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MGM CHINA HOLDINGS LIMITED
美高梅中國控股有限公司

MGM CHINA HOLDINGS LIMITED
美高梅中國控股有限公司
(incorporated in the Cayman Islands with limited liability)
 (Stock Code: 2282)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2018

The Board of MGM China Holdings Limited (the “Company”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended December 31, 2018 as follows:

FINANCIAL HIGHLIGHTS

	For the year ended	
	December 31	
	2018	2017
	HK\$'000	HK\$'000
Casino revenue	17,176,050	13,557,440
Other revenue	2,024,671	923,092
Total revenue	19,200,721	14,480,532
Adjusted EBITDA (unaudited)	4,837,180	4,587,435
Operating profit	1,434,993	2,624,201
Profit for the year attributable to owners of the Company	1,068,499	2,320,185
Earnings per Share		
— Basic	HK28.1 cents	HK61.1 cents
— Diluted	HK28.0 cents	HK60.9 cents

Note: The Company adopted the new revenue recognition accounting standard (“IFRS 15”), effective January 1, 2018. Certain prior year amounts have been retrospectively adjusted under IFRS 15.

DIVIDENDS

In accordance with the dividend policy announced by the Company on February 28, 2013, the semi-annual dividends, may not, in aggregate, exceed more than 35% of the anticipated consolidated annual profits in any one year. The Company may also declare special distributions from time to time in addition to the semi-annual dividends. The Board recommends a final dividend of HK\$0.034 per Share (the “Final Dividend”), amounting to approximately HK\$129.2 million in aggregate for the year ended December 31, 2018, representing approximately 12.09% of the Group’s profit attributable to owners of the Company for the year ended December 31, 2018. The Final Dividend, subject to approval by the Shareholders in the forthcoming annual general meeting, together with the interim dividend of HK\$0.064 per Share, amounting to approximately HK\$243.2 million, approved on August 8, 2018 and paid to Shareholders on September 10, 2018, represents approximately 34.9% of the Group’s profit attributable to owners of the Company for the year ended December 31, 2018.

The Board has recommended the payment of the Final Dividend after reviewing the Group’s financial position as at March 6, 2019, its capital and liquidity requirements going forward and other factors that the Board considered relevant, and determined that the Group has sufficient resources after the payment of the Final Dividend (which is subject to Shareholders’ approval) to finance its operations and expansion of its business. The Final Dividend should not be taken as an indication of the level of profit or dividend going forward.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended December 31	
	NOTES	2018 HK\$'000	2017 HK\$'000
OPERATING REVENUE			
Casino revenue	4	17,176,050	13,557,440
Other revenue	4	2,024,671	923,092
		<u>19,200,721</u>	<u>14,480,532</u>
OPERATING COSTS AND EXPENSES			
Special gaming tax and special levy to the Macau Government		(9,198,431)	(7,214,106)
Inventories consumed		(653,828)	(302,666)
Staff costs		(3,505,758)	(2,324,209)
Other expenses and losses	5	(2,257,406)	(1,216,305)
Depreciation and amortization		(2,150,305)	(799,045)
		<u>(17,765,728)</u>	<u>(11,856,331)</u>
Operating profit		1,434,993	2,624,201
Interest income		12,113	5,046
Finance costs	6	(667,876)	(7,273)
Net foreign currency (loss)/gain		(6,336)	16,505
		<u>772,894</u>	<u>2,638,479</u>
Profit before tax		772,894	2,638,479
Income tax benefit/(expense)	7	295,605	(318,294)
		<u>1,068,499</u>	<u>2,320,185</u>
Profit for the year attributable to owners of the Company			
Other comprehensive (expense)/income:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(3,474)	2,557
		<u>(3,474)</u>	<u>2,557</u>
Total comprehensive income for the year attributable to owners of the Company			
		<u>1,065,025</u>	<u>2,322,742</u>
Earnings per Share — Basic	9	<u>HK28.1 cents</u>	<u>HK61.1 cents</u>
Earnings per Share — Diluted	9	<u>HK28.0 cents</u>	<u>HK60.9 cents</u>

Note: The Company adopted the new revenue recognition accounting standard (“IFRS 15”), effective January 1, 2018. Certain prior year amounts have been retrospectively adjusted under IFRS 15.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At December 31	
		2018	2017
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property and equipment		27,221,918	3,027,253
Construction in progress		1,781,527	26,093,051
Sub-concession premium		158,153	285,053
Land use right premium		1,121,541	1,190,947
Other assets		128,656	167,297
Prepayments, deposits and other receivables		62,816	31,819
		<hr/>	<hr/>
Total non-current assets		30,474,611	30,795,420
		<hr/>	<hr/>
Current assets			
Inventories		159,696	135,776
Trade receivables	<i>10</i>	322,637	179,827
Prepayments, deposits and other receivables		112,058	142,249
Land use right premium		69,406	69,406
Amounts due from related companies		2,060	437
Bank balances and cash		3,992,107	5,283,387
		<hr/>	<hr/>
Total current assets		4,657,964	5,811,082
		<hr/>	<hr/>
TOTAL ASSETS		35,132,575	36,606,502
		<hr/> <hr/>	<hr/> <hr/>

		At December 31	
		2018	2017
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY			
Capital and reserves			
Share capital		3,800,000	3,800,000
Share premium and reserves		5,145,779	4,712,356
		<hr/>	<hr/>
TOTAL EQUITY		8,945,779	8,512,356
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Bank borrowings	<i>11</i>	18,093,205	11,794,219
Payables and accrued charges	<i>12</i>	17,492	19,608
Construction retention payable		18,065	267,259
Deferred tax liability	<i>7</i>	—	317,147
		<hr/>	<hr/>
Total non-current liabilities		18,128,762	12,398,233
		<hr/>	<hr/>
Current liabilities			
Bank borrowings	<i>11</i>	780,000	6,045,000
Payables and accrued charges	<i>12</i>	6,856,506	9,319,489
Construction retention payable		387,778	301,511
Amounts due to related companies		22,531	28,920
Income tax payable		11,219	993
		<hr/>	<hr/>
Total current liabilities		8,058,034	15,695,913
		<hr/>	<hr/>
TOTAL LIABILITIES		26,186,796	28,094,146
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		35,132,575	36,606,502
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are the operation of casino games of chance and other casino games and the related hotel and resort facilities, and the development of integrated resorts in Macau. The Group owns and operates MGM MACAU and MGM COTAI which opened on December 18, 2007 and February 13, 2018, respectively. The Company’s Shares were listed on the Hong Kong Stock Exchange on June 3, 2011. The Company’s immediate holding company is MGM Resorts International Holdings, Ltd., a company incorporated in the Isle of Man. The Company’s ultimate holding company is MGM Resorts International, a company incorporated in Delaware, the United States of America, which is listed on the New York Stock Exchange. The address of the registered office of the Company is 190 Elgin Avenue, 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs on the historical cost basis. Historical cost is generally based upon fair value of the consideration given in exchange for goods and services. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance. The consolidated financial statements are presented in HK\$, which is also the functional currency of the Company and its subsidiaries.

The consolidated financial statements have been prepared on a going concern basis. As at December 31, 2018, the Group had net current liabilities of approximately HK\$3,400.1 million (2017: HK\$9,884.8 million). The Group has prepared a cash flow forecast which involves judgments and estimations based upon management’s input of key variables and market conditions including the future economic conditions, increased competition in Macau, the regulatory environment and the growth rates of the Macau gaming market. The cash flow forecast has been determined using estimations of future cash flows based upon projected income and expenses of the business and working capital needs. The Group believes it has sufficient liquidity based upon the credit facilities (see note 11) and the expected cash to be generated from operations to meet its financial obligations as they fall due for the following twelve months.

Application of new and revised International Financial Reporting Standards (“IFRSs”)

In the current year, the Group has applied, for the first time, the following new and amendments to IFRSs relevant to the Group:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except for the application of IFRS 9 and IFRS 15 noted below, the application of the above new and amendments to IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The key requirements of IFRS 9 relevant to the Group are in relation to the impairment of financial assets and the adjustment on the amortized cost of a financial liability when a modification does not result in derecognition. The Group has adopted the new standard from January 1, 2018 retrospectively and did not restate comparative information in accordance with the transition provisions in IFRS 9. Accordingly, certain previously reported information prepared under IAS 39 may not be comparable to the current year information.

Impairment of financial assets

IFRS 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. Therefore, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The Group has applied the simplified approach to recognize lifetime expected credit losses for its trade receivables. To measure the expected credit losses, except for credit-impaired balances and outstanding significant balances that have been assessed individually, the remaining trade receivables have been grouped based upon shared credit risk characteristics and days past due. The loss allowance for trade receivables determined by applying lifetime expected credit loss as compared to the incurred credit loss model under IAS 39 did not result in a material difference and hence did not result in an adjustment of the opening retained earnings as at January 1, 2018.

Loss allowances for other financial assets at amortized cost are measured on a 12 month expected credit loss basis and there had been no significant increase in credit risk since initial recognition.

Classification and measurement — bank borrowings

For an adjustment of the amortized cost of a financial liability, when a modification does not result in derecognition of the financial liability, IFRS 9 requires an entity to recognize such adjustment in profit or loss at the date of the modification. The gain or loss arising on modification of a financial liability that does not result in derecognition, is calculated by discounting the change in contractual cash flows using the original effective interest rate, and is immediately recognized in profit or loss. Under IAS 39, such gain or loss would have been recognized over the remaining life of the financial liability by adjusting the effective interest rate, on the basis the terms and conditions of the credit facility remained largely unchanged.

