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SUMMIT ASCENT HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 102)

INSIDE INFORMATION

This announcement is made by Summit Ascent Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated 1 June 2020 in relation to, among other matters, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver (the “**Announcement**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

The taking up of the Underwritten Shares by Victor Sky (a direct wholly-owned subsidiary of Suncity) as Underwriter under and pursuant to the Underwriting Agreement will constitute an acquisition of interest in the Company by Suncity. If all the Underwritten Shares are taken up by Victor Sky, the acquisition of interest in the Company will constitute a major transaction for Suncity and for that purpose, a circular (the “**Suncity’s Circular**”) will be despatched by Suncity to its shareholders containing certain financial information and management discussion and analysis of the Group for the three months ended 31 March 2020 (the “**Information**”), which information may not have previously been made public. Attached to this announcement is the Information to be contained in the Suncity’s Circular which can also be viewed at the Company’s website <https://www.saholdings.com.hk> prior to the publication of the Suncity’s Circular.

By order of the Board
Summit Ascent Holdings Limited
Chau Cheok Wa
Chairman

Hong Kong, 11 August 2020

As at the date of this announcement, the executive Directors are Mr. Lo Kai Bong (Deputy Chairman) and Mr. Chiu King Yan, the non-executive Directors are Mr. Chau Cheok Wa (Chairman), Mr. Wong Pak Ling Philip and Dr. U Chio Jeong, and the independent non-executive Directors are Mr. Lam Kwan Sing, Mr. Lau Yau Cheung and Mr. Li Chak Hung.

THE INFORMATION

The consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2020 and the consolidated statement of financial position as at 31 March 2020 of the Group are provided below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2020

		Three months ended 31 March 2020	Three months ended 31 March 2019
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Unaudited)
Revenue from gaming and hotel operations	6	91,934	132,263
Other income	7	3,757	1,652
Other gains and losses	9	(16,904)	9,656
Gaming tax		(2,941)	(3,528)
Inventories consumed		(2,760)	(3,319)
Marketing and promotion expenses		(3,628)	(3,853)
Employee benefits expenses		(43,493)	(35,767)
Depreciation and amortisation		(22,479)	(22,777)
Other expenses	10	(24,646)	(28,878)
Finance costs	11	(7,374)	(8,443)
		<hr/>	<hr/>
(Loss) profit before taxation		(28,534)	37,006
Income tax expense	12	(22)	(33)
		<hr/>	<hr/>
(Loss) profit and total comprehensive (expense) income for the period	13	<u>(28,556)</u>	<u>36,973</u>
(Loss) profit and total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(13,267)	27,176
Non-controlling interests		(15,289)	9,797
		<hr/>	<hr/>
		<u>(28,556)</u>	<u>36,973</u>
		<i>HK cent</i>	<i>HK cents</i>
(Loss) earnings per share			
Basic	17	(0.74)	1.83
		<hr/>	<hr/>
Diluted		(0.74)	1.83
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

		As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
	<i>NOTES</i>		
Non-current assets			
Property, operating right and equipment	18	1,403,864	1,408,519
Right-of-use assets	19	6,193	6,782
Long-term prepayments and other non-current assets	20	19,400	31,849
Intangible assets		<u>416</u>	<u>420</u>
		<u>1,429,873</u>	<u>1,447,570</u>
Current assets			
Inventories	21	2,047	3,003
Trade and other receivables	22	67,946	61,657
Bank balances and cash	23	<u>826,223</u>	<u>860,698</u>
		<u>896,216</u>	<u>925,358</u>
Current liabilities			
Contract liabilities, trade and other payables	24	53,280	61,557
Lease liabilities	25	1,332	1,966
Loans from non-controlling shareholders of a subsidiary	26	<u>229,550</u>	<u>223,214</u>
		<u>284,162</u>	<u>286,737</u>
Net current assets		<u>612,054</u>	<u>638,621</u>
Total assets less current liabilities		<u>2,041,927</u>	<u>2,086,191</u>

		As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
	<i>NOTES</i>		
Non-current liabilities			
Liabilities for value-added tax (“VAT”) arrangements	27	30,017	44,641
Lease liabilities	25	4,053	5,137
		<u>34,070</u>	<u>49,778</u>
Net assets		<u>2,007,857</u>	<u>2,036,413</u>
Capital and reserves			
Share capital	28	45,094	45,094
Reserves		<u>1,586,027</u>	<u>1,599,294</u>
Equity attributable to owners of the Company		1,631,121	1,644,388
Non-controlling interests		<u>376,736</u>	<u>392,025</u>
Total equity		<u>2,007,857</u>	<u>2,036,413</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2020

	Attributable to owners of the Company				Sub-total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Accumulated losses HK\$'000			
At 31 December 2019 and 1 January 2020	45,094	1,597,405	33,100	(31,211)	1,644,388	392,025	2,036,413
Loss and total comprehensive expense for the period	-	-	-	(13,267)	(13,267)	(15,289)	(28,556)
Forfeiture/cancellation of share options	-	-	(9,090)	9,090	-	-	-
At 31 March 2020	<u>45,094</u>	<u>1,597,405</u>	<u>24,010</u>	<u>(35,388)</u>	<u>1,631,121</u>	<u>376,736</u>	<u>2,007,857</u>
At 1 January 2019	37,209	1,286,885	52,869	(126,298)	1,250,665	375,919	1,626,584
Profit and total comprehensive income for the period (unaudited)	-	-	-	27,176	27,176	9,797	36,973
At 31 March 2019 (unaudited)	<u>37,209</u>	<u>1,286,885</u>	<u>52,869</u>	<u>(99,122)</u>	<u>1,277,841</u>	<u>385,716</u>	<u>1,663,557</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31 March 2020

