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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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED JUNE 30, 2020**

The Board of MGM China Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended June 30, 2020 as follows:

FINANCIAL HIGHLIGHTS

	For the six months ended	
	June 30	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Casino revenue	2,045,405	10,158,920
Other revenue	324,989	1,137,714
	<hr/>	<hr/>
Operating revenue	2,370,394	11,296,634
Adjusted EBITDA	(1,008,386)	3,076,803
Operating (loss)/profit	(2,395,901)	1,470,453
(Loss)/profit for the period attributable to owners of the Company	(2,860,430)	1,022,392
(Loss)/earnings per Share		
— Basic	(HK75.3 cents)	HK26.9 cents
— Diluted	(HK75.3 cents)	HK26.9 cents

Loss/profit attributable to owners of the Company decreased significantly from a profit of HK\$1,022.4 million for the six months ended June 30, 2019 to a loss of HK\$2,860.4 million for the six months ended June 30, 2020. This decrease was attributable to the substantial reduction in activity in the first half of 2020 as a result of the COVID-19 pandemic related closures and restrictions.

DIVIDENDS

The Board does not recommend an interim dividend payment for the six months ended June 30, 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended June 30	
		2020	2019
	<i>NOTES</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
OPERATING REVENUE			
Casino revenue	4	2,045,405	10,158,920
Other revenue	4	324,989	1,137,714
		<u>2,370,394</u>	<u>11,296,634</u>
OPERATING COSTS AND EXPENSES			
Gaming taxes		(1,137,014)	(5,288,587)
Inventories consumed		(133,208)	(330,544)
Staff costs		(1,637,929)	(1,824,775)
Loss allowance on trade receivables, net		(105,936)	(40,285)
Other expenses and losses	5	(508,518)	(1,055,964)
Depreciation and amortization		(1,243,690)	(1,286,026)
		<u>(4,766,295)</u>	<u>(9,826,181)</u>
Operating (loss)/profit		(2,395,901)	1,470,453
Interest income		6,881	12,297
Finance costs	6	(521,312)	(511,190)
Net foreign currency gain		55,096	56,600
		<u>(2,855,236)</u>	<u>1,028,160</u>
(Loss)/profit before tax		(2,855,236)	1,028,160
Income tax expense	7	(5,194)	(5,768)
		<u>(2,860,430)</u>	<u>1,022,392</u>
(Loss)/profit for the period attributable to owners of the Company			
Other comprehensive expense:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(1,295)	(54)
		<u>(1,295)</u>	<u>(54)</u>
Total comprehensive (loss)/income for the period attributable to owners of the Company		<u>(2,861,725)</u>	<u>1,022,338</u>
(Loss)/earnings per Share — Basic	9	<u>(HK75.3 cents)</u>	<u>HK26.9 cents</u>
(Loss)/earnings per Share — Diluted	9	<u>(HK75.3 cents)</u>	<u>HK26.9 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At June 30 2020 <i>NOTES</i> HK\$'000 (unaudited)	At December 31 2019 <i>HK\$'000</i> (audited)
ASSETS		
Non-current assets		
Property and equipment	25,577,066	26,603,943
Construction in progress	114,416	104,396
Right-of-use assets	1,345,699	1,382,457
Sub-concession premium	189,802	244,845
Other assets	14,127	32,137
Prepayments, deposits and other receivables	30,896	37,385
	27,272,006	28,405,163
Total non-current assets		
Current assets		
Inventories	181,426	163,723
Trade receivables	10 289,004	531,943
Prepayments, deposits and other receivables	167,198	133,727
Amounts due from related companies	84	1,370
Bank balances and cash	2,277,370	3,270,296
	2,915,082	4,101,059
Total current assets		
TOTAL ASSETS	30,187,088	32,506,222

		At June 30	At December 31
		2020	2019
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
EQUITY			
Capital and reserves			
Share capital		3,800,000	3,800,000
Share premium and reserves		3,508,497	6,660,134
		<hr/>	<hr/>
TOTAL EQUITY		7,308,497	10,460,134
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Borrowings	<i>11</i>	18,901,267	16,604,526
Lease liabilities		173,113	191,120
Payables and accrued charges	<i>12</i>	6,716	13,100
Construction retention payable		748	813
		<hr/>	<hr/>
Total non-current liabilities		19,081,844	16,809,559
		<hr/>	<hr/>
Current liabilities			
Lease liabilities		46,303	45,349
Payables and accrued charges	<i>12</i>	3,694,913	4,825,255
Construction retention payable		47,732	307,564
Amounts due to related companies		5,170	48,085
Income tax payable		2,629	10,276
		<hr/>	<hr/>
Total current liabilities		3,796,747	5,236,529
		<hr/>	<hr/>
TOTAL LIABILITIES		22,878,591	22,046,088
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		30,187,088	32,506,222
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. IMPACT OF COVID-19

In early 2020, the outbreak of COVID-19 throughout the world led to certain actions taken by the Chinese Government, the Macau Government and the governments of other countries to attempt to mitigate the spread of the virus. Among the actions taken were the implementation of travel restrictions, such as the temporary suspension of China's individual visa scheme that permits mainland Chinese residents to travel to Macau, the temporary suspension of all ferry services from Hong Kong to Macau, and the closure of casino operations in Macau for a 15-day period that commenced on February 5, 2020. As a result, all operations at MGM MACAU and MGM COTAI were suspended, other than operations that were necessary to provide sufficient non-gaming facilities to serve any remaining hotel guests. Although operations at MGM MACAU and MGM COTAI resumed on February 20, 2020, certain health safeguards remain in effect at the present time such as limiting the number of gaming tables allowed to operate and the number of seats available at each table game, slot machine spacing, temperature checks, mask protection and the need to present health declarations submitted through the Macau Health Code system. A number of restaurants and bars have reopened with shorter operating hours and our theater remains closed as of the date of this announcement.

Following discussions between the Macau and Guangdong authorities on the need for maintenance of the disease-control effort while also advancing work to boost socioeconomic development, it was announced that, effective from July 15, 2020, those entering mainland China from Macau across its land boundaries with Guangdong are exempted from the 14-day medical observation period. However, they must obtain a negative nucleic acid test result, issued within seven days of their intended departure from Macau and have a valid 'green' code result for the Macau Health Code system and the Guangdong health-declaration system respectively. DICJ has also announced that, effective from July 15, 2020, all guests entering casinos are required to provide a negative nucleic acid test result with a valid "green" Macau Health Code.

As of the date of this announcement, several travel and entry restrictions in Macau, Hong Kong and mainland China remain in place (including the temporary suspension of the individual visa scheme, the temporary suspension of ferry services, the nucleic acid test result certificate and 14-day mandatory quarantine requirements for visitors from Hong Kong, and bans on entry and enhanced quarantine requirements on other visitors). These restrictions significantly impact visitation to MGM MACAU and MGM COTAI, which has had a negative impact on the Group's results for the six months ended June 30, 2020 and may continue to impact future results.

To mitigate the impact of the COVID-19 pandemic on the Group's financial position, a number of initiatives have been undertaken in the current financial period:

- the Company entered into an amendment to the financial covenants under its Revolving Credit Facility on February 21, 2020, to revise the permitted leverage ratio and permitted interest coverage ratio. On April 9, 2020, the Company entered into a second amendment to the financial covenants under its Revolving Credit Facility, to further revise the permitted leverage ratio and permitted interest coverage ratio. Details of the amendments are set out in note 11 to the condensed consolidated financial statements;
- on May 26, 2020, the Company entered into the Second Revolving Credit Facility, with a final maturity date of May 15, 2024, increasing the available undrawn credit facilities by HK\$2.34 billion, with an option to increase the amount of the facility to up to HK\$3.9 billion subject to certain conditions;
- on June 18, 2020, the Company issued 5.25% senior notes with an aggregate principal amount of US\$500 million and a final maturity date of June 18, 2025. The net proceeds from the issuance were used to repay a portion of amounts outstanding under its Revolving Credit Facility (the total available unsecured credit facilities limit was HK\$8.34 billion after the repayment) and for general corporate purposes;
- on June 29, 2020, the Company increased the available undrawn credit facilities of the Second Revolving Credit Facility by HK\$780 million to HK\$3.12 billion;
- a number of measures to reduce payroll expenses, including limiting staff onsite, implementing a hiring freeze and organizational change and introducing voluntary unpaid leave during the period; and
- certain capital expenditures that were planned to begin during the second quarter of 2020 have been deferred.

Due to the uncertainties in connection with the COVID-19 pandemic, the Group has estimated the recoverable amount of non-financial assets following the guidance of International Accounting Standard (“IAS”) 36 *Impairment of Assets* to determine whether non-financial assets are impaired. The recoverable amount of the non-financial assets has been determined based on value-in-use calculations, which requires significant judgment. These calculations require the use of estimates of future cash flows based on projected income and expenses of the business and working capital needs that take into consideration the future economic conditions, increased competition in Macau, the regulatory environment and in particular the impact to be caused by the COVID-19 pandemic. Management is also required to choose suitable discount rates in order to calculate the present values of those cash flows. No impairment loss was recognized as the recoverable amounts of the assets are greater than the carrying value. Changes in the key assumptions and estimates on which the recoverable amount of the assets are based could significantly affect the Group's assessment resulting in an impairment loss being recognized.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, and in accordance with IAS 34 *Interim Financial Reporting* as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

As at June 30, 2020, the Group had net current liabilities of approximately HK\$881.7 million (December 31, 2019: HK\$1,135.5 million) and due to the impact of COVID-19, the Group has experienced significant declines in results given the continued impact of restrictions on travel and operations during the six months ended June 30, 2020. As a result, 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 in particular the impact to be caused by COVID-19. 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. Despite the fact that cash to be generated from operations is severely affected due to COVID-19, 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.