The Group has retrospectively applied the accounting treatment as required by IFRS 9 for the modification of bank borrowings which has not resulted in derecognition. Differences in the carrying amounts of bank borrowings resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 1, 2018.

The effect on the consolidated retained earnings as at January 1, 2018 is as follows:

	<i>HK\$'000</i>
Retained earnings at December 31, 2017 — IAS 39	6,784,627
Change in carrying amount of bank borrowings measured at amortized cost	(75,448)
	<hr/>
Retained earnings at January 1, 2018 — IFRS 9	<u><u>6,709,179</u></u>

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. It also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See note 4 for these disclosures. The Group adopted IFRS 15 on January 1, 2018, on a full retrospective basis.

The effect on the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2017 is as follows:

	For the year ended December 31, 2017		
	As previously reported	Effects of adoption of IFRS 15 ⁽¹⁾	As restated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING REVENUE			
Casino revenue	15,053,622	(1,496,182)	13,557,440
Other revenue	302,384	620,708	923,092
	<u>15,356,006</u>	<u>(875,474)</u>	<u>14,480,532</u>
OPERATING COSTS AND EXPENSES			
Other expenses and losses	<u>(2,091,779)</u>	<u>875,474</u>	<u>(1,216,305)</u>

- ⁽¹⁾ On adoption of IFRS 15, there is a reported decrease in casino revenue as all commission paid to the gaming promoters, the majority of the promotional allowances (hotel rooms, food and beverage, retail and other services provided to certain guests and customers without charge) and award points earned by customers under the Group's loyalty programs based upon relative standalone selling price are netted against casino revenue. There is a corresponding decrease in other expenses and losses and an increase in other revenue upon redemption of award points and rendering of corresponding services.

IFRSs in issue not yet adopted

Up to the date of this announcement, certain new standards and amendments have been issued but are not yet effective and have not been early adopted by the Group in the preparation of these consolidated financial statements.

3. SEGMENT INFORMATION

The Group has determined its operating segments based upon the reports reviewed by the Group's Chief Executive Officer (being the chief operating decision-maker) when allocating resources and assessing performance of the Group.

The Group's principal operating activities occur in Macau, which is the primary geographic area in which the Group is domiciled. The Group reviews the results of operations for each of its properties being MGM MACAU and MGM COTAI (the latter opened on February 13, 2018). Each of the properties derives its revenue primarily from casino, hotel rooms, food and beverage and retail operations. MGM MACAU and MGM COTAI have been aggregated into one reportable segment on the basis that they have similar economic characteristics, types of customers, types of services and products provided, and the regulatory environment in which they operate.

Adjusted EBITDA is considered to be the primary profit measure for the reportable segment. Adjusted EBITDA is profit before finance costs, income tax benefit/expense, depreciation and amortization, loss on disposal/write-off of property and equipment, construction in progress and other assets, interest income, net foreign currency difference, share-based payments, pre-opening costs, corporate expenses which mainly include administrative expenses of the corporate office and license fee paid to a related company and other non-recurring expenses.

The following table presents the reconciliation of the adjusted EBITDA of the Group's reportable segment to profit for the year attributable to owners of the Company:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Adjusted EBITDA (unaudited)	4,837,180	4,587,435
Share-based payments	(76,639)	(79,900)
Corporate expenses (unaudited)	(484,033)	(414,375)
Pre-opening costs ⁽¹⁾ (unaudited)	(496,945)	(624,583)
Loss on disposal/write-off of property and equipment, construction in progress and other assets	(194,265)	(45,331)
Depreciation and amortization	(2,150,305)	(799,045)
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Operating profit	1,434,993	2,624,201
Interest income	12,113	5,046
Finance costs	(667,876)	(7,273)
Net foreign currency (loss)/gain	(6,336)	16,505
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Profit before tax	772,894	2,638,479
Income tax benefit/(expense)	295,605	(318,294)
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Profit for the year attributable to owners of the Company	<u>1,068,499</u>	<u>2,320,185</u>

⁽¹⁾ Pre-opening costs primarily represented personnel and other costs incurred prior to the opening of MGM COTAI.

Almost all of the non-current assets of the Group are located in Macau.

4. CASINO AND OTHER REVENUE

The Group's revenue contracts with customers consist of casino, hotel rooms, food and beverage, retail and other transactions.

Gross casino revenue is the aggregate net difference between gaming wins and losses. Commissions paid to gaming promoters and in-house VIP players are recorded as a reduction to casino revenue. The Group accounts for casino revenue on a portfolio basis given the similar characteristics of wagers by recognizing net win per gaming day.

For casino transactions that include complimentary goods and services provided by the Group to gaming customers on a discretionary basis to incentivize gaming, the Group allocates revenue to the goods or services delivered based upon relative standalone selling prices. Discretionary complimentaries provided by the Group and supplied by third parties are recognized as other expenses and losses. The Group accounts for complimentaries on a portfolio basis given the similar characteristics of the incentives by recognizing redemption per gaming day.

The Group has established promotional clubs to encourage repeat business from frequent and active table games patrons and slot machine customers. Members earn points primarily based upon gaming activity and such points can be redeemed for free play and other free goods and services. For casino transactions that include award points earned by customers under this loyalty program, the Group allocates a portion of the net win based upon the relative standalone selling price of such award points (less estimated breakage). Such allocated amount is deferred and recognized in loyalty program liabilities until customers redeem the award points for free goods and services. Upon redemption, the deferred consideration of each good and service is allocated to the respective type of revenue. Redemption of award points at third party outlets are deducted from the loyalty program liabilities and amounts owed are paid to the third party, with any discount received recorded as other revenue.

The transaction price of hotel rooms, food and beverage, retail and other transactions is the net amount collected from the customer for such goods and services. The transaction price for such transactions is recorded as revenue when the good or service is transferred or rendered to the customer during their stay at the hotel or when the delivery is made for food and beverage, retail and other services.

The Group has other contracts that include multiple goods and services, such as packages that bundle food and beverage and other services with hotel stays and convention services. For such arrangements, the Group allocates revenue to each good or service based upon its relative standalone selling price. The Group primarily determines the standalone selling price of hotel rooms, food and beverage, retail and other services based upon the amount that the Group charges when each is sold separately in similar circumstances to similar customers.

In determining the transaction price, the promised amount of consideration for the effects of the time value of money is adjusted if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract. For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Casino revenue represents the aggregate net difference between gaming wins and losses, net of commissions, complimentaries and other incentives. Casino revenue comprises:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
VIP gross table games win	9,682,345	8,566,563
Main floor gross table games win	10,905,514	8,138,837
Slot machine gross win	2,233,048	1,406,587
	<hr/>	<hr/>
Gross casino revenue	22,820,907	18,111,987
Commissions, complimentaries and other incentives	(5,644,857)	(4,554,547)
	<hr/>	<hr/>
	17,176,050	13,557,440
	<hr/> <hr/>	<hr/> <hr/>

Other revenue comprises:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hotel rooms	956,446	441,782
Food and beverage	900,460	400,081
Retail and others ⁽¹⁾	167,765	81,229
	<hr/>	<hr/>
	2,024,671	923,092
	<hr/> <hr/>	<hr/> <hr/>

Note: The Company adopted IFRS 15 effective January 1, 2018. Certain prior year amounts have been retrospectively adjusted under IFRS 15.

⁽¹⁾ Included is HK\$96.8 million (December 31, 2017: HK\$34.6 million) pertaining to income from right of use to retail areas within MGM MACAU and MGM COTAI by retailers.

Contract and Contract Related Liabilities

There may be a difference between the timing of cash receipts from customers and the recognition of revenue, resulting in a contract or contract-related liability. The Group generally has three types of liabilities related to contracts with customers: (1) outstanding chips liabilities, which represents the amounts owed in exchange for gaming chips held by gaming promoters and gaming customers, (2) loyalty program liabilities, which represents the deferred allocation of revenue relating to award points earned and, (3) customer advances and other, which is primarily funds deposited by customers before gaming play occurs and advance payments on goods and services yet to be provided such as deposits on hotel rooms. These liabilities are generally expected to be recognized as revenue or refunded within one year of being purchased, earned or deposited and are recorded within “payables and accrued charges” in the consolidated statement of financial position.

The Group has elected to apply the practical expedient available under IFRS 15 such that the transaction price allocated to unsatisfied contracts is not disclosed when the remaining performance obligation to be satisfied under contracts that had an original expected duration of one year or less.

The following table summarizes the activity related to contract and contract-related liabilities:

	Outstanding Chips Liabilities		Loyalty Program Liabilities		Customer Advances and Other	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Balance at January 1	3,989,175	1,050,642	99,837	90,144	1,614,340	889,541
Balance at December 31	1,694,055	3,989,175	131,636	99,837	1,607,727	1,614,340
(Decrease)/increase	(2,295,120)	2,938,533	31,799	9,693	(6,613)	724,799

5. OTHER EXPENSES AND LOSSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Advertising and promotion	625,108	348,982
License fees	336,676	268,730
Other support services	314,959	153,356
Utilities and fuel	242,843	96,724
Repairs and maintenance	195,341	110,511
Loss on disposal/write-off of property and equipment, construction in progress and other assets ⁽¹⁾	194,265	45,331
Loss allowance/(reversal of loss allowance) on trade receivables, net	51,260	(42,076)
Other	296,954	234,747
	<u>2,257,406</u>	<u>1,216,305</u>

⁽¹⁾ During the year ended December 31, 2018, the Group recorded a HK\$188.5 million write-off of show production costs.

6. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on bank borrowings	695,500	519,790
Amortization of debt finance costs	137,621	169,069
Loss on extinguishment of debt	5,899	—
Bank fees and charges	7,635	7,273
	<u>846,655</u>	<u>696,132</u>
Total borrowing costs	846,655	696,132
Less: capitalized interest allocated to construction in progress	(178,779)	(688,859)
	<u>667,876</u>	<u>7,273</u>

7. INCOME TAX BENEFIT/(EXPENSE)

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current income tax expense:		
Macau Dividend Withholding Tax	(19,224)	—
Macau Complementary Tax	—	(993)
Mainland China Income Tax	(1,313)	(145)
Under provision in prior year	(1,005)	(9)
	<u>(21,542)</u>	<u>(1,147)</u>
Deferred tax:		
Current period	—	(317,147)
Reversal of deferred tax liability previously recognized	317,147	—
	<u>295,605</u>	<u>(318,294)</u>

Pursuant to the approval notice 322/2016 issued by the Macau Government dated September 7, 2016, MGM Grand Paradise, the Group's principal operating subsidiary, has been exempted from Macau Complementary Tax for income generated from gaming operations for the period from January 1, 2017 to March 31, 2020. MGM Grand Paradise's non-gaming profit and the Group's other subsidiaries that carry on business in Macau remain subject to the Macau Complementary Tax, which is calculated at progressive rates up to a maximum of 12% of the estimated assessable profit for the relevant year.

The Company is subject to Macau Complementary Tax at a progressive rate of up to a maximum of 12% on dividends it receives from MGM Grand Paradise. However, pursuant to an extended tax concession arrangement issued by the Macau Government, MGM Grand Paradise paid dividend withholding tax for each of the years ended December 31, 2012 through 2016 in lieu of Macau Complementary Tax otherwise payable by the shareholders of MGM Grand Paradise on dividend distributions received by them from gaming profits. In 2017, MGM Grand Paradise made an application to the Macau Government for another extension of the tax concession arrangement for an additional five years. As at December 31, 2017, this application was still being processed and subject to approval by the Macau Government. The Company had reviewed its position and considered that cash dividends would be distributed to the shareholders of MGM Grand Paradise in the foreseeable future. Consequently, a deferred tax charge and a corresponding liability of HK\$317.1 million pertaining to the distributable profit of MGM Grand Paradise for the year ended December 31, 2017 was recognized.

On February 27, 2018, the Macau Government informed MGM Grand Paradise of the terms of the extended tax concession arrangement. MGM Grand Paradise is required to pay a dividend withholding tax of MOP9,900,000 (equivalent to approximately HK\$9,612,000) for each of the years ended December 31, 2017 through to December 31, 2019, and MOP2,475,000 (equivalent to approximately HK\$2,403,000) for the period from January 1, 2020 to March 31, 2020 as payments in lieu of Macau Complementary Tax otherwise payable by the shareholders of MGM Grand Paradise on dividend distributions received by them from gaming profit. Such annual lump sum tax payments are required regardless of whether dividends were actually distributed or whether MGM Grand Paradise has distributable profits in the relevant years. MGM Grand Paradise accepted the terms and the Macau Government issued dispatch 003/DIR/2018 which confirmed the extended tax concession arrangement to March 31, 2020 on March 15, 2018. Consequently, the deferred tax liability of HK\$317.1 million previously recognized was reversed and the dividend withholding tax of approximately HK\$19.2 million was recognized during the current year.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the current and prior years. Taxation assessable on profit generated in Mainland China has been provided at the rates of taxation prevailing in the areas in which those profit arose ranging from 20% to 25%.

At the end of the reporting period, the Group has unused tax losses as follows:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Macau Complementary Tax losses which will expire in one to three years	6,794,618	4,883,428
Hong Kong Profits Tax losses which may be carried forward indefinitely	101,556	88,154
	<u>6,896,174</u>	<u>4,971,582</u>

As at December 31, 2018, the Group has a deductible temporary difference of approximately HK\$1,173.6 million (2017: approximately HK\$629.4 million). No deferred tax assets have been recognized as it is not probable that taxable profits will be available against which unutilized tax losses and deductible temporary differences can be utilized.

8. DIVIDENDS

On May 24, 2017, a final dividend of HK\$0.160 per Share, amounting to approximately HK\$608.0 million in aggregate for the year ended December 31, 2016 was approved by the Shareholders of the Company. This dividend was paid to Shareholders on June 16, 2017.

On August 3, 2017, an interim dividend of HK\$0.116 per Share, amounting to approximately HK\$440.8 million in aggregate for the six months ended June 30, 2017 was declared by the Directors of the Company. The dividend was paid to Shareholders on September 8, 2017.

On May 24, 2018, a final dividend of HK\$0.097 per Share, amounting to approximately HK\$368.6 million in aggregate for the year ended December 31, 2017 was approved by the Shareholders of the Company. This dividend was paid to Shareholders on June 19, 2018.

On August 8, 2018, an interim dividend of HK\$0.064 per Share, amounting to approximately HK\$243.2 million in aggregate for the six months ended June 30, 2018 was declared by the Directors of the Company. The dividend was paid to Shareholders on September 10, 2018.

On March 6, 2019, a final dividend of HK\$0.034 per Share, amounting to approximately HK\$129.2 million in aggregate for the year ended December 31, 2018 has been recommended by the Directors of the Company and is subject to approval by the Shareholders of the Company in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of the basic earnings per Share for the years ended December 31, 2018 and 2017 is based upon the consolidated profit attributable to owners of the Company and the weighted average number of Shares in issue during the year.

The calculation of diluted earnings per Share for the years ended December 31, 2018 and 2017 is based upon the consolidated profit attributable to owners of the Company and on the weighted average number of Shares, including the weighted average number of Shares in issue during the year plus the potential Shares arising from exercise of share options.

The calculation of basic and diluted earnings per Share is based upon the following:

	2018	2017
Profit		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per Share (HK\$'000)	<u><u>1,068,499</u></u>	<u><u>2,320,185</u></u>
Weighted average number of Shares		
Weighted average number of Shares for the purpose of basic earnings per Share ('000)	3,800,199	3,800,188
Number of dilutive potential Shares arising from exercise of share options ('000)	<u>11,004</u>	<u>8,823</u>
Weighted average number of Shares for the purpose of diluted earnings per Share ('000)	<u>3,811,203</u>	<u>3,809,011</u>
Earnings per Share — Basic	<u><u>HK28.1 cents</u></u>	<u><u>HK61.1 cents</u></u>
Earnings per Share — Diluted	<u><u>HK28.0 cents</u></u>	<u><u>HK60.9 cents</u></u>

10. TRADE RECEIVABLES

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	419,066	238,577
Less: Loss allowance	<u>(96,429)</u>	<u>(58,750)</u>
	<u><u>322,637</u></u>	<u><u>179,827</u></u>

Trade receivables mainly consist of casino receivables. The Group grants unsecured credit lines, drawn by way of non-negotiable chips, to gaming promoters based upon pre-approved credit limits. The Group also issues markers and credit to approved casino customers (“VIP gaming 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 14 days to VIP gaming customers. Trade receivables are unsecured and non-interest bearing. The carrying amount of the trade receivables approximates their fair value.

Trade receivables from hotel customers are not significant at the end of the reporting period.

As at January 1, 2017 and January 1, 2018, trade receivables from contracts with customers amounted to HK\$224.7 million and HK\$179.8 million respectively.

The following is an analysis of trade receivables, net of loss allowance, by age presented based upon marker issuance date or invoice date:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 30 days	178,490	135,451
31 - 90 days	97,208	23,695
91 - 180 days	46,939	20,681
	<u>322,637</u>	<u>179,827</u>

11. BANK BORROWINGS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
The secured credit facilities are repayable:		
Within one year	3,120,000	6,045,000
Over one year but not exceeding two years	3,120,000	11,940,500
Over two years but not exceeding five years	12,820,000	—
	<u>19,060,000</u>	<u>17,985,500</u>
Less: Debt finance costs	(186,795)	(146,281)
	<u>18,873,205</u>	<u>17,839,219</u>
Current	780,000	6,045,000
Non-current	18,093,205	11,794,219
	<u>18,873,205</u>	<u>17,839,219</u>

Overview

On October 22, 2012, the Company and MGM Grand Paradise as co-borrowers entered into an amended and restated credit agreement (the “Amended Credit Facilities”) with certain lenders. The Amended Credit Facilities included a HK\$4.29 billion term loan facility and a HK\$11.31 billion revolving credit facility.

The second amended and restated credit agreement (the “Second Amended Credit Facilities”) which became effective on June 12, 2015 extended the maturity of the Amended Credit Facilities to April 29, 2019 and expanded the term loan facility set out in the Amended Credit Facilities to HK\$12.09 billion.

Further amendments to the Group’s borrowing facilities were executed on February 2, 2016 (the “Third Supplemental Agreement”) and February 15, 2017 (the “Fourth Supplemental Agreement”) to provide the Group with the necessary covenant flexibility while MGM COTAI was in the construction phase.

An amendment to the Fourth Supplemental Agreement was executed (the “Fifth Supplemental Agreement”) on June 15, 2018. The Fifth Supplemental Agreement, effective on June 22, 2018, amended certain major terms of the Second Amended Credit Facilities as follows: (i) the total revolving credit commitments (the “Total Revolving Credit Commitments”) under the Second Amended Credit Facilities were reduced from HK\$11.31 billion to HK\$7.8 billion; and the total term loan commitments under the Second Amended Credit Facilities were increased from HK\$12.09 billion to HK\$15.6 billion (the aggregate amount under the Second Amended Credit Facilities remained unchanged); (ii) the final maturity date of the Second Amended Credit Facilities was extended from April 29, 2019 to June 26, 2022, but no revolving credit loans or term loans shall remain outstanding after, and no revolving credit or term loan commitments shall be available after, in each case, March 31, 2022. Save as disclosed above, other major terms under the Second Amended Credit Facilities remained unchanged.

