2011, 760,000,000 shares of HK\$1.00 each of the Company were issued at HK\$15.34 per share by way of a global offering.
- (vi) The share capital at December 31, 2010 represented the issued capital of MGM Grand Paradise and one share of the Company as detailed in (iii) above.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 29. Share Capital, Share Premium and Reserves *(Continued)*

### (b) Share premium and reserves

#### **The Group**

#### (i) Equity reserve

Pursuant to the terms of the Instrument of the Unsecured Notes and the Subscription and Shareholders Agreement of MGM Grand Paradise, loans from shareholders in the form of unsecured interest-free loan notes (the "Loan Notes") with a principal amounting to US\$135 million (equivalent to approximately HK\$1 billion) were obtained in 2006.

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). As a result, at the initial recognition of these Loan Notes, a fair value adjustment of approximately HK\$630 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 a deemed contribution from shareholders.

As at December 31, 2010, MGM Grand Paradise 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.

#### (ii) Other reserves

Other reserves as at January 1, 2011 represents the share premium of MGM Grand Paradise.

In accordance with the provisions of the Macau Commercial Code, the Company's subsidiary incorporated in Macau is required to transfer a minimum of 10% of the annual net profit to a legal reserve until that reserve equals 25% of their capital. On March 23, 2011, an amount of MOP50 million (equivalent to approximately HK\$49 million) was transferred from retained earnings to a legal reserve and dividends of MOP2,450 per share (equivalent to approximately HK\$2,379 per share) as disclosed in note 15 to the consolidated financial statements was declared. This reserve is not distributable to the shareholders.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 29. Share Capital, Share Premium and Reserves *(Continued)*

### (b) Share premium and reserves *(Continued)*

#### **The Group** *(Continued)*

#### (ii) Other reserves *(Continued)*

On April 13, 2011, the Company and MGM Grand Paradise entered into a contribution and share issuance agreement with Pansy Ho, Grand Paradise Macau Limited and MGM Resorts International Holdings, Ltd. as part of the Group Reorganization. Pursuant to the agreement, Pansy Ho, Grand Paradise Macau Limited and MGM Resorts International Holdings, Ltd. contributed their 160,000 Class A shares in MGM Grand Paradise in the manner set out in the section headed “History and Corporate Structure — Reorganization” in the Prospectus and the Company became the holding company of MGM Grand Paradise and its subsidiaries upon completion of the Group Reorganization. As part of the Group Reorganization, MGM Resorts International Holdings, Ltd. contributed a purchase note with a principal amount of HK\$583 million (the “Purchase Note”) as partial settlement for the purchase of shares in the Company. The Company also issued an acquisition note with a principal amount of HK\$11,830 million to Grand Paradise Macau Limited (the “Acquisition Note”) as partial consideration in settlement of the transfer of Class A shares in MGM Grand Paradise to the Company. Immediately following the completion of the global offering, the Company used the entire proceeds it received from the global offering and the purchase note to satisfy its obligations under the acquisition note. The amount of HK\$14,092 million included in the other reserves therefore represents the net amount of the Purchase Note and the Acquisition Note and debit reserve for issuance of share capital arising on the Group Reorganization. Pansy Ho, Grand Paradise Macau Limited and MGM Resorts International Holdings, Ltd. also contributed HK\$132 million in cash to the Company to cover certain global offering expenses.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 29. Share Capital, Share Premium and Reserves *(Continued)*

### (b) Share premium and reserves *(Continued)*

#### The Company

(iii) Movement in share premium and reserves of the Company is as follows:

	Share premium HK\$'000	Other reserves HK\$'000	Deficit HK\$'000	Total HK\$'000
At July 2, 2010 (date of incorporation), December 31, 2010 and January 1, 2011	—	—	—	—
Loss for the year and total comprehensive loss	—	—	(540,574)	(540,574)
Issue of shares	10,898,400	—	—	10,898,400
Expenses incurred in connection with issue of shares	(464,207)	—	—	(464,207)
Contribution of shareholders	—	132,000	—	132,000
At December 31, 2011	10,434,193	132,000	(540,574)	10,025,619

## 30. Share-Based Payments

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on May 11, 2011 for the purpose of providing incentives and/or rewards to Eligible Persons (as defined in the Scheme, which includes any directors or employees of the Group and any other person including consultants or advisers) for their contribution to and continuing efforts to promote the interests of the Group. Under the Scheme, the Board of Directors of the Company may grant options to subscribe for shares in the Company.