Other than changes in accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2020 are the same as those followed in the preparation of the annual consolidated financial statements of the Group for the year ended December 31, 2019.

Application of amendments to IFRSs

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

Amendments to IFRS 3	Definition of Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to References to the Conceptual Framework in IFRS Standards	

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

In addition, the Group has early applied the amendment to IFRS 16 *COVID-19 Related Rent Concessions* in the current period. This early application had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group has determined its operating segments based upon the reports reviewed by 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. 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, customers, services and products provided, and the regulatory environment in which they operate.

Adjusted EBITDA is considered to be the primary profit/loss measure for the reportable segment. Adjusted EBITDA is profit/loss before finance costs, income tax expense/benefit, depreciation and amortization, gain/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 and corporate expenses which mainly include administrative expenses of the corporate office and license fee paid to a related company.

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

	Six months ended June 30	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Adjusted EBITDA	(1,008,386)	3,076,803
Share-based payments	(24,755)	(33,055)
Corporate expenses	(114,902)	(263,511)
Pre-opening costs ⁽¹⁾	—	(20,548)
Loss on disposal/write-off of property and equipment, construction in progress and other assets	(4,168)	(3,210)
Depreciation and amortization	(1,243,690)	(1,286,026)
Operating (loss)/profit	(2,395,901)	1,470,453
Interest income	6,881	12,297
Finance costs	(521,312)	(511,190)
Net foreign currency gain	55,096	56,600
(Loss)/profit before tax	(2,855,236)	1,028,160
Income tax expense	(5,194)	(5,768)
(Loss)/profit for the period attributable to owners of the Company	<u>(2,860,430)</u>	<u>1,022,392</u>

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

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

4. CASINO AND OTHER REVENUE

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

	Six months ended June 30	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
VIP gross table games win	933,693	4,937,958
Main floor gross table games win	1,545,386	7,075,798
Slot machine gross win	272,213	1,097,114
	<hr/>	<hr/>
Gross casino revenue	2,751,292	13,110,870
Commissions, complimentaries and other incentives	(705,887)	(2,951,950)
	<hr/>	<hr/>
	2,045,405	10,158,920
	<hr/> <hr/>	<hr/> <hr/>

Other revenue comprises:

	Six months ended June 30	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Hotel rooms	132,087	552,064
Food and beverage	133,670	483,295
Retail and other	59,232	102,355
	<hr/>	<hr/>
	324,989	1,137,714
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5. OTHER EXPENSES AND LOSSES

	Six months ended June 30	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Repairs and maintenance	123,124	113,757
Utilities and fuel	97,504	124,261
Advertising and promotion	84,167	301,808
Other support services	75,198	154,892
License fees	41,482	197,028
Loss on disposal/write-off of property and equipment, construction in progress and other assets	4,168	3,210
Other	82,875	161,008
	508,518	1,055,964

6. FINANCE COSTS

	Six months ended June 30	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest on secured credit facilities	—	343,245
Interest on unsecured senior notes	334,581	83,456
Interest on unsecured credit facilities	140,515	—
Loss on extinguishment of debt	—	75,513
Amortization of debt finance costs	29,056	11,756
Interest on lease liabilities	6,756	6,838
Bank fees and charges	10,404	5,479
Total borrowing costs	521,312	526,287
Less: capitalized interest allocated to construction in progress	—	(15,097)
	521,312	511,190

7. INCOME TAX EXPENSE

	Six months ended June 30	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Current income tax expense:		
Macau Dividend Withholding Tax	(4,806)	(4,806)
Mainland China Income Tax	(448)	(995)
Hong Kong Profits Tax	—	(27)
Over provision in prior year	60	60
	<hr/>	<hr/>
Income tax expense	(5,194)	(5,768)
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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, was exempted from Macau Complementary Tax for income generated from gaming operations for the period from January 1, 2017 to March 31, 2020. Pursuant to the approval notice 88/2020 issued by the Macau Government dated March 30, 2020, this exemption was renewed for the period from April 1, 2020 to June 26, 2022. 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 current and prior periods.

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 in dispatch 003/DIR/2018 which MGM Grand Paradise confirmed on March 15, 2018, MGM Grand Paradise was 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. In May 2019, MGM Grand Paradise applied for an extension of this agreement through June 26, 2022, the date of the Sub-Concession Extension Contract expires. This extension is subject to approval and the amount of the dividend withholding tax has not been determined by the Macau Government up to the date of approval of these condensed consolidated financial statements.

Hong Kong Profits Tax is calculated at the maximum rate of 16.5% of the estimated assessable profit for the current and prior periods. 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 15% to 20%.

8. DIVIDENDS

On May 24, 2019, a final dividend of HK\$0.034 per Share for the year ended December 31, 2018, amounting to approximately HK\$129.2 million was approved by the Shareholders of the Company. The dividend was paid to Shareholders on June 20, 2019.

On August 1, 2019, an interim dividend of HK\$0.094 per Share for the six months ended June 30, 2019, amounting to approximately HK\$357.2 million was declared by the Directors of the Company. The dividend was paid to Shareholders on August 29, 2019.

On May 28, 2020, a final dividend of HK\$0.083 per Share for the year ended December 31, 2019, amounting to approximately HK\$315.4 million was approved by the Shareholders of the Company. The dividend was paid to Shareholders on June 19, 2020.

The Board does not recommend an interim dividend payment for the six months ended June 30, 2020.

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss/earnings per Share for the six months ended June 30, 2020 and 2019 is based upon the consolidated loss/profit attributable to owners of the Company and the weighted average number of Shares in issue during the period.

The calculation of diluted loss/earnings per Share for the six months ended June 30, 2020 and 2019 is based upon the consolidated loss/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 period plus the potential Shares arising from exercise of share options.

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

	Six months ended June 30	
	2020	2019
	(unaudited)	(unaudited)
(Loss)/profit		
(Loss)/profit for the period attributable to owners of the Company for the purposes of basic and diluted loss/earnings per Share (HK\$'000)	(2,860,430)	1,022,392
	<u><u> </u></u>	<u><u> </u></u>
Weighted average number of Shares		
Weighted average number of Shares for the purpose of basic loss/earnings per Share ('000)	3,800,104	3,800,079
Number of dilutive potential Shares arising from exercise of share options ('000) ⁽¹⁾	—	4,874
	<u> </u>	<u> </u>
Weighted average number of Shares for the purpose of diluted loss/earnings per Share ('000)	3,800,104	3,804,953
	<u><u> </u></u>	<u><u> </u></u>
(Loss)/earnings per Share — Basic	(HK75.3 cents)	HK26.9 cents
	<u><u> </u></u>	<u><u> </u></u>
(Loss)/earnings per Share — Diluted	(HK75.3 cents)	HK26.9 cents
	<u><u> </u></u>	<u><u> </u></u>

⁽¹⁾ The computation of the diluted loss per share for the six months ended June 30, 2020 did not assume the exercise of the Company's share options because the exercise would result in a decrease in loss per share.

10. TRADE RECEIVABLES

	At	At
	June 30,	December 31,
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Trade receivables	520,262	654,241
Less: Loss allowance	(231,258)	(122,298)
	<u> </u>	<u> </u>
	289,004	531,943
	<u><u> </u></u>	<u><u> </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 gaming customers (“VIP gaming customers”) following background checks and assessments 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.

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

	At June 30, 2020 <i>HK\$'000</i> (unaudited)	At December 31, 2019 <i>HK\$'000</i> (audited)
Within 30 days	65,834	218,010
31 — 90 days	27,260	202,759
91 — 180 days	95,421	88,732
Over 180 days	100,489	22,442
	<hr/> 289,004 <hr/> <hr/>	<hr/> 531,943 <hr/> <hr/>

11. BORROWINGS

At June 30, 2020, the Group's borrowings included unsecured senior notes and unsecured credit facilities.

	At June 30, 2020 <i>HK\$'000</i> (unaudited)	At December 31, 2019 <i>HK\$'000</i> (audited)
Unsecured senior notes repayable:		
Over three years but not exceeding four years	5,812,883	—
Over four years but not exceeding five years	3,875,254	5,843,535
Over five years	5,812,883	5,843,535
	<hr/>	<hr/>
	15,501,020	11,687,070
Less: Debt finance costs	(198,446)	(157,712)
	<hr/>	<hr/>
	15,302,574	11,529,358
	<hr/> <hr/>	<hr/> <hr/>
Unsecured credit facilities repayable:		
Over three years but not exceeding four years	3,750,000	—
Over four years but not exceeding five years	—	5,200,000
	<hr/>	<hr/>
	3,750,000	5,200,000
Less: Debt finance costs	(151,307)	(124,832)
	<hr/>	<hr/>
	3,598,693	5,075,168
	<hr/> <hr/>	<hr/> <hr/>
Current	—	—
Non-current	18,901,267	16,604,526
	<hr/>	<hr/>
	18,901,267	16,604,526
	<hr/> <hr/>	<hr/> <hr/>

Unsecured Senior Notes

2024 Notes and 2026 Notes

On May 16, 2019, the Company issued two series of senior unsecured notes with an aggregate principal amount of US\$1.50 billion, consisting of US\$750 million of 5.375% senior notes due May 15, 2024 and US\$750 million of 5.875% senior notes due May 15, 2026. The net proceeds from the issuance were used to pay down outstanding borrowings under the Senior Secured Credit Facility. Interest on the 2024 Notes and 2026 Notes is payable semi-annually in arrears on each May 15 and November 15, commencing on November 15, 2019.