As at December 31, 2018, the Group intends and has the ability to make the repayments of the term loan by drawing down on its revolving credit facility. Bank borrowings due to be paid within the next twelve months as at December 31, 2018 were classified as non-current, with the exception of HK\$780 million of the term loan in excess of the available borrowings under the revolving credit facility, and this amount was classified as a current liability.

Principal and Interest

The Fifth Supplemental Agreement bears interest at HIBOR plus a margin ranging from 1.375% to 2.50% per annum, as determined by the Group’s leverage ratio. The term loan facility is repayable in installments of 5% of the principal amount on a quarterly basis commencing in September 30, 2018, and a final installment of 30% of the principal amount in March 31, 2022. As at December 31, 2018, HK\$15.6 billion of the term loan facility was fully drawn while HK\$2.78 billion of the revolving credit facility was undrawn and available for utilization up to March 2022. Each drawdown under the revolving credit facility is to be repaid in full no later than March 31, 2022. As at December 31, 2018, the Group paid interest at HIBOR plus 2.50% per annum (2017: HIBOR plus 2.50% per annum). The weighted average interest rate on the Group’s borrowings for the year ended December 31, 2018 was 4.92% per annum (2017: 4.11% per annum).

General Covenants

The Fifth Supplemental Agreement contains general covenants restricting the ability of the obligor group (the Company and certain of its subsidiaries, namely the “Restricted Group”) 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

The leverage ratio under the Fifth Supplemental Agreement was required to be no greater than 6.0 to 1.0 for the quarter ended June 30, 2018. This ratio is reduced to no greater than 5.5 to 1.0 for the quarter ended September 30, 2018, no greater than 5.0 to 1.0 for the quarter ended December 31, 2018, and no greater than 4.5 to 1.0 for each accounting period occurring on and after March 31, 2019 through maturity.

In addition, the Group is required to maintain an interest coverage ratio of no less than 2.5 to 1.0 at each quarter end.

Compliance with Covenants

The Group has complied with the general and financial covenants contained in the Fifth Supplemental Agreement, the Fourth Supplemental Agreement and the Third Supplemental Agreement for the years ended December 31, 2018 and 2017.

Mandatory Prepayments

The Fifth Supplemental Agreement contains 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 or sale of the MGM Grand Paradise business.

In addition, in the event that MGM Grand Paradise does not obtain an extension to its gaming sub-concession arrangement under the Sub-Concession Contract (the “Sub-Concession Extension”) by March 31, 2020, the revolving credit facility will be reduced to HK\$4.68 billion on March 31, 2020. Any revolving credit loans in excess of HK\$4.68 billion outstanding on such date shall be prepaid together with accrued interest on such date (and not thereafter be available for redrawing) and the Total Revolving Credit Commitments shall be reduced on such date to HK\$4.68 billion; and if, after any initial Sub-Concession Extension or any subsequent Sub-Concession Extensions, such gaming sub-concession arrangement expires prior to March 31, 2022, the revolving credit facility will be reduced to HK\$4.68 billion on the date of the expiry of such gaming sub-concession arrangement after any Sub-Concession Extension.

Dividend Restrictions

Under the Fifth Supplemental Agreement, if the leverage ratio exceeds 4.0 multiples, the Group may only pay dividends up to US\$150 million (equivalent to approximately HK\$1.2 billion), including any dividends paid during the preceding 12-month period. To the extent the leverage ratio falls below 4.0 multiples but still exceeds 3.5, the Group may only pay dividends up to US\$300 million (equivalent to approximately HK\$2.3 billion), including any dividends paid during the preceding 12-month period. As at December 31, 2018, the Group's leverage ratio was approximately 4.28. The aggregate dividends paid and payable by the Group are within the cap of US\$150 million (equivalent to approximately HK\$1.2 billion) during the preceding 12-month period.

Events of Default

The Fifth Supplemental Agreement contains certain events of default, and certain insolvency-related proceedings relating to the Group. Pursuant to the Fifth Supplemental Agreement, a divestment of holdings in the Company by MGM Resorts International below 50% control or any holdings in MGM Grand Paradise by the Company would constitute a change of control and trigger mandatory prepayment of the outstanding loan balances.

Security and Guarantees

Collateral for the term loan and revolving credit facility consists of most of the assets, including but not limited to property and equipment, land use right and bank balances and cash of the Group and the shares of MGM Grand Paradise and some of its subsidiaries. Certain of the Company's direct and indirect subsidiaries (where applicable) have executed guarantees as security.

12. PAYABLES AND ACCRUED CHARGES

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Outstanding chips liabilities	4	1,694,055	3,989,175
Customer advances and other	4	1,607,727	1,614,340
Construction payables and accruals		1,214,164	2,034,857
Special gaming tax and special levy payables		931,609	619,066
Accrued staff costs		574,746	404,876
Other casino liabilities		387,719	189,710
Other payables and accrued charges		300,942	371,628
Loyalty program liabilities	4	131,636	99,837
Trade payables		31,400	15,608
		6,873,998	9,339,097
Current		6,856,506	9,319,489
Non-current		17,492	19,608
		6,873,998	9,339,097

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 30 days	17,552	10,727
31 - 60 days	9,173	4,292
61 - 90 days	4,283	171
91 - 120 days	35	357
Over 120 days	357	61
	<hr/> 31,400 <hr/> <hr/>	<hr/> 15,608 <hr/> <hr/>

The average credit period on purchases of goods and services is one month.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a leading developer, owner and operator of integrated casino, hotel and entertainment resorts in Macau. MGM Grand Paradise, our subsidiary, holds one of the six gaming concessions/sub-concessions permitted by the Macau Government to operate casinos or gaming areas in Macau. The Group currently owns and operates MGM MACAU and MGM COTAI. We offer high-quality gaming, hospitality and entertainment experiences to attract and retain our customers.

On January 25, 2018, the Group received notification from the Gaming Inspection and Coordination Bureau of Macau (“DICJ”) of the approval of 100 new gaming tables and 982 slot machines for operation at MGM COTAI in January 2018, and 25 new gaming tables for operation effective on January 1, 2019 for a total of 125 new gaming tables at MGM COTAI in aggregate. In addition, DICJ also approved the initial transfer of 77 gaming tables from MGM MACAU to MGM COTAI.

MGM MACAU

MGM MACAU opened in December 2007. The casino floor offers approximately 34,404 square meters, with 806 slot machines, 291 gaming tables, and multiple VIP and private gaming areas as at December 31, 2018. The hotel comprises a 35-storey tower with 585 deluxe rooms, suites and villas. In addition, the resort offers luxurious amenities, including 8 diverse restaurants, retail outlets, world-class pool and spa facilities, and approximately 1,600 square meters of convertible convention space. 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. MGM MACAU is directly connected to the One Central complex, which features many of the world’s leading luxury retailers and includes Mandarin Oriental Hotel and serviced apartments.

MGM COTAI

MGM COTAI opened on February 13, 2018 with an expected total development cost of approximately HK\$27 billion, excluding land costs and capitalized interest. The resort is conveniently located with multiple access points from other Cotai hotels and public offerings. The casino floor offers approximately 27,696 square meters, with 1,218 slot machines and 236 gaming tables as at December 31, 2018. The hotel comprises two towers with 1,362 deluxe rooms and suites, 12 diverse restaurants and bars, retail outlets, approximately 2,870 square meters of meeting space and other non-gaming offerings. The scale of MGM COTAI allows us to capitalize

on our international expertise in providing exciting and diversified entertainment offerings. The Spectacle, situated at the heart of MGM COTAI, is enriched with incredible experiential technology elements to entertain our guests. MGM COTAI offers Asia's first dynamic theater introducing advanced and innovative entertainment to Macau. Our new VIP gaming areas were opened in September 2018 with the addition of a number of significant gaming promoters. This allows us to expand our gaming operations and enhance our competitiveness. In addition, our ultra-luxury The Mansion is expected to be launched in March 2019.

Our Competitive Strengths and Operating Strategies

We have a number of competitive strengths including:

- Our international expertise in providing exciting and diversified entertainment offerings;
- Segment and targeted marketing to various customer groups through our Mlife customer loyalty program;
- Strong analytical capability for operations and marketing; and
- Effective execution of our strategies by our experienced operations team.

To build on our competitive strengths, we constantly implement the following strategies including continuous improvement in customer experience, employee engagement and operational efficiency.

- Make enhancements and refinements in our resorts such as the key gaming areas to enhance traffic flow and capture more high-end mass business;
- Review our business relationship with each of our gaming promoters and identify potential gaming promoters to grow our VIP business;
- Develop and diversify our offerings to cater to different market segments;
- Introduce innovative gaming products and technologies to enhance customer experience and maintain competitive advantage;
- Develop our Mlife customer loyalty program in order to increase brand awareness and customer loyalty;

- Work on technologies to enhance our analytical capability for operations and marketing to deliver personalized marketing programs;
- Manage our gaming mix by evaluating table yield and the number of table open hours in relation to business volume and maximize our table utilization and profitability;
- Bring world class arts and culture to entertain the local community and drive international visitation; and
- Invest in professional and service training to our employees with the goal of building a culture of excellence in executing customer experience.

Macau Gaming Market

The Macau gaming market has recovered since August 2016 and additional capacity has been added in recent years with several new large-scale integrated resorts opening in Cotai. Total gross gaming revenue in the Macau market increased by 14.0% to HK\$294.0 billion for the year ended December 31, 2018 over the prior year.