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
OPERATING ACTIVITIES		
(Loss) profit before taxation	(28,534)	37,006
Adjustments for:		
Depreciation and amortisation of property, operating right, equipment, right-of-use assets and intangible assets	22,479	22,777
Finance costs	7,374	8,443
Impairment loss on deposits	7,267	–
Loss on disposal/written off of property, operating right and equipment	60	32
Bank interest income	(3,399)	(1,506)
Loss on written-off of intangible assets	–	32
Reversal of losses recognised on other receivables, deposits and prepayments	–	(741)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	5,247	66,043
Increase in trade and other receivables	(3,768)	(68,589)
Increase in contract liabilities, trade and other payables	1,715	57,189
Decrease in inventories	956	179
	<hr/>	<hr/>
Cash generated from operation	4,150	54,822
Income tax paid	(22)	(33)
	<hr/>	<hr/>
Net cash from operating activities	4,128	54,789
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Payment for property, operating right and equipment	(9,902)	(1,403)
Return of VAT refunded under VAT arrangements	(9,853)	(9,924)
Deposits paid for purchase of property, operating right and equipment	(2,207)	–
Interest received	3,399	1,506
Payment for intangible assets	–	(369)
VAT refunded under VAT arrangements	–	657
	<hr/>	<hr/>
Net cash used in investing activities	(18,563)	(9,533)
	<hr/>	<hr/>

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
FINANCING ACTIVITIES		
Repayment of lease liabilities	(1,718)	(476)
Interest paid for lease liabilities	<u>(161)</u>	<u>(203)</u>
Net cash used in financing activities	<u>(1,879)</u>	<u>(679)</u>
Net (decrease) increase in cash and cash equivalents	(16,314)	44,577
Cash and cash equivalents at 1 January	860,698	479,822
Effect of foreign exchange rate changes	<u>(18,161)</u>	<u>(4,709)</u>
Cash and cash equivalents at 31 March, represented by bank balances and cash	<u>826,223</u>	<u>519,690</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

For the three months ended 31 March 2020

1. GENERAL

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of the Group are the operation of hotel and gaming business in the Integrated Entertainment Zone of the Primorye Region (the “**IEZ Primorye**”) in the Russian Federation. The principal subsidiaries and their activities are set out in note 36.

The consolidated financial information is presented in Hong Kong dollar (“**HK\$**”) which is also the functional currency of the Company. The functional currency of G1 Entertainment Limited Liability Company (“**G1 Entertainment**”), a principal subsidiary of the Group engaged in the gaming and hotel operations in the Russian Federation, is in HK\$. This is based on the fact that the currency that mainly influences its gaming revenue is HK\$.

2. SIGNIFICANT EVENT IN THE CURRENT PERIOD

The outbreak of the Coronavirus Disease 2019 (“COVID-19”)

With effect from 20 February 2020, as part of the efforts to contain the COVID-19 outbreak, the Russian government implemented a temporary entry ban for Chinese nationals, including passport holders from Hong Kong and Macau, which had an adverse impact on the Group’s visitation in early 2020, particularly in the rolling chip business. On 27 March 2020, the Company announced, as COVID-19 outbreak situation has been escalating in the Russian Federation, the Russian government has announced a number of measures to control the outbreak. The gaming property operated under a subsidiary of the Company, G1 Entertainment, has followed the suggestions of the Russian government by temporarily suspending its gaming operations from 28 March 2020 (Saturday) until its reopening on 16 July 2020 (Thursday). The hotel operations of G1 Entertainment continued to serve in a limited capacity during the period of suspension.

The Directors believe that COVID-19 will continue to present challenges to the business and it is impossible to quantify the impact to the overall business due to many uncertainties, including:

- Length of closure period, if any
- Time to reopen and ramp up once reopened
- Impact of COVID-19 on the economy and consumer behavior in the short and long term

Nevertheless, the Group has a strong liquidity position and would be able to continue its operation under this unprecedented period of ‘near-zero revenue’ for over twelve months from the end of the reporting period.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA. In addition, the consolidated financial information has been prepared on the historical cost basis at the end of each reporting period.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the consolidated financial information for the three months ended 31 March 2020 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2019.

4. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing the consolidated financial information for the three months ended 31 March 2020, the Group has consistently applied the HKFRSs, which are effective for the accounting period beginning on 1 January 2020. The application of the new and amendments to HKFRSs since 1 January 2020 has had no material impact on the Group’s financial position and performance for the three months ended 31 March 2020 and/or on the disclosures set out in these consolidated financial information.

New or revised standards and interpretations that have been issued but not yet effective

At the date of this announcement, the following new and amendments to HKFRSs have been issued which are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁴
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ⁴
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 June 2020.

⁴ Effective for annual periods beginning on or after 1 January 2022.

The directors of the Company (“**Directors**”) anticipate that the application of all new and amendments to HKFRSs will have no material impact on the financial statements of the Group in the foreseeable future.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial information.