At December 31, 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 19,260,000 (December 31, 2010: Nil), representing approximately 0.5% (December 31, 2010: Nil) of the shares of the Company in issue at that date.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 30. Share-Based Payments *(Continued)*

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at the date of the shareholders' approval of the Scheme. Notwithstanding the foregoing, the Company may grant options beyond the limit to Eligible Persons if separate shareholders' approval has been obtained for granting options beyond the limit to Eligible Persons specifically identified by the Company before such shareholders' approval is sought. The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to any Eligible Persons under the Scheme (including exercised, cancelled and outstanding options) in any twelve month period shall not at the time of grant exceed one percent of the shares in issue. Where any further grant of options to an Eligible Person would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such persons (including exercised, cancelled and outstanding options) in the twelve month period up to and including the date of such further grant representing in aggregate over one percent of the shares in issue, such further grant must be separately approved by shareholders in general meeting with such Eligible Person and his associate abstaining from voting. At any time, the maximum number of shares which may be issued upon exercise of all options which then have been granted and have yet to be exercised under the Scheme shall not exceed 30% of the total number of shares in issue from time to time.

Options granted must be taken up within ten days of the date of grant. A nominal consideration of HK\$1 is payable on acceptance of the grant of options. Options may be exercised at any time from the first, second, third and fourth anniversary from the date of grant of the share option to May 10, 2021. The exercise price is determined by the directors of the Company's, and shall be the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 30. Share-Based Payments (Continued)

A summary of the movements of the outstanding options under the Scheme is as follows:

Type of participant	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Number of share options		
					Outstanding at January 1, 2011	Granted during the year	Outstanding at December 31, 2011
Directors	June 3, 2011	June 3, 2011 - June 2, 2015	June 2, 2012 - May 10, 2021	15.62	—	3,500,000	3,500,000
Employees	June 3, 2011	June 3, 2011 - June 2, 2015	June 2, 2012 - May 10, 2021	15.62	—	13,690,000	13,690,000
Employees	August 22, 2011	August 22, 2011 - August 21, 2015	August 21, 2012 - May 10, 2021	15.12	—	1,080,000	1,080,000
Employees	September 1, 2011	September 1, 2011 - August 31, 2015	August 31, 2012 - May 10, 2021	14.78	—	830,000	830,000
Employees	November 15, 2011	November 15, 2011 - November 14, 2015	November 14, 2012 - May 10, 2021	10.80	—	160,000	160,000
					—	19,260,000	19,260,000
					—	HK\$15.52	HK\$15.52

Weighted average exercise price per share

The estimated weighted average fair values of share options granted on June 3, 2011, August 22, 2011, September 1, 2011 and November 15, 2011 were HK\$9.92, HK\$7.84, HK\$9.39 and HK\$6.86 per option respectively. The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The inputs into the model are as follows:

	Option 1	Option 2	Option 3	Option 4
Date of grant	June 3, 2011	August 22, 2011	September 1, 2011	November 15, 2011
Number of share options	17,190,000	1,080,000	830,000	160,000
Vesting period	1 to 4 years from the date of grant	1 to 4 years from the date of grant	1 to 4 years from the date of grant	1 to 4 years from the date of grant
Risk-free interest rate	1.98% to 2.12% per annum	1.98% to 2.12% per annum	1.98% to 2.12% per annum	1.98% to 2.12% per annum
Expected dividend yield	0% per annum	0% per annum	0% per annum	0% per annum
Expected life	7.44 to 8.57 years	7.44 to 8.57 years	7.44 to 8.57 years	7.44 to 8.57 years
Exercise price per share	HK\$15.62	HK\$15.12	HK\$14.78	HK\$10.80
Closing share price at date of grant	HK\$15.62	HK\$12.96	HK\$14.86	HK\$10.80
Expected Volatility	60% per annum	60% per annum	60% per annum	60% per annum

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 30. Share-Based Payments *(Continued)*

As the Company's ordinary shares were newly listed on the Stock Exchange in June 2011, expected volatility was determined by using the historical volatility of comparable companies with a similar business nature. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. Changes in the subjective input assumptions could materially affect the fair value estimate.

The Group recognized a total expense of HK\$50.2 million for the year ended December 31, 2011 (December 31, 2010: Nil) in relation to share options granted by the Company.

## 31. Retirement Benefit Plan

### Defined contribution plan

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

The total expenses recognized in the consolidated statement of comprehensive income of HK\$25 million represents contributions payable to the plan by the Group at rates specified in the rules of the plan during year ended December 31, 2011 (December 31, 2010: HK\$23 million). As at December 31, 2011, contributions of approximately HK\$4,948,000 (December 31, 2010: HK\$4,000,000) due had not been paid over to the plan. The amounts were paid subsequent to the end of the reporting period.

## 32. Capital Risk Management

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

The Group's management reviews the capital structure of the Group and the Company 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.