Despite the recovery, a number of factors have adversely impacted the Macau gaming market commencing from the second half of 2014 as a result of the effect of China and Macau Government policies. Major factors impacting the Macau gaming market include: economic disruption or uncertainty in China; restriction on exit visas from China for travel to Macau and Hong Kong; anti-corruption campaigns; currency transfer restrictions; border currency declaration system and monetary outflow policies. These policies may affect the number of visitors and amount of capital outflow from China to Macau. Additionally, smoking restrictions in mass gaming floors and VIP areas also impact the Group's gaming performance.

Tourism

The Statistics and Census Service of the Macau Government reported that visitor arrivals reached 35.8 million in 2018 which increased by 9.8% over the prior year. Customers travelling to Macau are typically from nearby regions in Asia including mainland China, Hong Kong, Taiwan, South Korea and Japan. Approximately 70.6% of visitors to Macau in 2018 were from mainland China which increased by 13.8% over the prior year and reached 25.3 million.

We are optimistic about the long-term growth of the Macau market due to:

- The financial investments made by gaming concessionaires, including MGM China, in the opening of new properties providing superior and diversified products to further position Macau as a world class tourism center;
- Infrastructure improvements, such as the opening of the Hong Kong-Zhuhai-Macau bridge in October 2018; the expansion of the Macau Airport; the Zhuhai and Macau border gate 24-hour single check point; the Macau Light Rapid Transit System. All are expected to facilitate more convenient travel to Macau;
- The ongoing expansion of the China High Speed Rail routes to Zhuhai border gate from key cities in China; and
- The continuous growth of China outbound tourism, particularly in light of the growing middle class.

Competition

Currently, there are six gaming concessionaires operating in Macau, each of which has completed or has expansion plans underway. As at December 31, 2018, there were 41 casinos in Macau. Several development projects in the Cotai area were completed prior to our MGM COTAI opening on February 13, 2018. In addition, there are several development projects anticipated in the coming years. There is a continuing market share migration from the Macau Peninsula to Cotai. Our overall gaming market share increased from 7.0% for the year ended December 31, 2017 to 7.9% for the year ended December 31, 2018 due in part to the opening of MGM COTAI.

Our competition is not geographically limited to the Macau market. We compete with similar businesses in other parts of the world including, but not limited to, integrated resorts in Cambodia, Vietnam, Saipan, South Korea, Singapore, the Philippines, Australia and Las Vegas.

Segment Information

The Group has determined its operating segments based upon the reports reviewed by the Group's Chief Executive Officer (being the chief operating decision-maker) when allocating resources and assessing performance of the Group.

The Group's principal operating activities occur in Macau, which is the primary geographic area in which the Group is domiciled. The Group reviews the results of operations for each of its properties being MGM MACAU and MGM COTAI (the latter opened on February 13, 2018). Each of the properties derives its revenue primarily from casino, hotel rooms, food and beverage and retail operations. MGM MACAU and MGM COTAI have been aggregated into one reportable segment on the basis that they have similar economic characteristics, types of customers, types of services and products provided, and the regulatory environment in which they operate. Adjusted EBITDA is considered to be the primary profit measure for the reportable segment.

Adjusted EBITDA

Adjusted EBITDA is profit before finance costs, income tax benefit/expense, depreciation and amortization, loss on disposal/write-off of property and equipment, construction in progress and other assets, interest income, net foreign currency difference, share-based payments, pre-opening costs, corporate expenses which mainly include administrative expenses of the corporate office and license fee paid to a related company and other non-recurring expenses. Adjusted EBITDA is used by management as the primary measure of the Group's operating performance and to compare our operating performance with that of our competitors. Adjusted EBITDA should not be considered in isolation, construed as an alternative to profit or operating profit as reported under IFRS 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 announcement may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors.

The following table presents the reconciliation of the Group's adjusted EBITDA to profit attributable to owners of the Company for the years ended December 31, 2018 and 2017:

	For the year ended	
	December 31	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Adjusted EBITDA:		
MGM MACAU (unaudited)	3,983,223	4,587,435
MGM COTAI (unaudited)	853,957	—
	<hr/>	<hr/>
Total adjusted EBITDA (unaudited)	4,837,180	4,587,435
Share-based payments	(76,639)	(79,900)
Corporate expenses (unaudited)	(484,033)	(414,375)
Pre-opening costs ⁽¹⁾ (unaudited)	(496,945)	(624,583)
Loss on disposal/write-off of property and equipment, construction in progress and other assets	(194,265)	(45,331)
Depreciation and amortization	(2,150,305)	(799,045)
Interest income	12,113	5,046
Finance costs	(667,876)	(7,273)
Net foreign currency (loss)/gain	(6,336)	16,505
Income tax benefit/(expense)	295,605	(318,294)
	<hr/>	<hr/>
Profit for the year attributable to owners of the Company	1,068,499	2,320,185
	<hr/> <hr/>	<hr/> <hr/>

⁽¹⁾ Pre-opening costs primarily represented personnel and other costs incurred prior to the opening of MGM COTAI.

Discussion of Results of Operations

Financial results for the year ended December 31, 2018 compared to financial results for the year ended December 31, 2017

Operating Revenue

The following table sets forth the operating revenue for the years ended December 31, 2018 and 2017.

	For the year ended	
	December 31	
	2018	2017
	HK\$'000	HK\$'000
MGM MACAU	13,488,705	14,480,532
Casino revenue	12,502,405	13,557,440
Other revenue	986,300	923,092
	<hr/>	<hr/>
MGM COTAI ⁽¹⁾	5,712,016	—
Casino revenue	4,673,645	—
Other revenue	1,038,371	—
	<hr/>	<hr/>
Total operating revenue	19,200,721	14,480,532
	<hr/> <hr/>	<hr/> <hr/>

Note: The Company adopted the new revenue recognition accounting standard (“IFRS 15”), effective January 1, 2018. Certain prior year amounts have been retrospectively adjusted under IFRS 15.

⁽¹⁾ MGM COTAI opened on February 13, 2018.

Total operating revenue of HK\$19,200.7 million for the year ended December 31, 2018 was 32.6% higher than the prior year and included for the first time the results of MGM COTAI which opened on February 13, 2018. The continued growth in the Macau gaming market has resulted in us recording higher total gaming volumes in the current year compared to the prior year but the reported casino revenue has been adversely affected by a decrease in table games win percentages and slot hold percentages during the current year as shown in the summary statistics table.

(in thousands, except for number of gaming units, percentage, and REVPAR)	For the year ended December 31 2018 HK\$'000 (unaudited)
MGM COTAI ⁽³⁾	
VIP table games turnover	37,836,369
VIP gross table games win ⁽¹⁾	1,266,838
VIP table games win percentage (calculated before commissions, complimentaries and other incentives)	3.35%
Average daily gross win per VIP gaming table	173.6
Main floor table games drop	19,997,067
Main floor gross table games win ⁽¹⁾	3,901,036
Main floor table games win percentage	19.5%
Average daily gross win per main floor gaming table	72.7
Slot machine handle	23,774,287
Slot machine gross win ⁽¹⁾	728,263
Slot hold percentage	3.1%
Average daily win per slot	1.9
Commissions, complimentaries and other incentives ⁽¹⁾	(1,222,492)
Room occupancy rate	90.4%
REVPAR	1,290
	As at December 31 2018 (unaudited)

Gaming Units:	
Tables ⁽²⁾	236
Slot machines	1,218

⁽¹⁾ Casino revenue is different to the total of “VIP gross table games win”, “main floor gross table games win” and “slot machine gross win” because casino revenue is reported net of commissions, complimentaries and other incentives. The following table sets forth a reconciliation of the gaming wins to casino revenue.

	For the year ended	
	December 31	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
VIP gross table games win	9,682,345	8,566,563
Main floor gross table games win	10,905,514	8,138,837
Slot machine gross win	2,233,048	1,406,587
	<hr/>	<hr/>
Gross casino revenue	22,820,907	18,111,987
Commissions, complimentaries and other incentives	(5,644,857)	(4,554,547)
	<hr/>	<hr/>
Casino revenue	17,176,050	13,557,440
	<hr/> <hr/>	<hr/> <hr/>

⁽²⁾ Permanent table count as at December 31, 2018 and 2017.

⁽³⁾ MGM COTAI opened on February 13, 2018.

Note: The Company adopted the new revenue recognition accounting standard (“IFRS 15”), effective January 1, 2018. Certain prior year amounts have been retrospectively adjusted under IFRS 15.

Casino Revenue

Casino revenue increased by 26.7% to HK\$17,176.1 million for the year ended December 31, 2018. The components of our gaming operations were:

VIP Gaming Operations

Gaming Promoters

A significant amount of our VIP casino play is referred to us by gaming promoters, with whom we have established good business relationships and who have historically played an important role in the Macau gaming market. Gaming promoters introduce high-end VIP players to us and normally assist those customers with their travel and entertainment arrangements. From time to time and on a case-by-case basis, we grant credit, which is non-interest bearing, to certain gaming promoters at the beginning of each month to facilitate their working capital requirements.

In exchange for their services, we compensate the gaming promoters by paying them a commission based upon a percentage of the gross table games win or a percentage of the table games turnover they generate. The commission is settled on a monthly basis normally no later than the second business day of the succeeding month and prior to the re-issuance of credit. They also earn a complimentary allowance based upon a percentage of the table games turnover they generate, which can be applied to hotel rooms, food, beverage and other discretionary customer-related expenses.

The quality of gaming promoters with whom we engage in business is important to our reputation and ability to operate in compliance with our Sub-concession Contract and Macau gaming laws. We continue to review our business relationship with each of our gaming promoters and identify potential new gaming promoters having particular regard to their financial performance and management capability.