Determination on lease term of contracts with renewal options

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. The lease on land plots from a third party was originally with a lease term of 14 years. Taking into account the Russian legislation and legal advice, the management expected that the lease terms could be extended upon expiry to match the estimated useful life of the buildings on the land plot of 30 years.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Provision of ECL for trade receivables

The Group applies the HKFRS 9 simplified approach to measuring ECL, using a lifetime expected loss allowance for all trade receivables. The Group determines the allowance based on specific customer information, historical experience with the customer, current industry and economic data and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. A provision of ECL for trade receivables is recorded when the Group believes it is probable the recoverable amount of the receivables will be less than their carrying amounts.

The provision of ECL is sensitive to changes in estimates. The information about the Group's trade receivables and the ECL are disclosed in notes 22 and 31 respectively.

Useful lives and depreciation and impairment of property, operating right and equipment and right-of-use assets

The Group determines the estimated useful lives and related depreciation charges for its property, operating right and equipment. This estimate is based on the historical experience of the actual useful lives of property, operating right and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. The property of the Group mainly comprises a hotel and entertainment complex, which is situated on land plots in the Russian Federation with a lease term of 14 years. Taking into account the Russian legislation and legal advice, the management expected that the lease terms could be renewed upon expiry of the relevant lease or the land plots could be acquired by the Group at a minimal consideration if the land lease is not extended, to match with the estimated useful lives of the buildings of 30 years.

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions including budgeted revenue taking into account future development of the Tigre de Cristal and pre-tax discount rate of 19.11%, to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As a result of the changes in the current economic environment related to the COVID-19 pandemic, the Group is experiencing decreased revenues that indicate that the relevant property, operating right and equipment may be impaired. For the three months ended 31 March 2020, the Group performed impairment testing and concluded that no impairment loss should be recognised (31 December 2019: Nil).

As at 31 March 2020, the carrying amount of property, operating right and equipment and right-of-use assets was HK\$1,403,864,000 and HK\$6,193,000 (31 December 2019: HK\$1,408,519,000 and HK\$6,782,000), net of accumulated depreciation and amortisation of HK\$409,554,000 and HK\$2,947,000 (31 December 2019: HK\$388,722,000 and HK\$2,358,000).

6. REVENUE FROM GAMING AND HOTEL OPERATIONS

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
Revenue from gaming and hotel operations:		
– Gaming operations	88,368	122,540
– Hotel operations	3,566	9,723
	<u>91,934</u>	<u>132,263</u>

Revenue from gaming operations represents the aggregate net difference between gaming wins and losses and is recognised at a point in time. The commissions rebated to customers related to their play are recorded as a reduction to revenue from gaming operations.

For the rooms and food and beverage, revenue is recognised when the control of goods and services is transferred, either over time or a point in time, as appropriate.

7. OTHER INCOME

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
Bank interest income	3,399	1,506
Rental income	109	139
Others	<u>249</u>	<u>7</u>
	<u>3,757</u>	<u>1,652</u>

8. SEGMENT INFORMATION

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Company's Deputy Chairman and Executive Director, being the chief operating decision maker, for the purpose of allocating resources to segments and assessing their performance.

The Group operates only in one operating and reportable segment, i.e. the gaming and hotel operations. Single management report for the gaming and hotel business is reviewed by the Company's Deputy Chairman and Executive Director who allocates resources and assesses performance based on the consolidated financial information for the entire business. Accordingly, the Group does not present separate segment information other than entity-wide disclosures.

During the periods ended 31 March 2020 and 2019, all revenues are derived from customers patronising in the Group's property located in the Russian Federation. At 31 March 2020 and 31 December 2019, almost all non-current assets of the Group are located in the Russian Federation.

9. OTHER GAINS AND LOSSES

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
Exchange (losses) gains, net	(9,577)	8,979
Impairment loss on deposits (<i>Note</i>)	(7,267)	–
Loss on disposal/written-off of property, operating right and equipment	(60)	(32)
Reversal of recognised on other receivables, deposits and prepayments	–	741
Loss on written-off of intangible assets	–	(32)
	<u>(16,904)</u>	<u>9,656</u>

Note: For the period ended 31 March 2020, the Group recognised an impairment loss on deposits for purchase of property, operating right and equipment of approximately HK\$7,267,000 due to a dispute with a contractor in relation to a renovation contract. The contract had been terminated by the Group and such deposit is fully impaired.

10. OTHER EXPENSES

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
Security expenses	3,868	3,835
Non-recoverable value-added tax	2,677	1,439
Utilities and fuel	2,323	2,272
Costs for employee relations	2,177	1,849
Bank charges	1,992	1,451
Auditors' remuneration	1,169	1,169
Travel agency expenses	1,483	6,461
Repair and maintenance expenses	1,367	2,140
Motor vehicle expenses	1,273	1,018
Legal and professional fees	1,033	295
Gaming supplies	977	1,488
Insurance expenses	583	1,068
Communication and networking costs	409	428
Hotel supplies	275	460
Overseas travel expenses	206	1,085
Consultancy fees	–	294
Sundry	2,834	2,126
	<u>24,646</u>	<u>28,878</u>

11. FINANCE COSTS

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
Imputed interest on loans from non-controlling shareholders of a subsidiary	6,336	7,240
Imputed interest on VAT arrangements	877	1,000
Interest on lease liabilities	161	203
	<u>7,374</u>	<u>8,443</u>

12. INCOME TAX EXPENSE

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2 million of profits of the qualifying group entity is taxed at 8.25%, and profits above HK\$2 million is taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime continues to be taxed at a flat rate of 16.5%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods as the Directors considered the amount involved in the two-tiered profits tax rates regime is insignificant to the consolidated financial information of the Group.