The gearing ratio is a key indication of the Group's capital structure. Debt comprises long and short-term bank borrowings as described in note 27, where equity comprises all capital and reserves of the Group that are managed as capital. As at December 31, 2011, the gearing ratio of the Group is zero (December 31, 2010: 72.8%).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. 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

#### The Group

	2011 HK\$'000	2010 HK\$'000
<b>Financial assets</b>		
Amortized cost:		
Amounts due from related companies	284	72,471
Bank balances and cash	5,590,405	1,922,723
Other receivables	7,778	7,568
Rental and other deposits	19,155	28,844
Trade receivables	549,423	1,137,422
	6,167,045	3,169,028
<b>Financial liabilities</b>		
Amortized cost:		
Amounts due to related companies	8,192	11,681
Bank borrowings	4,136,109	5,886,730
Construction retention payable	4,712	3,433
Deposits and advances	200,433	135,103
Outstanding chips liabilities	1,622,048	1,301,709
Trade payables	70,899	48,868
	6,042,393	7,387,524

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. Financial Instruments *(Continued)*

Significant accounting policies *(Continued)*

Categories of financial instruments *(Continued)*

### The Company

	2011 HK\$'000	2010 HK\$'000
<b>Financial assets</b>		
Amortized cost:		
Bank balances and cash	8,809	—
	8,809	—
<b>Financial liabilities</b>		
Amortized cost:		
Amounts due to subsidiaries	8,124	—
Other payables	367	—
	8,491	—

### Financial risk management objectives

The Group's Treasury function provides services to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group and the Company. These risks associated with financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The 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 Group's and the Company's exposure in respect of financial instruments or the manner in which it manages and measures the risks during the year ended December 31, 2011.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. Financial Instruments *(Continued)*

### Market risk

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

### Foreign currency risk management

#### The Group

The Group holds bank balances and deposits denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The majority of its foreign currency exposures comprises assets denominated in United States Dollars ("US\$"), Taiwan Dollars ("TW\$") and Singapore Dollars ("SG\$"). The exchange rate of the HK\$ is pegged to the US\$ and has remained relatively stable. The majority of the receipts of the Group are denominated in HK\$. Macau Patacas ("MOP") is pegged to the HK\$ at a constant rate of approximately HK\$1:MOP1.03. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates. The carrying amounts of the Group's foreign currency denominated monetary assets (including bank balance and cash) at the end of the year are as follows:

	2011 HK\$'000	2010 HK\$'000
US\$	52,969	26,722
TW\$	43,018	19,123
SG\$	95,612	46,247
MOP	25,330	28,300

### Foreign currency sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in the US\$, TW\$ and SG\$. The following table details the Group's sensitivity to a 1% increase and decrease in the HK\$ against the US\$, TW\$ and SG\$. 1% is the sensitivity rate used internally for assessment 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 an increase in profit where the HK\$ weakens 1% against the US\$, TW\$ and SG\$. For a 1% strengthening of the HK\$ against the US\$, TW\$ and SG\$, there would be an equal and opposite impact on the result, and the balance would be negative.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. Financial Instruments (Continued)

### Market risk (Continued)

#### Foreign currency risk management (Continued)

#### Foreign currency sensitivity analysis (Continued)

	2011 HK\$'000	2010 HK\$'000
Sensitivity rate	1%	1%
Profit for the year		
Impact of US\$	530	267
Impact of TW\$	430	191
Impact of SG\$	956	462

#### The Company

The Company mainly undertakes transactions in its functional currency; consequently, no exposures to exchange rate fluctuations arise.

#### Interest rate risk

##### The Group

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

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see note 27 for details of the bank borrowings). The Group's cash flow interest rate risk on bank balances is considered insignificant due to current low interest rate for bank deposit. The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollar denominated borrowings.

##### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the floating rate bank borrowings only. The analysis is prepared assuming the financial instruments outstanding at the end of the year were outstanding for the whole year. A 50 basis point (2010: 50 basis point) increase or decrease during the year is used internally for assessment of possible change in interest rates. If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2011 would decrease/increase by HK\$24.8 million (December 31, 2010: HK\$30 million). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. Financial Instruments *(Continued)*

### Interest rate risk *(Continued)*

#### The Company

The Company is exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Company's cash flow interest rate risk on bank balances is considered insignificant due to current low interest rate for bank deposit. The Company does not have any interest bearing financial liabilities.

### Credit risk

#### The Group

As at December 31, 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the 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 Group as disclosed in note 35.

In order to minimize the credit risk, the management of the 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 Group reviews the recoverable amount of each individual trade debt at the end of the year to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group believes that no significant credit risk is inherent in the 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.

Other than the liquid funds which are deposited with several banks with high credit standing in Hong Kong and Macau, the 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. Financial Instruments *(Continued)*

### Credit risk *(Continued)*

#### The Company

As at December 31, 2011, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the statement of financial position.