The 2024 Notes and 2026 Notes are general unsecured obligations of the Company. The 2024 Notes and 2026 Notes rank equally in right of payment with all of the Company's existing and future senior indebtedness and ranks senior to all of the Company's future subordinated indebtedness, if any. The 2024 Notes and 2026 Notes are effectively subordinated to all of the Company's existing and future secured indebtedness to the extent of the value of the collateral securing such debt. None of the Company's subsidiaries have guaranteed the 2024 Notes and 2026 Notes.

Each of the 2024 Notes and the 2026 Notes was issued pursuant to an indenture, dated May 16, 2019, between the Company and U.S. Bank National Association, as trustee.

The 2024 Notes and 2026 Notes contain covenants that limit the ability of the Company to, among other things, whether directly or indirectly, (1) consolidate or merge with or into another entity; or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its subsidiaries.

The 2024 Notes and 2026 Notes also provide for certain events of default, including certain insolvency related proceedings relating to the Group.

2025 Notes

On June 18, 2020, the Company issued 5.25% senior notes with an aggregate principal amount of US\$500 million. The net proceeds from the issuance were used to repay a portion of amounts outstanding under the Revolving Credit Facility and for general corporate purposes. Interest on the 2025 Notes is payable semi-annually in arrears on each June 18 and December 18, commencing on December 18, 2020.

The 2025 Notes are general unsecured obligations of the Company. The 2025 Notes rank equally in right of payment with all of the Company's existing and future senior indebtedness, including the 2024 Notes and the 2026 Notes and any outstanding obligations under the Revolving Credit Facility and the Second Revolving Credit Facility. The 2025 Notes rank senior to all of the Company's future subordinated indebtedness, if any; the 2025 Notes are effectively subordinated to all of the Company's existing and future secured indebtedness to the extent of the value of the collateral securing such debt. None of the Company's subsidiaries have guaranteed the 2025 Notes.

The 2025 Notes were issued pursuant to an indenture, dated June 18, 2020, between the Company and Wilmington Savings Fund Society, FSB, as trustee.

The 2025 Notes contain covenants that limit the ability of the Company to, among other things, whether directly or indirectly, (1) consolidate or merge with or into another entity; or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its subsidiaries.

The 2025 Notes also provide for certain events of default, including certain insolvency related proceedings relating to the Group.

Unsecured Credit Facilities

Revolving Credit Facility and Second Revolving Credit Facility

Overview

On August 12, 2019, the Company entered into agreements with certain lenders pursuant to which the lenders agreed to make available to the Company an unsecured revolving credit facility in an aggregate amount of HK\$9.75 billion with a final maturity date on May 15, 2024. The Revolving Credit Facility became effective on August 14, 2019. The proceeds of the Revolving Credit Facility were used to replace the Senior Secured Credit Facility, which was cancelled on August 14, 2019, and are used for ongoing working capital needs and general corporate purposes of the Group.

On May 26, 2020, the Company entered into the agreements with certain lenders pursuant to which the lenders agreed to make available to the Company a second unsecured revolving credit facility in an aggregate amount of HK\$2.34 billion with a final maturity date of May 15, 2024. The Company has the option to increase the amount of the facility to up to HK\$3.9 billion subject to certain conditions. The Second Revolving Credit Facility is available for drawdown from the date of the agreement to and including the date falling one month prior to the final maturity date, subject to satisfaction of conditions precedent, including evidence that the Revolving Credit Facility (in an aggregate amount of HK\$9.75 billion) has been fully drawn. The proceeds of the Second Revolving Credit Facility will be used for ongoing working capital needs and general corporate purposes of the Group. On June 29, 2020, the Company increased the available undrawn credit facilities of the Second Revolving Credit Facility by HK\$780 million to HK\$3.12 billion.

As at June 30, 2020, the Group had total available unsecured credit facilities of HK\$9.12 billion.

Principal and Interest

The Revolving Credit Facility and the Second Revolving Credit Facility bear interest at a fluctuating rate per annum based on HIBOR plus a margin (in the range of 1.625% to 2.75%), which will be determined by the Company's leverage ratio.

As at June 30, 2020, HK\$3.75 billion of the Revolving Credit Facility was drawn. HK\$6.0 billion of the Revolving Credit Facility and HK\$3.12 billion of the Second Revolving Credit Facility was undrawn and available for utilization up to and including the date falling one month prior to the final maturity date, on May 15, 2024. Each drawdown is to be repaid in full no later than May 15, 2024. As at June 30, 2020, the Group paid interest at HIBOR plus 2.75% per annum.

General Covenants

The Revolving Credit Facility and the Second Revolving Credit Facility contain general covenants restricting the ability of the obligor group (the Company and certain of its subsidiaries, namely the “Restricted Group”) from incurring liens or engaging in certain asset dispositions. With the approval of the lenders there are certain permitted exceptions to these restrictions.

Financial Covenants

The leverage ratio under the Revolving Credit Facility is required to be no greater than 4.5 to 1.0 at each quarter end. 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.

Due to the impact of the COVID-19 pandemic, the Company entered into an amendment of the financial covenants under the Revolving Credit Facility on February 21, 2020, to reflect an amendment of the permitted leverage ratio and permitted interest coverage ratio as follows:

Accounting Date	Interest Coverage Ratio	Leverage Ratio
March 31, 2020	2.50:1.00	6.00:1.00
June 30, 2020	1.25:1.00	Not Applicable
September 30, 2020	1.25:1.00	Not Applicable
December 31, 2020	1.25:1.00	Not Applicable
March 31, 2021	1.25:1.00	Not Applicable
Each accounting date occurring on and after June 30, 2021	2.50:1.00	4.50:1.00

On April 9, 2020, a second amendment of the financial covenants under the Revolving Credit Facility was executed, to reflect a further amendment of the permitted leverage ratio and permitted interest coverage ratio as follows:

Accounting Date	Interest Coverage Ratio	Leverage Ratio
June 30, 2020	Not Applicable	Not Applicable
September 30, 2020	Not Applicable	Not Applicable
December 31, 2020	Not Applicable	Not Applicable
March 31, 2021	Not Applicable	Not Applicable
June 30, 2021	Not Applicable	Not Applicable
Each accounting date occurring on and after September 30, 2021	2.50:1.00	4.50:1.00

Under the Second Revolving Credit Facility, the Company must ensure that the leverage ratio does not, on each accounting date occurring on and after September 30, 2021, exceed 4.50 to 1.00. In addition, the Company must ensure that, on any accounting date occurring on and after September 30, 2021, the interest coverage ratio is not less than 2.50 to 1.

Compliance with Covenants

The Group has complied with the general and financial covenants under the Revolving Credit Facility for the six months ended June 30, 2020 and the year ended December 31, 2019.

Mandatory Prepayments

Pursuant to the Revolving Credit Facility and the Second Revolving Credit Facility, lenders will be permitted to cancel their commitments and to require the prepayment in full of the Revolving Credit Facility or Second Revolving Credit Facility if a Change of Control occurs or there is a sale of all or substantially all of the assets or business of the Group. Change of Control is defined as: MGM Resorts International fails to be the legal and beneficial owner, directly or indirectly, of more than 50% of the capital stock of the Company having ordinary voting rights; or the Company ceases to be the beneficial owner directly or indirectly of all of the share capital of MGM Grand Paradise (other than any portion of the share capital of MGM Grand Paradise with only nominal economic interests created for the purposes of complying with Macanese ownership requirements).

Events of Default

The Revolving Credit Facility and the Second Revolving Credit Facility contain certain events of default, including loss of concession (as defined therein) and certain insolvency related proceedings relating to the Group.

Security and Guarantees

No security or guarantees were provided in relation to the Revolving Credit Facility and the Second Revolving Credit Facility.

12. PAYABLES AND ACCRUED CHARGES

	At June 30, 2020 HK\$'000 (unaudited)	At December 31, 2019 HK\$'000 (audited)
Outstanding chips liabilities ⁽¹⁾	2,065,757	1,682,714
Customer advances and other ⁽¹⁾	569,997	619,946
Accrued staff costs	516,963	664,026
Other payables and accrued charges	254,482	377,809
Loyalty programs liabilities ⁽¹⁾	146,390	145,875
Construction payables and accruals	81,067	224,822
Trade payables	32,676	69,066
Gaming taxes payables	26,888	838,340
Other casino liabilities	7,409	215,757
	<u>3,701,629</u>	<u>4,838,355</u>
Current	3,694,913	4,825,255
Non-current	6,716	13,100
	<u>3,701,629</u>	<u>4,838,355</u>

⁽¹⁾ These balances represent the Group's main types of liabilities associated with contracts with customers. These liabilities are generally expected to be recognized as revenue or redeemed for cash within one year of being purchased, earned or deposited.