Russian corporation tax is calculated at a rate of 20% of the estimated assessable profit for both periods; however, no Russian corporation tax is levied on the Group's gaming activities in the Russian Federation in accordance with Russian legislation.

Russian tax, currency and customs legislation are subject to varying interpretation and changes, which can occur frequently.

Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. Fiscal periods remain open to be reviewed by the authorities in respect of taxes are three calendar years preceding the year of review. Under certain circumstances such review may cover longer periods.

The tax charged for the periods can be reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
(Loss) profit before taxation	<u>(28,534)</u>	<u>37,006</u>
Tax at the domestic income tax rate of 20% (Note)	(5,707)	7,401
Tax effect of expenses not deductible for tax purpose	20,002	16,415
Tax effect of income not taxable for tax purpose	(17,605)	(29,084)
Tax effect of deductible temporary difference not recognised	66	29
Tax effect of tax losses not recognised	3,289	5,263
Others	<u>(23)</u>	<u>9</u>
Income tax expense for the period	<u>22</u>	<u>33</u>

Note: The Russian corporate tax rate is used as it is the domestic tax in the jurisdiction where the operation of the Group is substantially based.

At the end of the reporting period, the Group has unused tax losses of HK\$30,975,000 (31 December 2019: HK\$30,062,000) and HK\$537,868,000 (approximately RUB3,374,632,000) (31 December 2019: HK\$522,336,000 (approximately RUB3,469,730,000)) available under Hong Kong profits tax and Russian corporate tax respectively for offset against future profits. No deferred tax assets have been recognised on such tax losses for both periods due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

13. (LOSS) PROFIT FOR THE PERIOD

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
(Loss) profit for the period has been arrived at after charging:		
Directors' remunerations (<i>Note 14</i>)	1,820	688
Salaries, wages, bonus and other benefits, excluding Directors	33,266	27,391
Contributions to retirement benefits schemes, excluding Directors	8,407	7,688
	<hr/>	<hr/>
Total employee benefits expenses (including Directors' emoluments)	43,493	35,767
	<hr/>	<hr/>
Amortisation of intangible assets	4	12
Depreciation of property, operating right and equipment	21,886	22,176
Depreciation of right-of-use assets	589	589
	<hr/>	<hr/>
Total depreciation and amortisation	22,479	22,777
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14. DIRECTORS' EMOLUMENTS

Directors' remuneration for the period, disclosed pursuant to the applicable Listing Rules, is as follows:

	Three months ended 31 March 2020									
	Non-executive Director and Chairman	Executive Director and Deputy Chairman	Executive Director	Former Executive Director	Non-Executive Directors		Independent Non-executive Directors			
	Chau Cheok Wa	Lo Kai Bong	Chiu King Yan	Eric Daniel Landheer	U Chio Jeong	Wong Pak Ling Philip	Lau Yau Cheung	Li Chak Hung	Lam Kwan Sing	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note i)	(Note ii)	(Note iii)	(Note iv)		(Note v)			(Note vi)	
Fees	-	300	300	-	-	90	36	36	42	804
Other emoluments										
Salaries and other benefits	-	-	-	1,011	-	-	-	-	-	1,011
Contributions to retirement benefits schemes	-	-	-	5	-	-	-	-	-	5
Total emoluments	-	300	300	1,016	-	90	36	36	42	1,820

	Three months ended 31 March 2019 (Unaudited)									
	Non-executive Director and Chairman	Executive Director and Deputy Chairman	Executive Director	Former Executive Director	Non-Executive Directors		Independent Non-executive Directors			
	Kuo Jen Hao	Wang, John Peter Ben	Eric Daniel Landheer	Lo Kai Bong	U Chio Jeong	Lau Yau Cheung	Li Chak Hung	Gerard Joseph McMahon	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Note vii)	(Note viii)	(Note iv)	(Note ii)				(Note ix)		
Fees	-	45	-	-	-	-	36	36	42	159
Other emoluments										
Salaries and other benefits	-	-	524	-	-	-	-	-	-	524
Contributions to retirement benefits schemes	-	-	5	-	-	-	-	-	-	5
Total emoluments	-	45	529	-	-	36	36	42	688	

Notes:

- (i) Chau Cheok Wa has been appointed as a Non-executive Director and the Chairman of the Board of Directors of the Company with effect from 1 June 2019.
- (ii) With effect from 26 April 2019, Lo Kai Bong has been re-designated to an Executive Director and has been appointed as the Deputy Chairman of the Board of Directors of the Company.
- (iii) Chiu King Yan has been appointed as an Executive Director with effect from 26 April 2019.
- (iv) Eric Daniel Landheer has resigned as an Executive Director of the Company with effect from 23 March 2020.
- (v) Wong Pak Ling Philip has been appointed as a Non-executive Director with effect from 1 June 2019.
- (vi) Lam Kwan Sing has been appointed as an Independent Non-executive Director with effect from 14 June 2019.
- (vii) With effect from 26 April 2019, Kuo Jen Hao has resigned as a Non-executive Director and the Chairman of the Board of Directors of the Company.
- (viii) Wang, John Peter Ben has resigned as an Executive Director and the Deputy Chairman of the Board of Directors of the Company with effect from 12 April 2019.
- (ix) Gerard Joseph McMahon has resigned as an Independent Non-executive Director of the Company with effect from 14 June 2019.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the period.