The Company's major financial assets are concentrated in bank balances with a bank with high credit standing in Hong Kong, thus the credit risk on liquid funds is limited.

Other than concentration of credit risk on liquid funds which are deposited with a bank with high credit standing, the Company does not have any other significant concentration of credit risk.

### Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company'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 Group

The Group relies on bank borrowings as a source of liquidity. As at December 31, 2011, the Group has unutilized bank loan facilities of approximately HK\$3,120 million. (See note 27)

The following table details the Group's and the Company's remaining contractual maturity for their 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 Group and the Company 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 year.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. Financial Instruments (Continued)

### Liquidity risk (Continued)

#### The Group

	Weighted average effective interest rate %	Repayable on demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 12.31.2011								
Trade payables	—	70,899	—	—	—	—	70,899	70,899
Outstanding chips liabilities	—	1,622,048	—	—	—	—	1,622,048	1,622,048
Bank borrowings	5.59%	—	20,822	350,745	4,576,595	—	4,948,162	4,136,109
Deposits and advances	—	200,433	—	—	—	—	200,433	200,433
Construction retention payable	—	—	—	4,712	—	—	4,712	4,712
Amounts due to related companies	—	8,192	—	—	—	—	8,192	8,192
Financial guarantee contracts (note 35)	—	300,000	—	—	—	—	300,000	—
		2,201,572	20,822	355,457	4,576,595	—	7,154,446	6,042,393

	Weighted average effective interest rate %	Repayable on demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 12.31.2010								
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 (note 35)	—	300,000	—	—	—	—	300,000	—
		1,818,157	—	170,822	7,062,655	—	9,051,634	7,387,524

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. Financial Instruments (Continued)

### Liquidity risk (Continued)

#### The Company

	Weighted average effective interest rate %	Repayable on demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 12.31.2011								
Other payables	—	367	—	—	—	—	367	367
Amounts due to subsidiaries	—	8,124	—	—	—	—	8,124	8,124
Financial guarantee contracts	—	4,290,000	—	—	—	—	4,290,000	—
		4,298,491	—	—	—	—	4,298,491	8,491

No comparative figures for the Company are shown since it did not carry on any business other than the transactions relating to the issuance of one ordinary share of HK\$1.00 in 2010.

The amounts included above for variable interest rate instruments for financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the year.

During the current year, the Company provided a corporate guarantee to certain banks to secure the bank borrowings obtained by one of its subsidiaries as described in note 27. At the end of the current year, it was not probable that the counterparty to the financial guarantee contracts will claim under the contract. The amounts included above for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. However, based on expectations at the end of the year, the Company considers that it is more likely than not that no amount will be payable under the arrangement.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 33. Financial Instruments *(Continued)*

### Fair value

#### The Group

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 Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

#### The Company

The fair value of the Company's financial guarantee contracts in relation to corporate guarantees provided to certain banks as described in note 35 to the financial statements is estimated based on management's assessment by making reference to discounted cash flows analysis and the probability of default by its subsidiary and the amount of loss, given the default.

## 34. Deferred Tax Liability

As explained in detail in note 3 and 12, the Company is subject to Macau Complementary Tax on dividends it receives from MGM Grand Paradise. Accordingly, as at December 31, 2011, the Company has recognized a deferred tax liability of HK\$458.8 million in respect of temporary differences arising from the distributable reserves of MGM Grand Paradise.

## 35. Contingent Liabilities

#### The Group

At December 31, 2011, the Group has given bank guarantees totalling HK\$300 million (December 31, 2010: HK\$300 million) to certain parties, of which HK\$294 million (December 31, 2010: HK\$294 million) was issued in favor of the Macau Government as required in the Sub-Concession Contract, HK\$2 million (December 31, 2010: HK\$2 million) was issued in favor of a utility supplier and HK\$4 million (December 31, 2010: HK\$4 million) was issued in favor of a lessor, which is a related company and certain directors have non-controlling beneficial interests.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 35. Contingent Liabilities *(Continued)*

### The Company

During the current year, the Company provided a corporate guarantee to certain banks to secure bank borrowings obtained by one of its wholly-owned subsidiaries as described in note 27. The Company has agreed to guarantee payment of all sums payable in relation to these bank borrowings. As at December 31, 2011, the outstanding principal amount of the bank borrowings was HK\$4,290 million.

Based on management's expectations, at initial recognition the fair value of the financial guarantee contracts is insignificant and at each subsequent reporting date it is more likely than not that no amount will be payable by the Group or the Company to indemnify the bank under these arrangements. Consequently no liability for the guarantees has been recognized in the consolidated financial statements of the Group for the year ended December 31, 2011.