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

	At June 30, 2020 <i>HK\$'000</i> (unaudited)	At December 31, 2019 <i>HK\$'000</i> (audited)
Within 30 days	8,894	60,316
31 — 60 days	903	6,831
61 — 90 days	17,882	1,025
91 — 120 days	563	68
Over 120 days	4,434	826
	<hr/> 32,676 <hr/> <hr/>	<hr/> 69,066 <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 two integrated casino, hotel and entertainment resorts in Macau, MGM MACAU and MGM COTAI, where we offer high-quality gaming, hospitality and entertainment experiences to attract and retain our customers. 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 Company's Shares have been listed on the Hong Kong Stock Exchange since June 3, 2011. The Company's immediate holding company is MRIH, 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 NYSE. MGM Resorts International is our controlling Shareholder (with an interest in 55.95% of our issued share capital) and Pansy Ho and her controlled companies are our substantial Shareholders (with an interest in 22.49% of our issued share capital). We benefit from the complementary expertise of MGM Resorts International and Pansy Ho.

On March 15, 2019, a Sub-concession Extension Contract was approved and authorized by the Macau Government and executed between SJM, as Concessionaire, and MGM Grand Paradise, as Sub-concessionaire, pursuant to which the Sub-concession of MGM Grand Paradise, which was due to expire on March 31, 2020, was extended to June 26, 2022 which now aligns with the expiry date of other gaming Concessionaires/Sub-concessionaires in Macau.

On March 23, 2020, an addendum to the Sub-concession Contract was executed to clarify that the transfer of the casino premises and gaming-related equipment to the Macau Government only applies upon expiration of the Sub-concession Contract, on June 26, 2022.

Recent Developments

Financial impact of COVID-19

The continued spread of COVID-19 and the developments surrounding the global pandemic have had, and we expect that they will continue to have, a significant impact on our business, results of operations and financial condition. This is an unprecedented global public health crisis and we place high importance on the health and safety of our employees, guests and all Macau citizens as we continue to fight this pandemic.

In early 2020, the outbreak of COVID-19 throughout the world led to certain actions taken by the Chinese Government, the Macau Government and the governments of other countries to attempt to mitigate the spread of the virus. Among the actions taken were the implementation of travel restrictions, such as the temporary suspension of China's individual visa scheme that permits mainland Chinese residents to travel to Macau, the temporary suspension of all ferry services from Hong Kong to Macau, and the closure of casino operations in Macau for a 15-day period that commenced on February 5, 2020. As a result, all operations at MGM MACAU and MGM COTAI were suspended, other than operations that were necessary to provide sufficient non-gaming facilities to serve any remaining hotel guests. Although operations at MGM MACAU and MGM COTAI resumed on February 20, 2020, certain health safeguards remain in effect at the present time such as limiting the number of gaming tables allowed to operate and the number of seats available at each table game, slot machine spacing, temperature checks, mask protection and the need to present health declarations submitted through the Macau Health Code system. A number of restaurants and bars have reopened with shorter operating hours and our theater remains closed as of the date of this announcement.

Following discussions between the Macau and Guangdong authorities on the need for maintenance of the disease-control effort while also advancing work to boost socioeconomic development, it was announced that, effective from July 15, 2020, those entering mainland China from Macau across its land boundaries with Guangdong are exempted from the 14-day medical observation period. However, they must obtain a negative nucleic acid test result, issued within seven days of their intended departure from Macau and have a valid 'green' code result for the Macau Health Code system and the Guangdong health-declaration system respectively. DICJ has also announced that, effective from July 15, 2020, all guests entering casinos are required to provide a negative nucleic acid test result with a valid "green" Macau Health Code.

As of the date of this announcement, several travel and entry restrictions in Macau, Hong Kong and mainland China remain in place (including the temporary suspension of the individual visa scheme, the temporary suspension of ferry services, the nucleic acid test result certificate and 14-day mandatory quarantine requirements for visitors from Hong Kong, and bans on entry and enhanced quarantine requirements on other visitors). These restrictions significantly impact visitation to MGM MACAU and MGM COTAI, which has had a negative impact on the Group's results for the six months ended June 30, 2020 and it is currently unclear as to the length of time the pandemic will continue to impact the Group's results. According to the DSEC, total visitor arrivals decreased by 83.9% and the total visitation from mainland China to Macau decreased by 83.7% in the first half of 2020, respectively, over the comparable periods in 2019. The Macau GGR decreased by 77.4% to HK\$32.7 million in the first half of 2020 over the comparable period in 2019.

To mitigate the impact of the COVID-19 pandemic on the Group's financial position, a number of initiatives have been undertaken in the current financial period:

- the Company entered into an amendment to the financial covenants under its Revolving Credit Facility on February 21, 2020, to revise the permitted leverage ratio and permitted interest coverage ratio. On April 9, 2020, the Company entered into a second amendment to the financial covenants under its Revolving Credit Facility, to further revise the permitted leverage ratio and permitted interest coverage ratio. Details of the amendments are set out in note 11 to the condensed consolidated financial statements;
- on May 26, 2020, the Company entered into the Second Revolving Credit Facility, with a final maturity date of May 15, 2024, increasing the available undrawn credit facilities by HK\$2.34 billion, with an option to increase the amount of the facility to up to HK\$3.9 billion subject to certain conditions;
- on June 18, 2020, the Company issued 5.25% senior notes with an aggregate principal amount of US\$500 million and a final maturity date of June 18, 2025. The net proceeds from the issuance were used to repay a portion of amounts outstanding under its Revolving Credit Facility (the total available unsecured credit facilities limit was HK\$8.34 billion after the repayment) and for general corporate purposes;
- on June 29, 2020, the Company increased the available undrawn credit facilities of the Second Revolving Credit Facility by HK\$780 million to HK\$3.12 billion;
- a number of measures to reduce payroll expenses, including limiting staff onsite, implementing a hiring freeze and organizational change and introducing voluntary unpaid leave during the period; and
- certain capital expenditures that were planned to begin during the second quarter of 2020 have been deferred.

Retirement of our CEO

On May 11, 2020, we announced the retirement of our CEO Grant R. Bowie. Mr. Bowie's retirement as CEO took effect on May 31, 2020. On August 6, 2020, Mr. Bowie resigned as an executive Director of the Company, due to his retirement plans. Mr. Bowie will remain as an advisor of the Company for a period up to December 31, 2022. Ms. Pansy Ho continues to act as managing director of MGM Grand Paradise. Certain senior executive roles have been restructured to complement the expertise of the management team.

MGM MACAU

MGM MACAU opened in December 2007. The casino floor offers approximately 28,551 square meters, with 584 slot machines, 285 gaming tables, and multiple VIP and private gaming areas as at June 30, 2020. The hotel comprises a 35-story tower with 582 hotel rooms, suites and villas, and we have a service agreement with the Mandarin Oriental Hotel, through which they supplement our room offerings with additional room availability when there is excess demand by our customers. In addition, the resort offers luxurious amenities, including eight 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. The resort is conveniently located with multiple access points from other Cotai hotels and public amenities. The casino floor offers approximately 27,696 square meters, with 598 slot machines and 267 gaming tables as at June 30, 2020. The hotel comprises two towers with 1,390 hotel rooms, suites and skylofts, twelve 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 experiential technology elements to entertain our guests. MGM COTAI offers Asia's first dynamic theater introducing advanced and innovative entertainment to Macau. The Mansion, an ultra-exclusive resort within a resort, which is available only to our most selective guests, was launched in late March 2019. Mansion One, the private ultra-luxury gaming area for invitation-only premium mass customers, attached to The Mansion was introduced in December 2018. The new gaming area allowed us to expand our gaming operations and enhance our competitiveness.

The Company reached a settlement agreement with the principal contractors in connection with the construction costs of MGM COTAI in December 2019. Under the settlement agreement, the parties agreed that the final contract sums in respect of the builders' work executed under the main construction contract and the work under the mechanical, electric and plumbing (MEP) nominated sub-contracts was MOP10,270.5 million (approximately HK\$9,971.4 million). The Company agreed to pay to the principal contractors MOP612.5 million (approximately HK\$594.7 million), being the settlement amount of MOP10,270.5 million (approximately HK\$9,971.4 million) less the total amount previously certified and paid by the Company to the principal contractors of MOP9,658.0 million (approximately HK\$9,376.7 million). The required amounts had been fully settled as at June 30, 2020. In addition, the Company had closed out substantially all of its construction liabilities related to the nominated sub-contracts of the MGM COTAI development.

Our Competitive Strengths and Operating Strategies

We have a number of competitive strengths including:

- Significant benefits from relationships with MGM Resorts International and Ms. Pansy Ho;
- Experienced management team with a proven track record;
- Diversified resort and entertainment offerings in the world's largest gaming market;
- Unique strategic position towards premium mass;
- Strong cash flow generation and significant growth potential; and
- Strong balance sheet with significant financial flexibility.

To build on our competitive strengths, operationally we focus on continuously improving customer experience through product and service enhancement, greater asset utilization and the maximization of our operational efficiencies. These strategic efforts allow us to streamline and expand our organization across several key business segments, including sales and marketing, VIP and mass business development, and entertainment. We conduct business with a holistic strategic approach with a focus on creating economic benefits across our properties on the Macau Peninsula and Cotai. Additionally, we continue to implement the following business strategies to enhance our position as the leading developer and operator of integrated casino, hotel and entertainment resorts in Macau:

- Develop and diversify our offerings to cater to different market segments;
- Continuously improve scale of operations to create optimal financial performance;
- Maintain strong business relationships with our gaming promoters and identify potential gaming promoters to further grow our VIP business;
- Utilize The Mansion and Mansion One to attract ultra-high end customers, while maintaining our focus on the high margin mass market gaming segment; and
- Identify innovative gaming and non-gaming investment opportunities.