In-house VIP players

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

We selectively grant credit to certain in-house VIP players whose level of play and financial resources meet our approval criteria. We conduct a number of credit checking procedures including the receipt of various signed documents from each credit recipient. If permitted by applicable laws, these documents may aid in legally enforcing collections in countries where the gaming promoters and VIP players reside.

In order to minimize the credit risk with gaming promoters and in-house VIP players, the Group has a designated management team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover all receivables. The Group currently has a legally enforceable right to set off the receivables against the deposits, commissions and incentives liabilities that are to be settled simultaneously. We generally do not charge interest for credit granted, but require a personal check or other acceptable forms of security. We have been successful in collecting some receivables previously considered to be irrecoverable. The Group regularly reviews the recoverable amount of each individual debt to ensure that adequate loss allowances are made for irrecoverable amounts.

Our VIP gross table games win increased by 13.0% to HK\$9,682.3 million for the year ended December 31, 2018. The increase was primarily due to an increase in turnover by 18.2% to HK\$318,195.3 million in 2018 which includes the impact of the opening of MGM COTAI and partly offset by the decrease in VIP table games win percentage at MGM MACAU.

Main Floor Table Gaming Operations

Main floor table gaming operations in the Macau market are also referred to as the “mass market gaming operation”. Unlike VIP players, main floor players do not receive commissions from the Group and, accordingly, the profit margin from the main floor business is higher than the VIP operation. The main floor business is the most profitable part of our operations as well as for the Macau gaming market as a whole. We believe this operation represents the most potential for sustainable growth in the future.

Main floor gross table games win increased by 34.0% to HK\$10,905.5 million for the year ended December 31, 2018 primarily due to opening of MGM COTAI which contributed an increase in the drop of 47.5% to HK\$59,300.8 million in total. The increase was partly offset by a decrease in main floor table games win percentage in 2018. Despite the market share migration from the Macau Peninsula to Cotai, the effect on our revenues at MGM MACAU was mitigated by our continuous efforts to improve the gaming experience of our high value main floor players in MGM MACAU by renovating the dedicated exclusive gaming space for their use. We continued to reallocate tables from VIP gaming to our main floor gaming areas to maximize our yield. We leveraged our Golden Lion Club as a vehicle to attract and retain those high value main floor players through exclusive customer service and promotions.

Slot Machine Gaming Operations

Slot machine gross win increased by 58.8% to HK\$2,233.0 million for the year ended December 31, 2018 primarily due to an increase in handle by 88.0% to HK\$58,329.6 million which includes the impact of the opening of MGM COTAI. The increase was partly offset by a decrease in slot hold percentage in 2018.

Other Revenue

Other revenue includes hotel rooms, food, beverage, retail and entertainment and increased by 119.3% to HK\$2,024.7 million for the year ended December 31, 2018 primarily due to the opening of MGM COTAI on February 13, 2018 that brought more non-gaming offerings on line. The non-gaming facilities and services are important to establish our brand and maintain our popularity in Macau and the region in order to encourage visitation and extend the length of customers’ stay within our integrated resorts.

Non-gaming Attractions and Branding Activities

We recognize the importance of brand awareness in growing our business. We have enhanced our marketing activities to take advantage of our internationally recognized brand. Brand-building initiatives are driven through promotions, events, strategic alliances and public relation activities. In 2018, new art exhibitions were brought into MGM MACAU and MGM COTAI including the “Giraffe-ic Park”, “ART IS PLAY”, “Explore the beauty of Chinese embroidery” and “Celebrating Life — Ju Ming Living World Sculpture Selling Exhibition” to support our goals of diversification and driving incremental visitors into our resorts.

With the opening of MGM COTAI on February 13, 2018, we continue to deliver exciting and memorable events at our properties for the benefit of our customers in support of the Macau Government’s vision for diversification. Such elements include the explicit Art Collection of 28 Chinese imperial carpets dating from Qing Dynasty that once adorned the Forbidden City in Beijing; the innovative Spectacle and Asia’s first dynamic theater featuring multi-dimensional sensory experience enriched with incredible experiential technology elements which we believe will break the boundaries between imagination and reality to delight and captivate our guests.

These non-gaming offerings attract visitors to our resorts and create a sense of anticipation among our customers, local communities and tourists about the activities at MGM MACAU and MGM COTAI. In addition, we continue to improve customer experience by enhancing our hotel rooms, food, beverage, retail and entertainment offerings by expanding and refurbishing our non-gaming areas.

Operating Costs and Expenses

The major operating costs and expenses for the years ended December 31, 2018 and 2017 were:

	For the year ended	
	December 31	
	2018	2017
	HK\$’000	HK\$’000
Special gaming tax and special levy to the Macau Government	9,198,431	7,214,106
Inventories consumed	653,828	302,666
Staff costs	3,505,758	2,324,209
Other expenses and losses	2,257,406	1,216,305
Depreciation and amortization	2,150,305	799,045
Finance costs	667,876	7,273
Income tax (benefit)/expense	(295,605)	318,294

Note: The Company adopted the new revenue recognition accounting standard (“IFRS 15”), effective January 1, 2018. Certain prior year amounts have been retrospectively adjusted under IFRS 15.

Special gaming tax and special levy to the Macau Government

Special gaming tax and special levy to the Macau Government increased year-over-year by 27.5% to HK\$9,198.4 million in 2018. This increase was mainly attributable to the higher gross casino win generated after the opening of MGM COTAI during the current year.

Inventories consumed

Inventories consumed increased year-over-year by 116.0% to HK\$653.8 million in 2018. This increase was primarily due to increase in consumptions of supplies, including gaming supplies such as cards and other supplies in response to our business activities and the opening of MGM COTAI.

Staff costs

Staff costs increased year-over-year by 50.8% to HK\$3,505.8 million in 2018 which was primarily due to hiring of additional staff in preparation for the pre-opening and operation of MGM COTAI during the current year.

Other expenses and losses

Other expenses and losses increased year-over-year by 85.6% to HK\$2,257.4 million in 2018, which mainly result from:

Advertising and promotion expense. Advertising and promotion expense increased by 79.1% from HK\$349.0 million in 2017 to HK\$625.1 million in 2018. The increase resulted from more marketing activities being organized during the current year in response to the increased competition and the opening of MGM COTAI.

License fee and marketing fees. License fee and marketing fees due to related companies increased by 23.9% from HK\$284.4 million in 2017 to HK\$352.2 million in 2018. This increase primarily resulted from the higher revenue generated after the opening of MGM COTAI during the current year.

Loss allowance/(reversal of loss allowance) on trade receivables, net. Loss allowance on trade receivables, net, was an expense of HK\$51.3 million in 2018 compare to a gain of HK\$42.1 million in 2017. The prior year gain primarily resulted from recovery of doubtful debts provided for in previous years. The Company applied the IFRS 9 simplified approach to recognize lifetime expected credit losses for trade receivables effective from January 1, 2018.

Loss on disposal/write-off of property and equipment, construction in progress and other assets. Loss on disposal/write-off of property and equipment, construction in progress and other assets increased by 328.6% from HK\$45.3 million in 2017 to HK\$194.3 million in 2018. This increase primarily resulted from a HK\$188.5 million write-off of show production costs during the current year.

Depreciation and amortization

Depreciation and amortization increased year-over-year by 169.1% to HK\$2,150.3 million in 2018. This increase was primarily due to the opening of MGM COTAI on February 13, 2018 as well as renovation works completed and placed into service at MGM MACAU during the current year. This was partly offset by the impact of full depreciation of certain assets in 2018 and a change in the estimated useful lives of buildings and improvements, which was effective from November 1, 2017, to better reflect the estimated periods during which these assets are expected to remain in service.

Finance costs

Total borrowing costs increased by HK\$150.5 million to HK\$846.7 million in 2018 mainly due to a HK\$175.7 million increase in interest incurred for additional bank borrowings as well as an increase in interest rates during the current year.

Finance costs increased from HK\$7.3 million in 2017 to HK\$667.9 million in 2018 mainly due to a HK\$510.1 million decrease in capitalized interest as MGM COTAI opened on February 13, 2018.

Income tax (benefit)/expense

Income tax expense in the prior year primarily relates to a deferred tax charge of HK\$317.1 million provided on the distributable profit of MGM Grand Paradise due to the application by the Group for the extension of the tax concession arrangement being not yet approved at December 31, 2017. This deferred tax charge was reversed during the year following approval of the Group's application. Details of income tax (benefit)/expense are set out in note 7 to the consolidated financial statements.

Profit attributable to owners of the Company

Profit attributable to owners of the Company decreased by 53.9% from HK\$2,320.2 million in 2017 to HK\$1,068.5 million in 2018. The decrease was due primarily to the impact of the ramp up of operations at MGM COTAI with some of the elements of that property such as VIP gaming areas, The Mansion and theater not being available when MGM COTAI opened on February 13, 2018 combined with the lead times required for operational enhancements.

The decrease was also affected by lower table games win percentages and slot hold percentages compared to the prior year as well as pre-opening and depreciation expenses of MGM COTAI.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

As at December 31, 2018, our bank balances and cash, and available undrawn credit facilities were HK\$3.99 billion and HK\$2.78 billion respectively. This balance is available for operations, new development activities and enhancement to our properties, repayment of bank borrowings and other corporate purposes.

Gearing Ratio

The Group's gearing ratio is calculated as net debt divided by equity plus net debt. Net debt comprises bank borrowings, net of debt finance costs, less bank balances and cash. Equity comprised all capital and reserves of the Group. The following table presents the calculation of the Group's gearing ratio as at December 31, 2018 and 2017.