## 36. Operating Lease Commitments

At the end of the year, the 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 20), rented office premises, warehouse and staff quarters, equipment, light boxes and advertising booths which fall due as follows:

	2011 HK\$'000	2010 HK\$'000
Within one year	27,803	22,011
More than one year and not longer than five years	27,342	21,016
More than five years	40,593	43,439
	95,738	86,466

Leases for office premises, warehouse, staff quarters, 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 37. Capital Commitments

	2011 HK\$'000	2010 HK\$'000
Capital expenditure in respect of construction and development of the Complex that have been		
— authorized but not contracted for	134,270	43,081
— contracted but not accounted for	29,192	30,900
	163,462	73,981

## 38. Other Commitments

Pursuant to the gaming contract signed with the Macau Government, MGM Grand Paradise has committed to pay an annual premium of 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 Sub-Concession Contract when the gaming operations commenced business. A premium of HK\$120.7 million (December 31, 2010: 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 the year ended December 31, 2011.

## 39. Related Party Transactions

Details of transactions between the Group and other related parties are disclosed below.

### The Group

- (a)(i) Amounts due from related companies represent the balances with fellow subsidiaries. The amounts are unsecured, non-interest bearing and repayable on demand.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 39. Related Party Transactions *(Continued)*

- (a)(ii) Amounts due to related companies represent balances with companies in which one of the directors has non-controlling beneficial interests and the ultimate holding company of the Company. The amounts are unsecured, non-interest bearing and repayable on demand.

Aging of amounts due to related companies

	2011 HK\$'000	2010 HK\$'000
0 - 30 days	5,000	2,217
31 - 60 days	3,192	3,708
61 - 90 days	—	1,582
91 - 120 days	—	1,295
Over 120 days	—	2,879
	8,192	11,681

### The Company

- (a)(iii) The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 39. Related Party Transactions (Continued)

### The Group

- (b) During the year ended December 31, 2011, the Group had the following significant transactions with related companies:

Related parties	Type of transaction	2011 HK\$'000	2010 HK\$'000
Companies in which certain directors have non-controlling beneficial interests	Advertising expenses	4,892	—
	Gift vouchers purchased	11,386	4,661
	Laundry services expenses	7,135	10,291
	Rental of premises	2,527	2,240
	Travelling and accommodation, net of discounts	117,857	79,241
Shareholders	Developers' fees paid	—	1,846
	Interest expenses	—	75,612
	Marketing referral fees	20,102	9,248
	Marketing referral income	820	142
Company jointly-owned by shareholders	License fees	113,007	—

Historically, the Group has been granted the use of certain trademarks owned by MGM Resorts International and its subsidiaries at no charge. Pursuant to the Branding Agreement entered into among the Company, MGM Grand Paradise, MGM Branding and Development Holdings, Ltd., MGM Resorts International, MGM Resorts International Holdings, Ltd. and New Corporate Enterprises Limited on May 17, 2011, the Company has been granted the use of certain trademarks owned by MGM Resorts International and its subsidiaries for a fee. Such Branding Agreement is effective from June 3, 2011 and will expire on March 31, 2020, which is also the expiry date of the Group's Sub-Concession Contract. Pursuant to the terms of the Branding Agreement, the Company is required to pay an annual license fee calculated on a basis equal to 1.75% of its consolidated monthly revenue (as determined in accordance with IFRS) which is subject to an annual cap. For the year ended December 31, 2011, the annual cap is US\$25 million (equivalent to approximately HK\$194 million) but is pro rated to US\$14.5 million (equivalent to approximately HK\$113 million) for the year 2011 since the date of listing pursuant to the term of the Branding Agreement. This annual cap will increase by 20% per annum for each subsequent financial year during the term of the Branding Agreement. During the year ended December 31, 2011, total license fee of HK\$113 million (2010: Nil) was recognized in the consolidated statement of comprehensive income.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 39. Related Party Transactions *(Continued)*

(c) Compensation to key management personnel

The remuneration of key management during the year ended December 31, 2011 was as follows:

	2011 HK\$'000	2010 HK\$'000
Short term benefits	69,682	56,091
Post-employment benefits	1,398	1,099
Share-based payments	39,712	—
	110,792	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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 40. Principal Subsidiaries