Recovery strategies for business recovery from COVID-19

The COVID-19 pandemic has caused, and is continuing to cause, significant disruption in our operations and has materially impacted our business, results of operations and financial condition. We have taken aggressive efforts to reduce operating expenses and defer non-essential planned capital expenditures in 2020 to improve the Group’s liquidity position and prepare for the economic recovery.

During the pandemic outbreak period, we have kept close communication with our customers in order to maintain relationships and also to highlight our efforts to maintain extensive hygiene initiatives and support social distancing. Macau itself has had considerable success in controlling the pandemic, which we have highlighted in order to address our customers’ safety concerns.

The Company has developed recovery strategies to attract customer visitations, which will be rolled out once travel restrictions imposed by the Macau, Chinese and Hong Kong Governments are lifted, and once we have seen the resumption of China’s individual visa scheme that permits mainland Chinese residents to travel to Macau. The strategies include:

- implementing new initiatives in hygiene and social distancing to address customer safety concerns and changing customer behavior;
- introducing new attractions and experiences that leverage our unique public spaces, resort technology and family and cultural tourism products to drive property visitation and new business growth;
- increasing the intensity and scope of our sales and marketing campaigns with a view to capitalizing on the resumption of the individual visit scheme to drive visitation and business growth, with a prudent approach to reinvestment in order to maintain profit margin;

- introducing new food and beverage concepts and menu offerings throughout the relaunch process;
- continuing to drive social media awareness and sales through e-commerce channels;
- implementing planned gaming floor enhancement projects while traffic is low to prepare for future growth; and
- developing the MGM COTAI South Tower suites to strengthen our position in premium mass market.

Factors Affecting Our Results of Operations and Financial Position

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

Macau Gaming Market and Tourism

Macau continues to be the largest gaming market in the world. Additional capacity has been added in recent years with several new large-scale integrated resorts opening in Cotai. Additionally, infrastructure investment and growth in room supply have supported increased visitation, including overnight visitors to Macau.

Customers travelling to Macau are typically from nearby regions in Asia including mainland China, Hong Kong, Taiwan, South Korea and Japan. According to the Statistics and Census Services of the Macau Government, approximately 70.9% of visitors to Macau in 2019 were from mainland China.

Aside from the COVID-19 pandemic, 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 mainland China and Macau Government policies. Major factors impacting the Macau gaming market include: economic disruption or uncertainty in China; global trade tensions; restriction on exit visas from mainland 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 mainland China to Macau. Additionally, smoking restrictions in mass gaming floors and VIP areas also impact the Group's gaming performance. Outbreaks of highly infectious diseases, including the COVID-19 pandemic, and extreme weather conditions such as typhoons also affect the number of visitors to Macau.

According to Macau Government statistics, total gross gaming revenue in the Macau gaming market increased by 14.0% to HK\$294.0 billion for the year ended December 31, 2018 over 2017. However, the monthly gross gaming revenue of the Macau gaming market experienced inconsistent months of growth and decline, resulting in a year-over-year decline of 3.4% to HK\$283.9 billion for the year ended December 31, 2019 over 2018. Due to the COVID-19 related closures and other related restrictions on travel and capacity at the facilities in the Macau gaming market, the monthly gross gaming revenue of the Macau gaming market decreased by 77.4% for the six months ended June 30, 2020 over the comparable periods in 2019. According to the DSEC, total visitor arrivals in Macau decreased by 83.9% and the total visitation from mainland China to Macau decreased by 83.7% in the first half of 2020, respectively, over the comparable periods in 2019.

Despite the slowdown in 2019 and the rapid spread of COVID-19 in early 2020, we are optimistic about the long-term growth of the Macau market due to:

- The financial investments made by gaming Concessionaires and Sub-concessionaires, including MGM Grand Paradise, in the opening of new properties providing superior and diversified products to further position Macau as a world class tourism center;
- Infrastructure improvements in Macau and Greater Bay area, 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 opening of Macau Light Rapid Transit System in December 2019; the ongoing expansion of the China High Speed Rail routes to Zhuhai border gate from key cities in China. All are expected to facilitate more convenient travel to Macau;
- Development of Hengqin into a tourism island, together with Macau designated as a key tourism hub by the Chinese Government; and
- The continuous growth of China outbound tourism, particularly in light of the growing middle class.

Competition

Currently, there are six gaming operators in Macau, each of which has completed or has expansion plans underway. As at June 30, 2020, there were 41 casinos in Macau. Several development projects in the Cotai area were completed prior to MGM COTAI's 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 to 9.5% for the year ended December 31, 2019 before the COVID-19 pandemic due in part to the opening and continued ramp-up 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.

Gaming Patrons

Our results of operations are substantially dependent upon casino revenue from high value individuals in the VIP gaming, main floor gaming and slot machines gaming operations. Our gaming patrons include gaming promoters who help source our VIP players, in-house VIP players and main floor players.

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 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 to partner with while having a particular awareness of their financial performance, reputation 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 cheque or other acceptable form 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.

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.

We have made continuous efforts to improve the gaming experience of our high value main floor players 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.

GGR Mix

With our focus on premium mass gaming, the Company is strategically positioned to leverage the gaming market's recovery and growth potential. Our proportion of GGR from the mass and VIP market was 66% and 34%, respectively, for the six months ended June 30, 2020 compared to 62% and 38% for the six months ended June 30, 2019, respectively. However, as described above, our revenues were reduced substantially in the six months ended June 30, 2020, and therefore our proportion of GGR from the mass and VIP markets for the six months ended June 30, 2020 is not comparable to our proportion of GGR from the mass and VIP markets for the six months ended June 30, 2019.

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 relations activities. In addition, we continue to improve our customer experience by enhancing our hotel rooms, food, beverage, retail and entertainment offerings by expanding and refurbishing our non-gaming areas.

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 magnificent 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 experiential technology elements which we believe they can break the boundaries between imagination and reality to delight and captivate our guests.

As a result of the suspension of casino operations for a 15-day period, certain non-gaming facilities closed down in February 2020. Although those facilities have gradually reopened beginning February 20, 2020, a number of restaurants and bars are currently opened with shorter operating hours or closed due to reduced demand caused by travel restrictions. We are currently focused on providing non-gaming offerings to attract local resident customers and are preparing events and attractions to be delivered upon the recovery from COVID-19.

Segment Information

The Group has determined our operating segments based upon the reports reviewed by 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. 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, customers, services and products provided, and the regulatory environment in which they operate. Adjusted EBITDA is considered to be the primary profit/loss measure for the reportable segment.

Adjusted EBITDA

Adjusted EBITDA is profit/loss before finance costs, income tax expense/benefit, depreciation and amortization, gain/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 and corporate expenses which mainly include administrative expenses of the corporate office and license fee paid to a related company. 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 (loss)/profit attributable to owners of the Company for the six months ended June 30, 2020 and 2019:

	For the six months ended	
	June 30	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/profit for the period attributable to owners of the Company	(2,860,430)	1,022,392
Income tax expense	5,194	5,768
Net foreign currency gain	(55,096)	(56,600)
Finance costs	521,312	511,190
Interest income	(6,881)	(12,297)
	<hr/>	<hr/>
Operating (loss)/profit	(2,395,901)	1,470,453
Depreciation and amortization	1,243,690	1,286,026
Loss on disposal/write-off of property and equipment, construction in progress and other assets	4,168	3,210
Pre-opening costs ⁽¹⁾	—	20,548
Corporate expenses	114,902	263,511
Share-based payments	24,755	33,055
	<hr/>	<hr/>
Adjusted EBITDA	<u>(1,008,386)</u>	<u>3,076,803</u>
MGM MACAU Adjusted EBITDA	(356,905)	2,045,595
MGM COTAI Adjusted EBITDA	(651,481)	1,031,208

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

Discussion of Results of Operations

Financial results for the six months ended June 30, 2020 compared to financial results for the six months ended June 30, 2019

Operating Revenue

The following table sets forth the operating revenue for the six months ended June 30, 2020 and 2019.

	For the six months ended	
	June 30	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
MGM MACAU	1,268,615	6,459,349
Casino revenue	1,134,101	5,980,908
Other revenue	134,514	478,441
	<hr/>	<hr/>
MGM COTAI	1,101,779	4,837,285
Casino revenue	911,304	4,178,012
Other revenue	190,475	659,273
	<hr/>	<hr/>
Operating revenue	2,370,394	11,296,634
	<hr/> <hr/>	<hr/> <hr/>

Operating revenue of HK\$2,370.4 million for the six months ended June 30, 2020 was 79.0% lower than the same period in the prior year. This decrease was caused by the impact of the temporary COVID-19 related closures and restrictions on travel and capacity at our facilities as discussed above.

Summary Statistics

The following table presents the key measurements we use to evaluate operating revenues.