	As at	
	December 31	
	2018	2017
	HK\$'000	HK\$'000
Bank borrowings, net of debt finance costs	18,873,205	17,839,219
Less: bank balances and cash	(3,992,107)	(5,283,387)
Net debt	14,881,098	12,555,832
Total equity	8,945,779	8,512,356
Total capital	23,826,877	21,068,188
Gearing ratio	62.5%	59.6%

Group Cash Flows

The following table presents a summary of the Group's cash flows for the years ended December 31, 2018 and 2017.

	For the year ended	
	December 31	
	2018	2017
	HK\$'000	HK\$'000
Net cash generated from operating activities	2,159,044	7,157,880
Net cash used in investing activities	(2,915,072)	(6,773,410)
Net cash (used in)/generated from financing activities	(532,933)	1,348,971
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(1,288,961)	1,733,441
Cash and cash equivalents at the beginning of the year	5,283,387	3,547,130
Effect of foreign exchange rate changes, net	(2,319)	2,816
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<u>3,992,107</u>	<u>5,283,387</u>

Net cash generated from operating activities

Our net cash generated from operating activities was primarily affected by operating income generated and changes in working capital. Net cash from operating activities was HK\$2,159.0 million in 2018 compared to HK\$7,157.9 million in 2017. The decrease was due primarily to cash used in the opening of MGM COTAI and the ramp up of its operations during the current year.

Net cash used in investing activities

Net cash used in investing activities was HK\$2,915.1 million in 2018 compared to HK\$6,773.4 million in 2017. The major components of the cash flow used in investing activities related to payments for the construction of MGM COTAI and renovation work carried out at MGM MACAU as well as purchase of property and equipment in total amounting to HK\$2,786.1 million and HK\$6,559.7 million in 2018 and 2017 respectively. Other payments primarily related to developers' fees due to a related company in both years while the 2017 amount also included payments of the land use right premium.

Net cash (used in)/generated from financing activities

Net cash used in financing activities was HK\$532.9 million in 2018 compared to HK\$1,349.0 million of net cash generated from financing activities in 2017. The increase in net cash used mainly resulted from HK\$3,825.5 million of credit facilities repaid and HK\$611.8 million of dividend paid in 2018 compared to HK\$1,404.5 million of credit facilities repaid and HK\$1,048.8 million of dividend paid in 2017.

Capital Commitments

As at December 31, 2018, the Group had the following capital commitments under construction contracts and other capital related agreements that are not recorded in the consolidated financial statements:

	As at December 31	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not accounted for	144,442	642,581

Contingent Liabilities

As at December 31, 2018 and 2017, the Group had given bank guarantees totaling HK\$299.1 million and HK\$302.6 million respectively in relation to the Sub-Concession, land concession and other operating purposes.

The Group has been named as a defendant in legal proceedings filed in the Macau Court of First Instance against two independent Macau gaming promoters by individuals who claim to have placed cash deposits with gaming promoters who had operations at MGM MACAU, on the grounds of section 29 of the Administrative Regulation no. 6/2002, whereby gaming concessionaires are jointly liable for the activities carried out in their casinos by gaming promoters. These cases are at an early stage and the Group intends to vigorously defend its position that it is not liable. Management does not believe that the outcome of such proceedings will have a material adverse effect on the Group's financial position, results of operations or cash flows.

Indebtedness

As at December 31, 2018 and 2017, the Group had drawn down bank borrowings of HK\$19.06 billion and HK\$17.99 billion under our Fifth Supplemental Agreement and Fourth Supplemental Agreement, respectively. The Group has HK\$2.78 billion and HK\$4.81 billion available to draw down as at December 31, 2018 and 2017 respectively under those agreements.

Term Loan Facility and Revolving Credit Facility

Overview

On October 22, 2012, the Company and MGM Grand Paradise as co-borrowers entered into an amended and restated credit agreement (the “Amended Credit Facilities”) with certain lenders. The Amended Credit Facilities included a HK\$4.29 billion term loan facility and a HK\$11.31 billion revolving credit facility.

The second amended and restated credit agreement (the “Second Amended Credit Facilities”) which became effective on June 12, 2015 extended the maturity of the Amended Credit Facilities to April 29, 2019 and expanded the term loan facility set out in the Amended Credit Facilities to HK\$12.09 billion.

Further amendments to the Group’s borrowing facilities were executed on February 2, 2016 (the “Third Supplemental Agreement”) and February 15, 2017 (the “Fourth Supplemental Agreement”) to provide the Group with the necessary covenant flexibility while MGM COTAI was in the construction phase.

An amendment to the Fourth Supplemental Agreement was executed (the “Fifth Supplemental Agreement”) on June 15, 2018. The Fifth Supplemental Agreement, effective on June 22, 2018, amended certain major terms of the Second Amended Credit Facilities as follows: (i) the total revolving credit commitments (the “Total Revolving Credit Commitments”) under the Second Amended Credit Facilities were reduced from HK\$11.31 billion to HK\$7.8 billion; and the total term loan commitments under the Second Amended Credit Facilities were increased from HK\$12.09 billion to HK\$15.6 billion (the aggregate amount under the Second Amended Credit Facilities remained unchanged); (ii) the final maturity date of the Second Amended Credit Facilities was extended from April 29, 2019 to June 26, 2022, but no revolving credit loans or term loans shall remain outstanding after, and no revolving credit or term loan commitments shall be available after, in each case, March 31, 2022. Save as disclosed above, other major terms under the Second Amended Credit Facilities remained unchanged.

As at December 31, 2018, the Group intends and has the ability to make the repayments of the term loan by drawing down on its revolving credit facility. Bank borrowings due to be paid within the next twelve months as at December 31, 2018 were classified as non-current, with the exception of HK\$780 million of the term loan in excess of the available borrowings under the revolving credit facility, and this amount was classified as a current liability.

Principal and Interest

The Fifth Supplemental Agreement bears interest at HIBOR plus a margin ranging from 1.375% to 2.50% per annum, as determined by the Group's leverage ratio. The term loan facility is repayable in installments of 5% of the principal amount on a quarterly basis commencing in September 30, 2018, and a final installment of 30% of the principal amount in March 31, 2022. As at December 31, 2018, HK\$15.6 billion of the term loan facility was fully drawn while HK\$2.78 billion of the revolving credit facility was undrawn and available for utilization up to March 2022. Each drawdown under the revolving credit facility is to be repaid in full no later than March 31, 2022. As at December 31, 2018, the Group paid interest at HIBOR plus 2.50% per annum (2017: HIBOR plus 2.50% per annum). The weighted average interest rate on the Group's borrowings for the year ended December 31, 2018 was 4.92% per annum (2017: 4.11% per annum).

General Covenants

The Fifth Supplemental Agreement contains general covenants restricting the ability of the obligor group (the Company and certain of its subsidiaries, namely the "Restricted Group") 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

The leverage ratio under the Fifth Supplemental Agreement was required to be no greater than 6.0 to 1.0 for the quarter ended June 30, 2018. This ratio is reduced to no greater than 5.5 to 1.0 for the quarter ended September 30, 2018, no greater than 5.0 to 1.0 for the quarter ended December 31, 2018, and no greater than 4.5 to 1.0 for each accounting period occurring on and after March 31, 2019 through maturity.

In addition, the Group is required to maintain an interest coverage ratio of no less than 2.5 to 1.0 at each quarter end.

Compliance with Covenants

The Group has complied with the general and financial covenants contained in the Fifth Supplemental Agreement, the Fourth Supplemental Agreement and the Third Supplemental Agreement for the years ended December 31, 2018 and 2017.

Mandatory Prepayments

The Fifth Supplemental Agreement contains 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 or sale of the MGM Grand Paradise business.

In addition, in the event that MGM Grand Paradise does not obtain an extension to its gaming sub-concession arrangement under the Sub-Concession Contract (the “Sub-Concession Extension”) by March 31, 2020, the revolving credit facility will be reduced to HK\$4.68 billion on March 31, 2020. Any revolving credit loans in excess of HK\$4.68 billion outstanding on such date shall be prepaid together with accrued interest on such date (and not thereafter be available for redrawing) and the Total Revolving Credit Commitments shall be reduced on such date to HK\$4.68 billion; and if, after any initial Sub-Concession Extension or any subsequent Sub-Concession Extensions, such gaming sub-concession arrangement expires prior to March 31, 2022, the revolving credit facility will be reduced to HK\$4.68 billion on the date of the expiry of such gaming sub-concession arrangement after any Sub-Concession Extension.

Dividend Restrictions

Under the Fifth Supplemental Agreement, if the leverage ratio exceeds 4.0 multiples, the Group may only pay dividends up to US\$150 million (equivalent to approximately HK\$1.2 billion), including any dividends paid during the preceding 12-month period. To the extent the leverage ratio falls below 4.0 multiples but still exceeds 3.5, the Group may only pay dividends up to US\$300 million (equivalent to approximately HK\$2.3 billion), including any dividends paid during the preceding 12-month period. As at December 31, 2018, the Group’s leverage ratio was approximately 4.28. The aggregate dividends paid and payable by the Group are within the cap of US\$150 million (equivalent to approximately HK\$1.2 billion) during the preceding 12-month period.

Events of Default

The Fifth Supplemental Agreement contains certain events of default, and certain insolvency-related proceedings relating to the Group. Pursuant to the Fifth Supplemental Agreement, a divestment of holdings in the Company by MGM Resorts International below 50% control or any holdings in MGM Grand Paradise by the Company would constitute a change of control and trigger mandatory prepayment of the outstanding loan balances.