Details of the Company's principal subsidiaries as at December 31, 2011 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/operation	Issued and fully paid share capital/quota capital	Attributable equity interest of the Group		Principal activities
			December 31, 2011	December 31, 2010	
Alpha Landmark Enterprises Limited	British Virgin Islands February 8, 2005	US\$1	100%	100%	Inactive
Alpha Vision Investments Limited	British Virgin Islands February 8, 2005	US\$1	100%	100%	Inactive
Apexworth Developments Limited	British Virgin Islands February 8, 2005	US\$1	100%	100%	Inactive
Breve, S.A.	Macau August 13, 2004	MOP1,000,000	100%	100%	Inactive
Golden Rice Bowl Limited	Macau April 24, 2007	MOP25,000	100%	100%	Inactive
MGM Grand Paradise Limited*	Macau June 17, 2004	MOP200,000,000	100%	100%	Operation of casino games of chance and other casino games
MGM Grand Paradise (HK) Limited	Hong Kong October 15, 2004	HK\$2	100%	100%	Management and administrative services for a group company
Mingyi Investments Limited	British Virgin Islands/Macau June 1, 2011	US\$1	100%	—	Administrative services for a group company

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

## 40. Principal Subsidiaries (Continued)

Name of subsidiary	Place and date of incorporation/ establishment/operation	Issued and fully paid share capital/quota capital	Attributable equity interest of the Group		Principal activities
			December 31, 2011	December 31, 2010	
Prime Hotel Management Limited (formerly known as Alfa, S.A.)	Macau August 13, 2004	MOP1,000,000	100%	100%	Hotel management services
Terra C Sub, S.A.	Macau August 13, 2004	MOP1,000,000	100%	100%	Inactive
Yin Gao Limited	British Virgin Islands/Macau June 10, 2011	US\$1	100%	—	Administrative services for a group company

\* MGM Grand Paradise is directly owned by the Company. As part of the Group Reorganization, the shares of MGM Grand Paradise were divided into two classes of shares, Class A shares and Class B shares, with each share carrying one vote. The Company holds 100% of the Class A shares, which represent 80% of the voting power of the share capital of MGM Grand Paradise. Pansy Ho and MGM Resorts International Holdings Limited each owns one half of the Class B shares (or 10% of the voting power of the share capital of MGM Grand Paradise each) in order to satisfy the requirements of the Sub-Concession Contract and local Macau regulations that at least 10% of MGM Grand Paradise's issued share capital be held by a local managing director of MGM Grand Paradise. On each occasion upon which dividends are paid by MGM Grand Paradise to the holders of Class A shares, each holder of Class B shares will be entitled to receive a portion of such dividends up to an amount of MOP1 only. The Class B shares entitle the holder to voting rights but only de minimis economic rights and therefore the Company has a 100% economic interest in MGM Grand Paradise through its ownership of all of the Class A shares.

## 41. Event after the Reporting Period

Subsequent to the end of the reporting period, on February 16, 2012, the Company's principal subsidiary, MGM Grand Paradise declared the payment of a dividend to the Company of approximately MOP3,930 million, equivalent to approximately HK\$3,816 million. On February 22, 2012, a special dividend of HK81.6 cents per share, amounting to HK\$3,100 million in aggregate has been declared by the directors of the Company.



# Financial Summary

	For the year ended December 31,			
	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>Results</b>				
Operating revenue	20,293,627	12,434,728	7,727,086	6,916,457
Profit/(loss) before taxation	3,737,872	1,566,327	(166,473)	(296,477)
Profit/(loss) for the year and total comprehensive income attributable to owners of the Company	3,279,060	1,566,035	(167,131)	(296,663)
	As at December 31,			
	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>Assets and liabilities</b>				
Total assets	12,689,055	10,224,166	10,467,651	10,018,126
Total liabilities	8,275,006	8,743,317	10,216,306	9,599,650
Net assets	4,414,049	1,480,849	251,345	418,476

The summary of the consolidated results of the Group for each of the three years ended December 31, 2008, 2009 and 2010, and of the consolidated assets and liabilities as at December 31, 2008, 2009 and 2010, have been extracted from the Company's IPO Prospectus in connection with the Listing. Such summary was prepared on the merger basis as if the current structure of the Group had been in existence throughout these financial years. The consolidated results of the Group for the year ended December 31, 2011, and the consolidated assets and liabilities as at December 31, 2011, are those set out in the audited consolidated financial statements.