MGM MACAU	For the six months ended	
	June 30	
(in thousands, except for number of gaming units, percentage and REVPAR)	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
VIP table games turnover	17,545,488	104,887,108
VIP gross table games win ⁽¹⁾	550,040	3,096,640
VIP table games win percentage (calculated before commissions, complimentaries and other incentives)	3.13%	2.95%
Average daily gross win per VIP gaming table	51.8	212.1
Main floor table games drop	3,793,503	18,825,575
Main floor gross table games win ⁽¹⁾	804,854	4,005,880
Main floor table games win percentage	21.2%	21.3%
Average daily gross win per main floor gaming table	25.7	105.3
Slot machine handle	4,382,039	15,877,323
Slot machine gross win ⁽¹⁾	147,760	603,877
Slot hold percentage	3.4%	3.8%
Average daily win per slot	1.3	3.3
Commissions, complimentaries and other incentives ⁽¹⁾	(368,553)	(1,725,489)
Room occupancy rate	24.8%	96.8%
REVPAR	484	1,949
	As at June 30	
	2020	2019
	(unaudited)	(unaudited)
Gaming Units:		
Tables ⁽²⁾	285	291
Slot machines	584	1,080

MGM COTAI	For the six months ended	
	June 30	
(in thousands, except for number of gaming units, percentage, and REVPAR)	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (unaudited)
VIP table games turnover	12,528,653	59,605,713
VIP gross table games win ⁽¹⁾	383,653	1,841,318
VIP table games win percentage (calculated before commissions, complimentaries and other incentives)	3.06%	3.09%
Average daily gross win per VIP gaming table	44.5	185.5
Main floor table games drop	2,749,038	12,785,688
Main floor gross table games win ⁽¹⁾	740,532	3,069,918
Main floor table games win percentage	26.9%	24.0%
Average daily gross win per main floor gaming table	23.6	83.6
Slot machine handle	3,968,353	19,759,300
Slot machine gross win ⁽¹⁾	124,453	493,237
Slot hold percentage	3.1%	2.5%
Average daily win per slot	1.1	2.3
Commissions, complimentaries and other incentives ⁽¹⁾	(337,334)	(1,226,461)
Room occupancy rate	17.8%	91.8%
REVPAR	311	1,388
	As at June 30	
	2020	2019
	(unaudited)	(unaudited)
Gaming Units:		
Tables ⁽²⁾	267	261
Slot machines	598	1,203

⁽¹⁾ Reported 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.

⁽²⁾ Permanent table count as at June 30, 2020 and 2019.

Casino Revenue

	For the six months ended	
	June 30	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
VIP gross table games win	933,693	4,937,958
Main floor gross table games win	1,545,386	7,075,798
Slot machine gross win	272,213	1,097,114
	<hr/>	<hr/>
Gross casino revenue	2,751,292	13,110,870
Commissions, complimentaries and other incentives	(705,887)	(2,951,950)
	<hr/>	<hr/>
Casino revenue	<u>2,045,405</u>	<u>10,158,920</u>

Casino revenue decreased by 79.9% to HK\$2,045.4 million for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. The decrease was primarily due to the impact of the temporary COVID-19 related closures and restrictions on travel and capacity at our facilities which affected all components of our operations. The components of our gaming operations were:

VIP Gaming Operations

Our VIP gross table games win decreased by 81.1% to HK\$933.7 million for six months ended June 30, 2020 as compared to the same period in the prior year. Similarly, VIP table games turnover in MGM MACAU decreased by 83.3% to HK\$17,545.5 million and VIP table games turnover in MGM COTAI decreased by 79.0% to HK\$12,528.7 million during the current period.

Main Floor Table Gaming Operations

Main floor gross table games win decreased by 78.2% to HK\$1,545.4 million for the six months ended June 30, 2020 as compared to the same period in the prior year.

Slot Machine Gaming Operations

Slot machine gross win decreased by 75.2% to HK\$272.2 million for the six months ended June 30, 2020 as compared to the same period in the prior year.

Other Revenue

Other revenue includes hotel rooms, food, beverage, retail and entertainment and decreased by 71.4% to HK\$325.0 million for the six months ended June 30, 2020. These sources of revenue were also directly impacted by the temporary closures and subsequent substantial decrease in inbound tourists, compared to the same period in the prior year.

Due to the travel restrictions, we are currently focused on providing non-gaming offerings to attract local resident customers. As part of business relaunch, we have introduced MGM Mixy-Go-Matchy offerings, including bespoke hospitality packages, continue to enhance food and beverage selections and cultural entertainment. MGM COTAI has launched a series of family, cultural activities from kids' interactive art tours to fun creative workshops for all ages. Meanwhile MGM MACAU has introduced a Sino-Portuguese Cultural Experience exploring the artistry of Sino-Portuguese culture through various forms of architecture, food, music and art.

Operating Costs and Expenses

The major operating costs and expenses for the six months ended June 30, 2020 and 2019 were:

	For the six months ended	
	June 30	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Gaming taxes	1,137,014	5,288,587
Inventories consumed	133,208	330,544
Staff costs	1,637,929	1,824,775
Loss allowance on trade receivables, net	105,936	40,285
Other expenses and losses	508,518	1,055,964
Depreciation and amortization	1,243,690	1,286,026
Finance costs	521,312	511,190
Income tax expense	5,194	5,768

Gaming taxes

Gaming taxes decreased by 78.5% to HK\$1,137.0 million for the six months ended June 30, 2020. This decrease was attributable to the lower gross casino win generated during the first half of 2020.

Inventories consumed

Inventories consumed decreased by 59.7% to HK\$133.2 million for the six months ended June 30, 2020. This decrease was attributable to the substantial reduction in consumption of food and beverage and other supplies in response to our business activities.

Staff costs

Staff costs decreased by 10.2% to HK\$1,637.9 million for the six months ended June 30, 2020. To mitigate the impact of the COVID-19 pandemic, we have taken a number of measures to reduce payroll expenses, including limiting staff onsite, implementing a hiring freeze and organizational change and introducing voluntary unpaid leave during the period, while trying to preserve local jobs in response to requests of the Macau Government.

Loss allowance on trade receivables, net.

Loss allowance on trade receivables, net, increased by 163.0% from HK\$40.3 million for the six months ended June 30, 2019 to HK\$105.9 million for the six months ended June 30, 2020. The increase was primarily driven by higher expected credit losses arising from the COVID-19 pandemic.

Other expenses and losses

Other expenses and losses decreased by 51.8% to HK\$508.5 million for the six months ended June 30, 2020 as compared to the same period in the prior year, which mainly resulted from:

Advertising and promotion expense. Advertising and promotion expense decreased by 72.1% from HK\$301.8 million for the six months ended June 30, 2019 to HK\$84.2 million for the six months ended June 30, 2020. The decrease resulted from reduced marketing activities being organized during the first half of 2020 in light of travel restrictions and temporary suspension of individual visa scheme for mainland Chinese visitors.

License fee and marketing fees. License fee and marketing fees due to related companies decreased by 78.5% from HK\$204.2 million for the six months ended June 30, 2019 to HK\$43.9 million for the six months ended June 30, 2020. This decrease primarily resulted from lower revenue generated during the first half of 2020.

Depreciation and amortization

Depreciation and amortization remained relatively flat for the six months ended June 30, 2020 as compared to the same period in the prior year.

Finance costs

Finance costs increased from HK\$511.2 million for the six months ended June 30, 2019 to HK\$521.3 million for the six months ended June 30, 2020. This increase was primarily due to a HK\$251.1 million increase in interest expense attributable to the unsecured senior notes issued in May 2019 and June 2020. This increase was partly offset by a HK\$202.7 million decrease in interest expense as a result of the replacement of the Senior Secured Credit Facility in 2019. The replacement of secured debt with unsecured debt provides the Group with additional financial flexibility beyond the date of extension of the gaming Sub-concession.

Income tax expense

Income tax expense in the current and prior periods primarily related to the provision for Macau dividend withholding tax.

Loss/Profit attributable to owners of the Company

Loss/profit attributable to owners of the Company decreased significantly from a profit of HK\$1,022.4 million for the six months ended June 30, 2019 to a loss of HK\$2,860.4 million for the six months ended June 30, 2020. This decrease was attributable to the substantial reduction in activity in the first half of 2020 as a result of the COVID-19 pandemic related closures and restrictions described above.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

As at June 30, 2020, our bank balances and cash, and available undrawn credit facilities were HK\$2.28 billion and HK\$9.12 billion, respectively. These balances are 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 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 June 30, 2020 and December 31, 2019.

	As at	
	June 30 2020 <i>HK\$'000</i> (unaudited)	December 31 2019 <i>HK\$'000</i> (audited)
Borrowings, net of debt finance costs	18,901,267	16,604,526
Less: bank balances and cash	<u>(2,277,370)</u>	<u>(3,270,296)</u>
Net debt	16,623,897	13,334,230
Total equity	<u>7,308,497</u>	<u>10,460,134</u>
Total capital ⁽¹⁾	<u><u>23,932,394</u></u>	<u><u>23,794,364</u></u>
Gearing ratio	<u><u>69.5%</u></u>	<u><u>56.0%</u></u>

⁽¹⁾ Total capital represents the sum of net debt and total equity.

Group Cash Flows

The following table presents a summary of the Group's cash flows for the six months ended June 30, 2020 and 2019.

	For the six months ended	
	June 30	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash (used in)/generated from operating activities	(2,003,915)	2,543,342
Net cash used in investing activities	(518,798)	(653,276)
Net cash generated from/(used in) financing activities	1,530,800	(2,466,146)
Net decrease in cash and cash equivalents	(991,913)	(576,080)
Cash and cash equivalents at the beginning of the period	3,270,296	3,992,107
Effect of foreign exchange rate changes, net	(1,013)	(288)
Cash and cash equivalents at the end of the period	<u>2,277,370</u>	<u>3,415,739</u>

Net cash (used in)/generated from operating activities

The significant reduction in operating cash flow for the six months ended June 30, 2020 compared to the prior year period was caused primarily by the COVID-19 related closures and restrictions.