The Executive Directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The Non-Executive Director's emoluments shown above were for his services as a director of the Company or its subsidiaries. The Independent Non-Executive Directors' emoluments shown above were for their services as directors of the Company.

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included one and one (unaudited) director for the three months ended 31 March 2020 and 2019, respectively, details of whose remuneration as a director is set out in note 14. Details of the total remuneration for the period of the other four highest paid employees are as follows:

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
Salaries and other benefits	1,210	1,098
Discretionary and performance related incentive payments	50	39
Contributions to retirement benefits schemes	<u>9</u>	<u>9</u>
	<u>1,269</u>	<u>1,146</u>

Their emoluments fell within the following bands:

	Number of employees	
	Three months ended 31 March 2020	Three months ended 31 March 2019 (Unaudited)
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>

In addition, neither emoluments as an inducement to join nor a compensation for the loss of office was paid to the Directors and five highest paid employees for both periods.

16. DIVIDENDS

No dividend was declared or paid by the Company for the three months ended 31 March 2020 and 2019.

17. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following data:

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
(Loss) profit for the purposes of basic and diluted (loss) earnings per share	<u><u>(13,267)</u></u>	<u><u>27,176</u></u>
	Three months ended 31 March 2020 Number of shares (in thousands)	Three months ended 31 March 2019 (unaudited)
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	1,803,778	1,488,378
Effect of dilutive potential ordinary shares: Share options issued by the Company	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u><u>1,803,778</u></u>	<u><u>1,488,378</u></u>

The computation of diluted loss per share for the three months ended 31 March 2020 did not assume the exercise of the Company's share options because the exercise would result in a decrease in loss per share.

18. PROPERTY, OPERATING RIGHT AND EQUIPMENT

	Buildings, operating right and leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Gaming equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST						
At 1 January 2019	1,520,965	137,641	94,171	12,595	2,767	1,768,139
Additions	2,599	20,903	17,688	2,663	7,728	51,581
Disposal	—	(11,662)	(9,991)	(826)	—	(22,479)
At 31 December 2019	1,523,564	146,882	101,868	14,432	10,495	1,797,241
Additions	—	6,319	—	1,872	9,100	17,291
Disposal	—	(20)	—	(1,094)	—	(1,114)
At 31 March 2020	1,523,564	153,181	101,868	15,210	19,595	1,813,418
DEPRECIATION						
At 1 January 2019	149,510	109,412	40,988	7,663	—	307,573
Provided for the year	57,422	16,557	21,307	1,572	—	96,858
Disposal	—	(7,496)	(8,098)	(115)	—	(15,709)
At 31 December 2019	206,932	118,473	54,197	9,120	—	388,722
Provided for the period	13,369	5,090	2,917	510	—	21,886
Disposal	—	(17)	—	(1,037)	—	(1,054)
At 31 March 2020	220,301	123,546	57,114	8,593	—	409,554
CARRYING VALUES						
At 31 March 2020	<u>1,303,263</u>	<u>29,635</u>	<u>44,754</u>	<u>6,617</u>	<u>19,595</u>	<u>1,403,864</u>
At 31 December 2019	<u>1,316,632</u>	<u>28,409</u>	<u>47,671</u>	<u>5,312</u>	<u>10,495</u>	<u>1,408,519</u>

Operating right represents the right to conduct business in the IEZ Primorye, one of the five integrated entertainment zones in the Russian Federation for gaming activities. Although the right was awarded by the Administration of the Primorye Region, the Russian Federation for an indefinite period, the Directors determine its estimated useful life as 30 years and accordingly, the right is amortised over 30 years. The building mainly includes the hotel and entertainment complex situated on land plots from a third party with a lease term of 14 years. Taking into account the Russian legislation and a legal opinion as advised by an external legal counsel, the management expected that the lease terms could be renewed upon expiry or the land plots could be acquired by the Group if the land lease is not extended, to reflect the estimated useful life of the buildings of 30 years.

The above items of property, operating right and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings, operating right and leasehold improvements	3–30 years
Furniture, fixtures and equipment	2–20 years
Gaming equipment	2–7 years
Motor vehicles	3–7 years

19. RIGHT-OF-USE ASSETS

	Leasehold lands <i>HK\$'000</i>	Office <i>HK\$'000</i>	Warehouse <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2019 and 1 January 2020				
Carrying amount	<u>5,041</u>	<u>1,283</u>	<u>458</u>	<u>6,782</u>
As at 31 March 2020				
Carrying amount	<u>4,956</u>	<u>916</u>	<u>321</u>	<u>6,193</u>
For the three months ended 31 March 2020				
Depreciation charge	<u>85</u>	<u>367</u>	<u>137</u>	<u>589</u>
For the three months ended 31 March 2019 (unaudited)				
Depreciation charge	<u>85</u>	<u>367</u>	<u>137</u>	<u>589</u>
Total cash outflow for leases for the three months ended 31 March 2020				<u>1,879</u>
Expense relating to short-term leases and other leases with lease term ended within 12 months of date of initial application of HKFRS 16 for the three months ended 31 March 2019 (unaudited)				<u>485</u>
Total cash outflow for leases for the three months ended 31 March 2019 (unaudited)				<u>1,164</u>

For the three months ended 31 March 2020 and 2019, the Group leases various leasehold lands, office and warehouse for its operations. Lease contracts are entered into for fixed term of 1 year to 14 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Extension and termination options