# Glossary

## Definitions and Glossary Used in this Annual Report

“Acquisition Note”	the non-interest bearing note issued by our Company to Grand Paradise Macau Limited as part of the Reorganization
“affiliate”	in relation to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“BEH Marketing Agreement”	the marketing agreement dated May 17, 2011 entered into among Bright Elite Holdings Limited, MGM Grand Paradise and our Company
“Board of Directors” or “Board”	the board of Directors of our Company
“Branding Agreement”	the Branding Agreement dated May 17, 2011 entered into among our Company, MGM Grand Paradise, MGM Branding and Development Holdings, MGM Resorts International, MGM Resorts International Holdings and New Corporate Enterprises Limited
“casino”	a gaming facility that provides casino games consisting of table games, slot machines and other electronic games and other games of chance
“casino revenue”	revenue from casino gaming activities (gross table games win and gross slot win), calculated net of commissions and discounts and in accordance with IFRS
“China”, “mainland China” or “PRC”	the People’s Republic of China excluding, for the purpose of this annual report for geographical and statistical references only and except where the context otherwise requires, Hong Kong, Macau and Taiwan
“chips”	tokens, usually in the form of plastic discs issued by a casino to patrons in exchange for cash or credit, which may be used (in lieu of cash) to place bets on gaming tables
“Company” or “MGM China”	MGM China Holdings Limited, a company incorporated in the Cayman Islands on July 2, 2010 as an exempted company with limited liability
“Concessionaire”	the holder of a concession for the operation of casino games in Macau. As at the Latest Practicable Date, the Concessionaires were Galaxy, SJM and Wynn Macau

“Cotai”	an area of reclaimed land located between the islands of Taipa and Coloane in Macau
“Deed of Non-compete Undertakings”	the non-competition deed, dated May 17, 2011, entered into among MGM Resorts International, Pansy Ho and our Company
“Development Agreement”	the development agreement dated May 17, 2011 entered into among our Company, MGM Grand Paradise, MGM Branding and Development Holdings, MGM Resorts International, MGM Resorts International Holdings and New Corporate Enterprises Limited
“Directors”	the directors of our Company
“drop”	the sum of markers exchanged for chips at the gaming table and the amount of cash deposited in a gaming table’s drop box
“EBITDA”	earnings before interest, tax, depreciation and amortization
“Galaxy”	Galaxy Casino, S.A., a company incorporated in Macau on November 30, 2001, one of three direct Concessionaires and an Independent Third Party
“gaming area”	a gaming facility that provides casino games consisting of table games, electronic games, slot machines and other casino games but has not been designated as a casino by the Macau Government
“gaming promoters”	individuals or corporations licensed by and registered with the Macau Government to promote games of fortune and chance or other casino games to patrons, through the arrangement of certain services, including the extension of credit, transportation, accommodation, dining and entertainment, whose activity is regulated by the Gaming Promoters Regulation
“Global Offering”	the offer of Shares in the Company by subscription for cash at HK\$15.34 per Share on June 3, 2011 and subject to the terms outlined in the IPO Prospectus
“Grand Paradise Macau Limited”	Grand Paradise Macau Limited, a company incorporated in the Isle of Man and wholly-owned by Pansy Ho
“gross gaming revenue” or “gross gaming win”	the total win generated by all casino gaming activities combined, calculated before deduction of commissions and discounts

## Glossary

“gross slot win”	the amount of slot handle that is retained as winnings. We record this amount and gross table games win as casino revenue after deduction of a portion of commissions and discounts
“gross table games win”	the amount of drop (in our main floor casino segment) or turnover (in our VIP casino segment) that is retained as winnings. We record this amount and gross slot win as casino revenue after deduction of a portion of commissions and discounts
“Group”, “we”, “us” or “our”	our Company and its subsidiaries, or any of them, and the businesses carried on by such subsidiaries, except where the context makes it clear that the reference is only to the Company itself and not to the Group
“HIBOR”	Hong Kong InterBank Offer Rate
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards
“INEDs”	the independent non-executive Directors
“In-house VIP Program”	an internal marketing program wherein we directly market our casino resorts to gaming clients, including to high-end or premium players. These players are invited to qualify for a variety of gaming rebate programs whereby they earn cash commissions and room, food and beverage and other complimentary allowances based on their turnover level. We often extend credit to these players based upon knowledge of the players, their financial background and payment history
“Independent Third Party(ies)”	parties which are not connected persons of our Company within the meaning of the Listing Rules
“IPO Prospectus”	the IPO Prospectus of the Company published on May 23, 2011 in connection with the Listing
“Las Vegas”	the Las Vegas gaming market as defined by the Nevada Gaming Control Board
“Latest Practicable Date”	February 22, 2012, being the latest practicable date for ascertaining certain information in this annual report prior to its publication