Net cash used in investing activities

Net cash used in investing activities was HK\$518.8 million for the six months ended June 30, 2020 compared to HK\$653.3 million for the six months ended June 30, 2019. The major components of the cash flow used in investing activities related to payments for the construction and development activities at MGM COTAI and renovation work carried out at MGM MACAU as well as purchase of property and equipment in total amounting to HK\$521.8 million and HK\$444.7 million for the six months ended June 30, 2020 and 2019, respectively. Other significant payments for the six months ended June 30, 2019 included an amount of HK\$213.6 million related to the extension of the Sub-concession from April 1, 2020 to June 26, 2022.

Net cash generated from/(used in) financing activities

Net cash generated from financing activities was HK\$1,530.8 million for the six months ended June 30, 2020 compared to net cash used in financing activities of HK\$2,466.1 million for the six months ended June 30, 2019.

The net cash generated from financing activities for the six months ended June 30, 2020 was primarily due to:

- HK\$3,876.2 million of proceeds from the issuance of the 2025 Notes; partially offset by
- HK\$1,450.0 million of net repayments of the Revolving Credit Facility;
- HK\$476.3 million of interest payments; and
- HK\$315.4 million of dividends paid being the final declared dividend for the year ended December 31, 2019.

Net cash used in financing activities for the six months ended June 30, 2019 was primarily due to:

- HK\$13,580.0 million of net repayments of the Senior Secured Credit Facility;
- HK\$345.8 million of interest payments; and
- HK\$129.2 million of dividends paid; partially offset by
- HK\$11,772.5 million of proceeds from the issuance of the 2024 Notes and the 2026 Notes.

Capital Commitments

As at June 30, 2020, the Group had the following capital commitments under construction contracts and other capital related agreements that are not recorded in the condensed consolidated financial statements:

	As at	
	June 30	December 31
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Contracted but not accounted for	58,768	110,651

Contingent Liabilities

As at June 30, 2020 and 2019, the Group had given bank guarantees totaling HK\$1,095.2 million and HK\$1,095.2 million, respectively, in relation to the Sub-Concession, land concession and other operating purposes.

The Group has been named as a defendant in three 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. The Group intends to keep defending its position that it is not liable with respect to these claims. 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	
	June 30	December 31
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Unsecured Senior Notes	15,501,020	11,687,070
Unsecured Credit Facilities	3,750,000	5,200,000
Less: debt finance costs	(349,753)	(282,544)
	<hr/>	<hr/>
Total borrowings	18,901,267	16,604,526
	<hr/> <hr/>	<hr/> <hr/>

Unsecured Senior Notes

2024 Notes and 2026 Notes

On May 16, 2019, the Company issued two series of senior unsecured notes with an aggregate principal amount of US\$1.50 billion, consisting of US\$750 million of 5.375% senior notes due May 15, 2024 and US\$750 million of 5.875% senior notes due May 15, 2026. The net proceeds from the issuance were used to pay down outstanding borrowings under the Senior Secured Credit Facility. Interest on the 2024 Notes and 2026 Notes is payable semi-annually in arrears on each May 15 and November 15, commencing on November 15, 2019.

The 2024 Notes and 2026 Notes are general unsecured obligations of the Company. The 2024 Notes and 2026 Notes rank equally in right of payment with all of the Company's existing and future senior indebtedness and ranks senior to all of the Company's future subordinated indebtedness, if any. The 2024 Notes and 2026 Notes are effectively subordinated to all of the Company's existing and future secured indebtedness to the extent of the value of the collateral securing such debt. None of the Company's subsidiaries have guaranteed the 2024 Notes and 2026 Notes.

Each of the 2024 Notes and the 2026 Notes was issued pursuant to an indenture, dated May 16, 2019, between the Company and U.S. Bank National Association, as trustee.

The 2024 Notes and 2026 Notes contain covenants that limit the ability of the Company to, among other things, whether directly or indirectly, (1) consolidate or merge with or into another entity; or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its subsidiaries.

The 2024 Notes and 2026 Notes also provide for certain events of default, including certain insolvency related proceedings relating to the Group.

2025 Notes

On June 18, 2020, the Company issued 5.25% senior notes with an aggregate principal amount of US\$500 million. The net proceeds from the issuance were used to repay a portion of amounts outstanding under the Revolving Credit Facility and for general corporate purposes. Interest on the 2025 Notes is payable semi-annually in arrears on each June 18 and December 18, commencing on December 18, 2020.

The 2025 Notes are general unsecured obligations of the Company. The 2025 Notes rank equally in right of payment with all of the Company's existing and future senior indebtedness, including the 2024 Notes and the 2026 Notes and any outstanding obligations under the Revolving Credit Facility and the Second Revolving Credit Facility. The 2025 Notes rank senior to all of the Company's future subordinated indebtedness, if any; the 2025 Notes are effectively subordinated to all of the Company's existing and future secured indebtedness to the extent of the value of the collateral securing such debt. None of the Company's subsidiaries have guaranteed the 2025 Notes.

The 2025 Notes were issued pursuant to an indenture, dated June 18, 2020, between the Company and Wilmington Savings Fund Society, FSB, as trustee.

The 2025 Notes contain covenants that limit the ability of the Company to, among other things, whether directly or indirectly, (1) consolidate or merge with or into another entity; or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its subsidiaries.

The 2025 Notes also provide for certain events of default, including certain insolvency related proceedings relating to the Group.

Unsecured Credit Facilities

Revolving Credit Facility and Second Revolving Credit Facility

Overview

On August 12, 2019, the Company entered into agreements with certain lenders pursuant to which the lenders agreed to make available to the Company an unsecured revolving credit facility in an aggregate amount of HK\$9.75 billion with a final maturity date on May 15, 2024. The Revolving Credit Facility became effective on August 14, 2019. The proceeds of the Revolving Credit Facility were used to replace the Senior Secured Credit Facility, which was cancelled on August 14, 2019, and are used for ongoing working capital needs and general corporate purposes of the Group.

On May 26, 2020, the Company entered into the agreements with certain lenders pursuant to which the lenders agreed to make available to the Company a second unsecured revolving credit facility in an aggregate amount of HK\$2.34 billion with a final maturity date of May 15, 2024. The Company has the option to increase the amount of the facility to up to HK\$3.9 billion subject to certain conditions. The Second Revolving Credit Facility is available for drawdown from the date of the agreement to and including the date falling one month prior to the final maturity date, subject to satisfaction of conditions precedent, including evidence that the Revolving Credit Facility (in an aggregate amount of HK\$9.75 billion) has been fully drawn. The proceeds of the Second Revolving Credit Facility will be used for ongoing working capital needs and general corporate purposes of the Group. On June 29, 2020, the Company increased the available undrawn credit facilities of the Second Revolving Credit Facility by HK\$780 million to HK\$3.12 billion.

As at June 30, 2020, the Group had total available unsecured credit facilities of HK\$9.12 billion.

Principal and Interest

The Revolving Credit Facility and the Second Revolving Credit Facility bear interest at a fluctuating rate per annum based on HIBOR plus a margin (in the range of 1.625% to 2.75%), which will be determined by the Company's leverage ratio.

As at June 30, 2020, HK\$3.75 billion of the Revolving Credit Facility was drawn. HK\$6.0 billion of the Revolving Credit Facility and HK\$3.12 billion of the Second Revolving Credit Facility was undrawn and available for utilization up to and including the date falling one month prior to the final maturity date, on May 15, 2024. Each drawdown is to be repaid in full no later than May 15, 2024. As at June 30, 2020, the Group paid interest at HIBOR plus 2.75% per annum.

General Covenants

The Revolving Credit Facility and the Second Revolving Credit Facility contain general covenants restricting the ability of the obligor group (the Company and certain of its subsidiaries, namely the "Restricted Group") from incurring liens or engaging in certain asset dispositions. With the approval of the lenders there are certain permitted exceptions to these restrictions.

Financial Covenants

The leverage ratio under the Revolving Credit Facility is required to be no greater than 4.5 to 1.0 at each quarter end. 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.

Due to the impact of the COVID-19 pandemic, the Company entered into an amendment of the financial covenants under the Revolving Credit Facility on February 21, 2020, to reflect an amendment of the permitted leverage ratio and permitted interest coverage ratio as follows:

Accounting Date	Interest Coverage Ratio	Leverage Ratio
March 31, 2020	2.50:1.00	6.00:1.00
June 30, 2020	1.25:1.00	Not Applicable
September 30, 2020	1.25:1.00	Not Applicable
December 31, 2020	1.25:1.00	Not Applicable
March 31, 2021	1.25:1.00	Not Applicable
Each accounting date occurring on and after June 30, 2021	2.50:1.00	4.50:1.00

On April 9, 2020, a second amendment of the financial covenants under the Revolving Credit Facility was executed, to reflect a further amendment of the permitted leverage ratio and permitted interest coverage ratio as follows:

Accounting Date	Interest Coverage Ratio	Leverage Ratio
June 30, 2020	Not Applicable	Not Applicable
September 30, 2020	Not Applicable	Not Applicable
December 31, 2020	Not Applicable	Not Applicable
March 31, 2021	Not Applicable	Not Applicable
June 30, 2021	Not Applicable	Not Applicable
Each accounting date occurring on and after September 30, 2021	2.50:1.00	4.50:1.00

Under the Second Revolving Credit Facility, the Company must ensure that the leverage ratio does not, on each accounting date occurring on and after September 30, 2021, exceed 4.50 to 1.00. In addition, the Company must ensure that, on any accounting date occurring on and after September 30, 2021, the interest coverage ratio is not less than 2.50 to 1.