The Group has extension options in the lease for one of the leasehold lands. This is used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension option held is exercisable only by the Group and not by the respective lessor. The lease on land plots under a medium-term lease from a third party was originally with a lease term of 14 years. Taking into account the Russian legislation and legal advice, the management expected that the lease terms could be extended upon expiry to match the estimated useful life of the buildings on the land plot of 30 years.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for (i) extension options in which the Group is not reasonably certain to exercise and (ii) termination options in which the Group is not reasonably certain not to exercise is summarised below:

	Lease liabilities recognised as at 31 March 2020 HK\$'000	Potential future lease payments not included in lease liabilities (undiscounted) HK\$'000
Office – Hong Kong	<u>922</u>	<u>4,823</u>
	Lease liabilities recognised as at 31 December 2019 HK\$'000	Potential future lease payments not included in lease liabilities (undiscounted) HK\$'000
Office – Hong Kong	<u>1,309</u>	<u>4,823</u>

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the three months ended 31 March 2020, there was no such triggering event.

20. LONG-TERM PREPAYMENTS AND OTHER NON-CURRENT ASSETS

	As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Long-term prepayments	<u>13,533</u>	<u>13,533</u>
Deposits for purchase of property, operating right and equipment	13,134	18,316
Less: Impairment	<u>(7,267)</u>	<u>–</u>
	<u>5,867</u>	<u>18,316</u>
	<u>19,400</u>	<u>31,849</u>

Long-term prepayments represent prepayments for connection to the utility infrastructure network located in IEZ Primorye in the Russian Federation.

21. INVENTORIES

Inventories consist of retail products, food and beverage items and certain general operating supplies, which are stated at the lower of cost or net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

22. TRADE AND OTHER RECEIVABLES

	As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Trade receivables	<u>4,002</u>	<u>8,032</u>
Prepayments	20,948	30,768
Other receivables and deposits (<i>Note</i>)	43,595	23,456
Less: Allowance	<u>(599)</u>	<u>(599)</u>
	<u>63,944</u>	<u>53,625</u>
	<u>67,946</u>	<u>61,657</u>

Note: This includes an amount due from an employee of a substantial shareholder of the Company amounting to HK\$40,090,000 (31 December 2019: HK\$21,003,000) and represents the sum collected from patrons on behalf of the Group. They are unsecured, interest bearing and repayable on demand. The amount has been fully settled subsequent to 31 March 2020.

As at 1 January 2019, trade receivables from contracts with customers amounted to HK\$29,852,000.

Trade receivables as at 31 March 2020 and 31 December 2019 mainly represent outstanding amounts pending settlements by customers which are usually repaid within 44 days (31 December 2019: 16 days) after each trip to the Group's gaming property. The Group provides short-term temporary credit to approved customers following background checks and credit risk assessments of these customers.

All trade receivables as at 31 March 2020 and 31 December 2019 were aged within 30 days based on the revenue recognition date, at the end of the reporting period.

All of the Group's trade receivables as at 31 March 2020 and 31 December 2019 were within their credit terms with no default history and neither past due nor impaired.

Trade receivables from patrons as at 31 March 2020 and 31 December 2019 were assessed individually. There were no impairment allowance as at 31 March 2020 and 31 December 2019. For other trade receivables, the Group assessed the expected credit losses collectively based on the provision matrix as at 31 March 2020 and 31 December 2019. No impairment allowance was provided due to the low probability of default of those receivables based on the short credit period and the fact that the customers are still active in the Group's property located in the Russian Federation.

Allowance of HK\$599,000 and HK\$599,000 as at 31 March 2020 and 31 December 2019 respectively represented individually impaired prepayments and other receivables that the Directors considered uncollectible.

Further details of impairment assessment of trade and other receivables for the period/year are set out in note 31.

23. BANK BALANCES AND CASH

Bank balances carry interest at market rates which ranges from 0.001% to 2.25% (31 December 2019: 0.001% to 2.40%) per annum.

24. CONTRACT LIABILITIES, TRADE AND OTHER PAYABLES

	As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Trade payables	140	453
Payable in respect of transfer of connection right to local electricity supply network	10,269	12,895
Liabilities for VAT arrangements (<i>Note 27</i>)	6,283	10,603
Outstanding gaming chips	1,174	2,078
Gaming tax payables	739	1,108
Accruals and other payables	<u>34,675</u>	<u>34,420</u>
	<u><u>53,280</u></u>	<u><u>61,557</u></u>

The following is an aging analysis of trade payables based on the invoice date, at the end of the reporting period:

	As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Within 30 days	140	408
Over 90 days	—	45
	<u>140</u>	<u>453</u>

The Group mainly has two types of liabilities related to contracts with customers which are included in the above: (1) outstanding gaming chips in the customers' possession amounting to HK\$1,174,000 (31 December 2019: HK\$2,078,000); and (2) loyalty programs liabilities for the revenue deferred in relation to points earned by customers under gaming revenue transactions amounting to HK\$1,126,000 (31 December 2019: HK\$1,403,000). Loyalty programs liabilities and customer deposits on hotel rooms are included in accruals and other payables above.

Outstanding gaming chips liabilities are expected to be recognised as revenue or redeemed within one year of being purchased. Loyalty programs liabilities are generally expected to be recognised as revenue within one year of being earned.