“Listing”	the initial listing of the Shares on the Main Board of the Hong Kong Stock Exchange on June 3, 2011
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Macau”	the Macau Special Administrative Region of The People’s Republic of China
“Macau Government”	the local government of Macau
“Macau Marketing Agreement”	the marketing agreement dated May 17, 2011 entered into among MGM Resorts International, MGM Grand Paradise and our Company
“Master Service Agreement”	the master service agreement dated October 8, 2010 entered into between Shun Tak Group Limited and MGM Grand Paradise
“main floor”	consists of the full range of our gaming products offered to our mass market players
“main floor players”	non-rolling chip players or cash chip players
“marker”	evidence of indebtedness by a player to the casino or gaming operator
“Melco Crown”	Melco Crown Jogos (Macau) S.A., one of three Subconcessionaires
“MGM Branding and Development Holdings”	MGM Branding and Development Holdings, Ltd., a company incorporated in the BVI and jointly wholly-owned, directly or indirectly, by MGM Resorts International and Pansy Ho in equal portions
“MGM Grand Paradise”	MGM Grand Paradise Limited, a private company limited by shares (“sociedade anónima”) incorporated on June 17, 2004 under the laws of Macau, one of three Subconcessionaires and one of our subsidiaries
“MGM MACAU” or “our property”	our sole resort and casino property in Macau owned by MGM Grand Paradise
“MGM Marketing Agreement”	the marketing agreement dated May 17, 2011 entered into among MGM Resorts International, MGM Resorts International Marketing, Ltd., MGM Grand International Pte, Ltd, MGM Grand Paradise and our Company
“MGM Resorts International”	MGM Resorts International, a company incorporated in Delaware and listed on the New York Stock Exchange under the ticker symbol MGM, and our controlling shareholder

## Glossary

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issues set out in Appendix 10 of the Listing Rules
“occupancy rate”	the number of total hotel room nights occupied as a percentage of the number of total hotel room nights available
“Pansy Ho”	Ho, Pansy Catilina Chiu King, a substantial shareholder and an executive director of our Company
“Pataca” or “MOP”	Macau Pataca, the lawful currency of Macau
“premium main floor players”	consists of predominantly walk-in, day-trip visitors to Macau from China. Our premium mass market clients generally do not take advantage of our luxury amenities to the same degree as VIP clients, but they are offered a variety of premium mass market amenities and customer relationship programs, such as reserved space on the regular gaming floor and various other services, that are unavailable to the general mass market
“Reorganization”	the reorganization of our Group in preparation for the Listing, as more fully described in the section headed “History and Corporate Structure — Reorganization” in IPO Prospectus
“rolling chip”	a physically identifiable chip that is used to track VIP wagering volume for purposes of calculating commissions and other allowances payable to gaming promoters and individual VIP players
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$1 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Share(s) of the Company from time to time
“Shun Tak”	Shun Tak Holdings Limited, a company incorporated in Hong Kong and listed on the Stock Exchange (stock code: 0242)
“Shun Tak Group”	Shun Tak and any of its subsidiaries
“SJM”	Sociedade de Jogos de Macau, S.A., one of three Concessionaires

“slot handle”	the total value of slot machine credits wagered resulting from coins and bank notes in the drop box, plus the value of any electronic money transfers made to the slot machine through the use of a cashless wagering system
“slot machines”	gaming machines operated by a single player and electronic multiple-player gaming machines
“STCTSM”	Shun Tak – China Travel Ship Management Limited, an indirect subsidiary of Shun Tak Holdings Limited
“STDM”	Sociedade de Turismo e Diversoes de Macau, S.A., one of the controlling shareholders of SJM through STDM-Investments Limited
“Subconcession” or “Subconcession Contract”	the tripartite Subconcession Contract for the Exploitation of Games of Fortune and Chance or Other Games in Casino in the Special Administrative Region of Macau entered into among SJM, MGM Grand Paradise and the Macau Government on April 19, 2005
“Subconcessionaire(s)”	the holder(s) of a subconcession for the operation of casino games in Macau. As at the Latest Practicable Date, the Subconcessionaires were VML, Melco Crown and MGM Grand Paradise
“table games”	typical casino games, including card games such as baccarat, blackjack and sic bo as well as craps and roulette
“turnover”	the sum of all rolling chip wagers which represents wagers won by our relevant subsidiary (non-negotiable chip purchase plus nonnegotiable chip exchange minus non-negotiable chip return)
“US GAAP”	Generally Accepted Accounting Principles as in effect from time to time in the United States
“United States”	the United States of America, its territories and possessions and all areas subject to its jurisdiction
“US\$”	United States dollars, the lawful currency of United States
“VIP clients” or “VIP patrons”	patrons or players who participate in our In-house VIP Program or in the VIP program of any of our gaming promoters



## Glossary

“PH Group”	Pansy Ho and her associates
“visitations”	with respect to visitation of our property, the number of times our property is entered during a fixed time period. Estimates of the number of visits to our property are based on information collected from digital cameras placed above every entrance to our property capable of counting visitors (including repeat visitors) to our property on a given day
“VML”	Venetian Macao, S.A., a company incorporated in Macau on June 21, 2002, one of three Subconcessionaires and an Independent Third Party
“Wynn Macau”	Wynn Resorts (Macau) S.A., a company incorporated in Macau on October 17, 2001, one of three direct Concessionaires and an Independent Third Party
“%”	per cent