Compliance with Covenants

The Group has complied with the general and financial covenants under the Revolving Credit Facility for the six months ended June 30, 2020 and the year ended December 31, 2019.

Mandatory Prepayments

Pursuant to the Revolving Credit Facility and the Second Revolving Credit Facility, lenders will be permitted to cancel their commitments and to require the prepayment in full of the Revolving Credit Facility or Second Revolving Credit Facility if a Change of Control occurs or there is a sale of all or substantially all of the assets or business of the Group. Change of Control is defined as: MGM Resorts International fails to be the legal and beneficial owner, directly or indirectly, of more than 50% of the capital stock of the Company having ordinary voting rights; or the Company ceases to be the beneficial owner directly or indirectly of all of the share capital of MGM Grand Paradise (other than any portion of the share capital of MGM Grand Paradise with only nominal economic interests created for the purposes of complying with Macanese ownership requirements).

Events of Default

The Revolving Credit Facility and the Second Revolving Credit Facility contain certain events of default, including loss of concession (as defined therein) and certain insolvency related proceedings relating to the Group.

Security and Guarantees

No security or guarantees were provided in relation to the Revolving Credit Facility and the Second Revolving Credit Facility.

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 revenue 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, cash, deposits and borrowings denominated in foreign currencies, and consequently exposure to exchange rate fluctuations arise. The majority of our foreign currency exposure comprises assets and liabilities denominated in US\$ including US\$2 billion of issued senior notes. The exchange rate of the HK\$ is pegged to the US\$ and has remained relatively stable over the past several years. The Group manages its foreign exchange risk by closely monitoring the movement of the foreign exchange rates and by utilizing hedging agreements when the Group considers it necessary.

Interest Rate Risk

The Company is primarily exposed to cash flow interest rate risk in relation to borrowings which bear interest at floating rates. The Company manages interest rate risk through a mix of long-term fixed rate borrowings under its unsecured senior notes and variable rate borrowings under our Revolving Credit Facility and by utilizing interest rate swap agreements when considered necessary. A change in interest rates generally does not have an impact upon the Company's future earnings and cash flow for fixed rate debt instruments. As fixed rate borrowings mature, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be affected by changes in interest rates. This effect would be realized in the periods subsequent to periods when the debt matures.

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

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

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.

In the current operating environment that has resulted from the impact of the COVID-19 pandemic, we have undertaken a series of actions to minimize our expenses, including reducing or deferring of certain capital expenditures that we had planned to begin during the second quarter of 2020, and reducing payroll expenses, including limiting staff on site, implementing a hiring freeze and organizational change and introducing voluntary unpaid leave. Our estimated capital expenditures at present include future development projects to strengthen our position in the premium mass market, including the development of the MGM COTAI South Tower suites.

EMPLOYEES AND REMUNERATION POLICY

As at June 30, 2020, the Group employed 10,703 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, among others, base pay, health benefits, incentive pay, bonus, equity and retirement plans, etc.
- **Objective** — to be consistent with local market rates.
- **Developmental** — to encourage career and professional development within the workforce and retain quality talents.

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended June 30, 2020, the Company repurchased a total of 249,200 Shares at an aggregate purchase price of HK\$2.05 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 2020	249,200	8.22	8.17	2,052

New shares were issued pursuant to the exercise of share options by qualifying grantees under the Share Option Scheme. The Company repurchased the aggregate number of Shares equivalent to the aggregate number of all such new Shares being issued during the six months ended June 30, 2020 in accordance with Rule 10.06 of the Listing Rules, and all 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 the view of maintaining the same total issued share capital and enhancing stability of the Company's share capital and hence the net value of the Company and its assets and/or earnings per Share.

Save as disclose 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 six months ended June 30, 2020.

CORPORATE GOVERNANCE PRACTICES

The Directors recognize the importance of good corporate governance in the management of the Group. During the six months from January 1, 2020 to June 30, 2020, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH COMPANY’S CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND OFFICERS

The Company has adopted its code of conduct regarding securities transactions by Directors and senior management of the Group (the “Securities Code”) on terms which are no less exacting than the required standard set out in the Model Code. The Company has made specific enquiry of all Directors who have confirmed in writing their compliance with the required standard set out in the Securities Code and the Model Code throughout the six months ended June 30, 2020.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Group’s unaudited condensed consolidated financial statements for the reporting period have been reviewed by the Company’s Audit Committee members, being Russell Francis Banham (Chairperson), Zhe Sun, James Freeman and Simon Meng and by the Company’s auditor in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM 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 interim report for the six months ended June 30, 2020 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

“2024 Notes”	US\$750 million (approximately HK\$5.85 billion) aggregate principal amount of 5.375% senior unsecured notes due May 15, 2024
“2025 Notes”	US\$500 million (approximately HK\$3.75 billion) aggregate principal amount of 5.25% senior unsecured notes due June 18, 2025
“2026 Notes”	US\$750 million (approximately HK\$5.85 billion) aggregate principal amount of 5.875% senior unsecured notes due May 15, 2026

“Board”	the board of Directors of the 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 interim 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(s)”	the holder(s) 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
“DICJ”	the Gaming Inspection and Coordination Bureau of Macau (“Direcção de Inspeção e Coordenação de Jogos” in Portuguese), a department of the Public Administration of Macau
“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
“DSEC”	Statistics and Census Service of the Macau Government
“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 DICJ 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
“Gaming Promoters Regulation”	Macau Administrative Regulation No. 6/2002, as amended by Macau Administrative Regulation No. 27/2009
“GGR” or “gross gaming revenue”	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 Branding”	MGM Branding and Development Holdings, Ltd., a company incorporated in the BVI and jointly wholly-owned, directly or indirectly, by MGM Resorts International and Pansy Ho in equal portions
“MGM COTAI”	the 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 Growth Properties”	MGM Growth Properties LLC, a Delaware corporation listed on the New York Stock Exchange under the ticker symbol MGP, a real estate investment trust (REIT) and an associated corporation of the Company (within the meaning of Part XV of the Securities and Futures Ordinance)
“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
“MRIH”	MGM Resorts International Holdings, Ltd, a company incorporated in the Isle of Man and an indirect wholly owned subsidiary of MGM Resorts International
“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
“Pansy Ho”	Pansy Catilina Chiu King Ho, a substantial Shareholder, the Co-chairperson and an executive Director of the Company
“Revolving Credit Facility”	the revolving credit facility dated August 12, 2019 entered into between the Company and certain lenders, pursuant to which the lenders agreed to make available to the Company an unsecured revolving credit facility in an aggregate amount of HK\$9.75 billion with a final maturity date on May 15, 2024, as amended on February 21, 2020 and April 9, 2020
“REVPAR”	Revenue per available room includes commissions, complimentaries and other incentives
“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
“Second Revolving Credit Facility”	the second revolving credit facility dated May 26, 2020 entered into between the Company and certain lenders, pursuant to which the lenders agreed to make available to the Company an unsecured revolving credit facility with a final maturity date on May 15, 2024, in an initial aggregate amount of HK\$2.34 billion, increased to HK\$3.12 billion on June 29, 2020, and with an increase option pursuant to which the Company may increase the amount of the facility to up to HK\$3.9 billion, subject to certain conditions
“Senior Secured Credit Facility”	the Second Amended Credit Agreement, entered into between MGM China, MGM Grand Paradise, MGM Grand Paradise (HK) Limited, Superemrego Limitada, MGM — Security Services, Ltd. and Bank of America, N.A., dated June 9, 2015, as amended by the Third Supplemental Agreement, dated February 2, 2016, the Fourth Supplemental Agreement, dated February 15, 2017, the Fifth Supplemental Agreement, dated June 15, 2018 and the Sixth Supplemental Agreement, dated April 15, 2019

“Share(s)”	ordinary share(s) with a nominal value of HK\$1 each in the share capital of the 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”, “Sub-Concession Contract” or “Sub-Concession Extension Contract”	the agreement for the Exploitation of Games of Fortune and Chance or Other Games in Casino in the Special Administrative Region of Macau entered into by SJM and MGM Grand Paradise on April 19, 2005, as extended to June 26, 2022 by the Sub-Concession Extension Contract, dated as of March 15, 2019
“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”, “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 upon 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

William Joseph Hornbuckle
Chairperson and Executive Director

Pansy Catilina Chiu King Ho
Co-chairperson and Executive Director

Hong Kong, August 6, 2020

As at the date of this announcement, our directors are William Joseph HORNBUCKLE, Pansy Catilina Chiu King HO, Chen Yau WONG and John M. MCMANUS as executive Directors, Kenneth Xiaofeng FENG, James Armin FREEMAN, Daniel J. TAYLOR and Ayesha Khanna MOLINO as non-executive Directors and Zhe SUN, Sze Wan Patricia LAM, Russell Francis BANHAM and Simon MENG as independent non-executive Directors.