25. LEASE LIABILITIES

	As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Lease liabilities payable:		
Within one year	1,332	1,966
Within a period of more than one year but not more than two years	168	205
Within a period of more than two years but not more than five years	627	766
Within a period of more than five years	<u>3,258</u>	<u>4,166</u>
	5,385	7,103
Less: Amount due for settlement with 12 months shown under current liabilities	<u>(1,332)</u>	<u>(1,966)</u>
Amount due from settlement after 12 months shown under non-current liabilities	<u>4,053</u>	<u>5,137</u>

26. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

On 15 July 2014, each of the shareholders of Oriental Regent Limited (“**Oriental Regent**”), the then joint venture of the Group which the Group has obtained control during the year ended 31 December 2016, entered into a loan agreement with Oriental Regent whilst they agreed to provide their pro rata proportion of the additional capital amount of US\$137,691,000 (equivalent to HK\$1,071,236,000) in total as required by Oriental Regent to continue to fund the gaming and resort project in the Russian Federation by way of ordinary shareholder convertible loan (the “**Loan**”) as contemplated under the investment and shareholders agreement dated 23 August 2013. A total of HK\$428,494,000 was contributed by the other shareholders of Oriental Regent. The Loan is non-interest bearing, unsecured and due to mature after 3 years from the date of the agreement, which shall automatically renew for another term of three years. No repayment at all time shall be made by Oriental Regent unless there are sufficient free cash flows generated from its operations to make the repayment. The Loan can only be converted into new shares of Oriental Regent at the option of Oriental Regent at such conversion price(s) and ratio(s) as Oriental Regent shall agree with the shareholders of Oriental Regent at the relevant time. The conversion period is from the date on which the payment for the entire principal amount of the Loan was made by the shareholders to the day immediately prior to the repayment date. The loan is discounted at an effective interest rate calculated at 11.28% per annum at inception.

27. LIABILITIES FOR VAT ARRANGEMENTS

In the relevant jurisdiction of the Russian Federation, G1 Entertainment is entitled to deduct VAT liabilities (“**Output VAT**”) against VAT which was previously paid to the tax authority in the Russian Federation for the construction and purchase of assets or services for the gaming and hotel operations (“**Input VAT**”). Input VAT arising from the construction and the purchase of property and equipment is refunded by the relevant tax authority within 4 months after the application.

However, according to Russian regulations, as gaming activities are not subject to Output VAT in the Russian Federation, the Input VAT refunded to the Group cannot be utilised. Instead it is required to be divided into 10 equal parts and each has to be returned to the tax authority in each of the next 10 years from the first year of operations to the extent of the annual proportion of the revenue generated from the gaming activities over the total revenues of the Group’s gaming and hotel operations in the Russian Federation. Such assessment is performed on an annual basis over a period of 10 years from the year when the relevant VAT is refunded to the Group. Against this, a provision of RUB359,910,000 (approximately HK\$36,300,000) (31 December 2019: RUB436,211,000 (approximately HK\$55,244,000)) is recognised for the estimated amount of the relevant Input VAT that has been refunded to the Group but has to be returned to the tax authority under this regulation. The estimated repayable amount to the tax authority is calculated by using an effective interest rate of 8.47% (2019: 8.47%) per annum. Accordingly, approximately RUB62,292,000 (approximately HK\$6,283,000) (31 December 2019: RUB83,721,000 (approximately HK\$10,603,000)) of such provision is presented as current and included in other payables (Note 24) as such amount is under the aforesaid assessment within the next twelve months and is expected to be returned to the tax authority upon final assessment, with the remainder of RUB297,618,000 (approximately HK\$30,017,000) (31 December 2019: RUB352,490,000 (approximately HK\$44,641,000)) presented as non-current.

28. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.025 each		
Authorised:		
At 1 January 2019, 31 December 2019 and 31 March 2020	<u>3,200,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 January 2019	1,488,377,836	37,209
Ordinary shares issued	300,000,000	7,500
Exercise of share options	<u>15,400,000</u>	<u>385</u>
At 31 December 2019 and 31 March 2020	<u>1,803,777,836</u>	<u>45,094</u>

All shares issued rank pari passu in all respects with the then existing shares.

On 25 July 2019, the Company entered into a shares placing agreement (“**Placing Agreement**”) with a securities firm (“**Placing Agent**”) pursuant to which the Company conditionally agreed to place, through the Placing Agent on a best efforts basis, up to 300,000,000 new shares (“**Placing Share(s)**”) of the Company of HK\$0.025 each at a price of HK\$1.01 per Placing Share to not less than six investors who are independent third parties (the “**Placing**”), pursuant to the general mandate granted to the Directors at the 2019 annual general meeting of the Company. Further details of the Placing are set out in the Company’s announcement dated 25 July 2019.

Completion of the Placing took place on 19 August 2019 pursuant to the terms and conditions of the Placing Agreement. The 300,000,000 Placing Shares represent approximately 19.95% and 16.63% of the issued share capital of the Company immediately before and after the completion of the Placing. The net proceeds of the Placing are approximately HK\$296,633,000. Proceeds of HK\$7,500,000, representing the par value of the shares issued, were credited to the share capital of the Company and the remaining proceeds of HK\$289,133,000 net of share issue expense were credited to the share premium account.

29. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company:

Pursuant to an extraordinary general meeting held on 7 July 2011, the shareholders of the Company approved the adoption of a new share option scheme (the “**Scheme**”) and the termination of the previous share option scheme adopted on 11 July 2002.