Security and Guarantees

Collateral for the term loan and revolving credit facility consists of most of the assets, including but not limited to property and equipment, land use right and bank balances and cash of the Group and the shares of MGM Grand Paradise and some of its subsidiaries. Certain of the Company's direct and indirect subsidiaries (where applicable) have executed guarantees as security.

MARKET RISK

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

Foreign Exchange Risk

The Group's principal operations are primarily conducted and recorded in HK\$. The financial statements of foreign operations are translated into HK\$ which is the Company's functional and presentation currency. The cash received from gaming activities is primarily in HK\$. The Group reports gross gaming win to the Macau Government in MOP and gaming taxes are paid in HK\$. Our operating expenses and capital expenditures are primarily denominated in MOP and HK\$. MOP is pegged to the HK\$ at a constant rate and accordingly we do not expect fluctuations in the values of these currencies to have a material impact on our operations. The Group holds bank balances and deposits denominated in foreign currencies, and consequently exposure to exchange rate fluctuations arise. The majority of our foreign currency exposure comprises assets denominated in Singapore Dollars and US\$. The exchange rate of the HK\$ is pegged to the US\$ and has remained relatively stable. The Group manages its foreign exchange risk by closely monitoring the movement of the foreign exchange rates.

Interest Rate Risk

The Group's exposure to fair value interest rate risk is minimal as the Group's borrowings and bank balances are at variable rates.

The Group is exposed to cash flow interest rate risk in relation to variable rate bank balances and bank borrowings. Our cash flow interest rate risk on bank balances is considered insignificant due to current low interest rates for bank deposits. 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.

OFF BALANCE SHEET ARRANGEMENTS

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

OTHER LIQUIDITY MATTERS

In the ordinary course of business, in response to market demands and client preferences, we have made and will continue to incur related capital expenditures on enhancements and refinements for our resorts to increase revenue. We will continue to incur capital expenditure including completion of the Mansion and other areas at MGM COTAI including the finalization of obligations related to the close out of the construction contracts.

Taking into consideration our financial resources, including the Group's cash and cash equivalents, bank borrowings and internally generated funds, we believe that we have sufficient available funds to meet our financial obligations for the following 12 months.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2018, MGM Grand Paradise employed 10,735 full-time and part-time employees in Macau, Hong Kong and Zhuhai which includes MGM MACAU, MGM COTAI and shared services team members.

The Group's remuneration philosophy is a market-based job compensation grading approach, 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 our remuneration system to be:

- Competitive — in the local 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.
- Objective — to be consistent with local market rates.
- Developmental — to encourage career and professional development within the workforce and retain quality talent.

A group-wide performance based incentive program has been 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 upon 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.

DISCLOSURE OF FINANCIAL RESULTS IN MACAU

In March 2019, MGM Grand Paradise, our subsidiary and the holder of our gaming Sub-concession, will file its statutory consolidated financial statements in accordance with Financial Reporting Standards of Macau Special Administrative Region, the People's Republic of China ("MFRS") for the year ended December 31, 2018 ("MFRS Consolidated Financial Statements") to the Gaming Inspection and Coordination Bureau of Macau, in compliance with the relevant provisions of its Sub-Concession Contract and applicable law. In addition, MGM Grand Paradise expects to publish its MFRS Condensed Financial Statements in the Macau Official Gazette and local newspapers in Macau by the end of April 2019. The MFRS Consolidated Financial Statements and the MFRS Condensed Financial Statements may not be directly comparable with our Company's financial results disclosed herein, which are prepared under IFRS.

ANNUAL GENERAL MEETING

Notice of annual general meeting of the Company, including details on closure of register of members for the purpose of ascertaining the members who are entitled to the Final Dividend, will be published and dispatched to the Company's shareholders in the manner required by the Listing Rules in due course.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year ended December 31, 2018, the Company repurchased a total of 2,682,200 Shares at an aggregate purchase price of HK\$57.8 million on the Hong Kong Stock Exchange. Particulars of the repurchases are as follows:

Month of repurchase	Total number of Shares repurchased	Highest price paid per Share <i>HK\$</i>	Lowest price paid per Share <i>HK\$</i>	Aggregate consideration paid <i>HK\$ '000</i>
March 2018	1,503,900	22.60	22.45	34,001
June 2018	1,098,300	20.75	20.55	22,769
September 2018	39,000	12.28	12.12	474
December 2018	41,000	13.90	13.90	572
	<u>2,682,200</u>			<u>57,816</u>

New Shares were issued pursuant to the exercise of share options by qualifying grantees under the share option scheme adopted by the Company. The Company repurchased the aggregate number of Shares equivalent to the aggregate number of all such new Shares being issued during the year ended December 31, 2018 in accordance with Rule 10.06 of the Listing Rules, and all the repurchased Shares were subsequently cancelled. The total issued share capital of the Company remains the same. The Board considered that such repurchases were made for the benefit of the Company and its Shareholders as a whole with a view of maintaining the same total issued share capital.

Except as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures to attain high ethical standards as well as high levels of 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 interests of employees, business partners, and the community in which it operates.

During the year ended December 31, 2018, the Company has complied with all code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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 Issuers contained in Appendix 10 to the Listing Rules.

The Company has made specific inquiries and has received confirmations from all the Directors that they have complied with the required standard as set out in the Code for the year ended December 31, 2018.

Audit Committee

The Audit Committee is currently comprised of three independent non-executive Directors and two non-executive Directors. The major duties of the Audit Committee under its terms of reference adopted by a resolution of the Board passed on February 16, 2012 and amended by a resolution of the Board passed on November 5, 2015 include overseeing the relationship between the Company and its external auditors, monitoring the integrity of the financial statements, annual and interim reports and reviewing significant financial reporting judgments contained therein, monitoring compliance with statutory and the Listing Rules requirements in relation to financial reporting, reviewing the Group's financial controls, internal controls and risk management systems. The Management Risk Committee, appointed by and subject to the oversight of the Audit Committee assists the Audit Committee, the Board and senior management as appropriate, to oversee the overall risk management framework of the Group and to identify and effectively manage risks considered by the Management Risk Committee to be significant to the Group, including strategic, financial, business, operational, credit, market, liquidity, security, property, IT, legal, regulatory, reputational and other risks on ongoing basis. The Audit Committee has reviewed the Group's annual results for the year ended December 31, 2018.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the Company’s and the Hong Kong Stock Exchange’s websites. The Company’s annual report for the year ended December 31, 2018 in accordance with the relevant requirements of the Listing Rules will be dispatched to the Shareholders and published on the Company’s and the Hong Kong Stock Exchange’s websites in due course.

DEFINITIONS AND GLOSSARY USED IN THIS ANNOUNCEMENT

“Board”	the board of Directors of our Company
“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 slot machines gross win), calculated net of commissions, complimentaries and other incentives and in accordance with IFRS
“China” or “mainland China”	the People’s Republic of China excluding, for the purpose of this announcement 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
“Cotai”	an area of reclaimed land located between the islands of Taipa and Coloane in Macau

“Cotai Land”	a plot of land with an area of 71,833 square meters located in Cotai leased from the Macau Government for an initial term of 25 years since January 9, 2013
“Director(s)”	the director(s) 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
“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
“gross gaming revenue” or “gross gaming win”	the total win generated by all casino gaming activities combined, calculated before deduction of commissions, complimentary and other incentives
“gross table games win”	the amount of drop (in our main floor casino operation) or turnover (in our VIP casino operation) that is retained as winnings. We record this amount and slot machine gross win as casino revenue after deduction of commissions, complimentary and other incentives
“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
“high value 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 loyalty programs, such as reserved space on the regular gaming floor and various other services, that are unavailable to the general mass market
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards
“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 upon their turnover level. We often extend credit to these players based upon knowledge of the players, their financial background and payment history
“Las Vegas”	the Las Vegas gaming market as defined by the Nevada Gaming Control Board
“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

“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
“MGM COTAI”	our another integrated casino, hotel and entertainment complex on the Cotai Land
“MGM Grand Paradise”	MGM Grand Paradise Limited, a private company limited by shares (“ <i>sociedade anónima</i> ”) incorporated on June 17, 2004 under the laws of Macau, one of three Sub-concessionaires and one of our subsidiaries
“MGM MACAU”	the resort and casino property in Macau owned by MGM Grand Paradise
“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
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“MOP”	Macau Pataca, the lawful currency of Macau
“occupancy rate”	the number of total hotel room nights occupied as a percentage of the number of total hotel room nights available
“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
“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

“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
“slot machine gross 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 complimentary and other incentives
“Sub-Concession” or “Sub-Concession Contract”	the tripartite Sub-Concession 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
“Sub-Concessionaire(s)”	the holder(s) of a sub-concession for the operation of casino games in Macau
“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 non-negotiable chip exchange minus non-negotiable chip return)
“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 players” patrons or players who participate in our In-house VIP Program or in the VIP program of any of our gaming promoters

“visitation” with respect to visitation of our properties, the number of times our properties are entered during a fixed time period. Estimates of the number of visits to our properties are based on information collected from digital cameras placed above every entrance to our properties capable of counting visitors (including repeat visitors) to our properties on a given day

“%” per cent

By Order of the Board

James Joseph Murren

Chairperson and Executive Director

Pansy Catilina Chiu King Ho

Co-chairperson and Executive Director

Hong Kong, March 6, 2019

As at the date of this announcement, our Directors are James Joseph MURREN, Pansy Catilina Chiu King HO, Chen Yau WONG, William Joseph HORNBuckle and Grant R. BOWIE as executive directors, Kenneth Xiaofeng FENG, James Armin FREEMAN and John M. MCMANUS as non-executive directors and Zhe SUN, Sze Wan Patricia LAM, Peter Man Kong WONG and Russell Francis BANHAM as independent non-executive directors.