Under the Scheme, the Directors may, at their discretion, grant to any directors, executives and employees of any members of the Group and consultants, professional and other advisors to any members of the Group (the “**Participant(s)**”) share options to subscribe for the shares, subject to the terms and conditions stipulated therein. The purpose of the Scheme is to recognise the contribution of the Participants who have made or may make to the Company, to provide them with the opportunity to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10% of the shares in issue as at the date of the adoption of the Scheme, provided that the Company seeks approval from shareholders to refresh such limit. Moreover, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme (and under any other scheme of the Company) shall not exceed 30% of the shares in issue from time to time. The maximum entitlement of each Participant under the Scheme in any 12-month period is 1% of the shares in issue from time to time.

As at 31 March 2020, the number of shares in respect of the options granted and remained outstanding under the Scheme was 22,514,000 (31 December 2019: 32,714,000), representing 1.25% (31 December 2019: 1.81%) of the total number of issued shares of the Company.

The period within which an option may be exercised will be determined by the Directors at its absolute discretion but no option may be exercised later than 10 years from the date on which the option is granted. The minimum period for which an option must be held before it can be exercised is determined by the Directors upon the grant of an option.

The amount payable on acceptance of an option is HK\$1. The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company’s shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share. The Scheme will be valid and effective for a period of ten years from the adoption date until 6 July 2021.

Movements of the Company's share options held by the Directors, employees and consultants of the Group during the three months ended 31 March 2020 are set out below:

Category of Participants	Number of share options			Date of grant	Exercise price HK\$	Notes
	As at 1 January 2020	Lapsed	As at 31 March 2020			
Director	2,300,000	(2,300,000)	–	1 September 2016	1.99	ii
Directors	9,900,000	(7,900,000)	2,000,000	13 December 2018	0.98	iii
Employees	1,292,000	–	1,292,000	1 September 2016	1.99	ii
Employees	13,410,000	–	13,410,000	13 December 2018	0.98	iii
Consultants	<u>5,812,000</u>	–	<u>5,812,000</u>	1 September 2016	1.99	ii
Total	<u>32,714,000</u>	<u>(10,200,000)</u>	<u>22,514,000</u>			
Exercisable at the end of the period			<u>22,514,000</u>			
Weighted average exercise price (HK\$)	<u>1.27</u>	<u>1.21</u>	<u>1.3</u>			

During the period ended 31 March 2019 (unaudited) there was no movements (unaudited) of the Company's share options held by the Directors, employees and consultants of the Group and all outstanding shares options of 78,464,000 (unaudited) were exercisable as at 31 March 2019 with a weighted average exercise price of HK\$1.101 (unaudited).

Notes:

- (i) The vesting period of the share options is from the date of grant until the commencement of the exercise period. Once vested, each option gives the holder of the right to subscribe for one ordinary share of the Company.

- (ii) On 1 September 2016, (1) a total of 9,404,000 share options (the “**Previously Granted Options**”) granted by the Company on 9 December 2014 to its employees and consultants (the “**Grantees**”) under the Scheme, which had not been exercised or lapsed since they were granted, were cancelled; and (2) a total of 9,404,000 new share options (the “**Replacement Share Options**”) were granted to the Grantees under the Scheme in replacement of the Previously Granted Options.

The Replacement Share Options are treated as modified options since the terms of such options were modified by changing the exercise period and reducing the exercise prices of the Previously Granted Options from HK\$4.218 to HK\$1.99.

The Replacement Share Options granted on 1 September 2016 are divided into 2 tranches exercisable from 1 September 2016 and 1 September 2017 respectively to 31 August 2021.

- (iii) On 13 December 2018, the Company granted a total of 69,060,000 share options to certain Directors, employees and consultants of the Group to subscribe for shares of the Company with an exercise price of HK\$0.98, under the Scheme with no vesting conditions. The options are exercisable from 13 December 2018 to 12 December 2023.
- (iv) During the three months ended 31 March 2020, no share options were granted under the Scheme.

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group’s overall strategy remain unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents, net of debts (which include loans from non-controlling shareholders of a subsidiary disclosed in note 26) and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through raising of new capital as well as the issue of new debt and shares or the redemption of existing debt and shares.

31. FINANCIAL INSTRUMENTS

31a. Categories of financial instruments

	As at 31 March 2020 <i>HK\$’000</i>	As at 31 December 2019 <i>HK\$’000</i>
Financial assets		
At amortised cost	<u>871,615</u>	<u>891,447</u>
Financial liabilities		
At amortised cost	<u>286,886</u>	<u>302,843</u>

31b. Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, trade and other receivables, trade and other payables, lease liabilities and loans from non-controlling shareholders of a subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain bank balances, receivables and payables of the Group are denominated in foreign currencies and certain subsidiaries of the Company have foreign currency revenue and purchases, which expose the Group to foreign currency risk. Approximately 60% of the Group's gross revenue before rebate are denominated in currencies other than the functional currency of the Group entity making the revenue for the three months ended 31 March 2020 (for the year ended 31 December 2019: 48%). The Group currently does not have a foreign currency hedging policy. However, the Directors monitor foreign exchange exposure by closely monitoring the movement of foreign currency rates and will consider hedging significant foreign exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Assets		
United States dollars ("US\$")	265,880	266,467
Russian Rubles ("RUB")	<u>61,570</u>	<u>92,198</u>
Liabilities		
US\$	230,415	225,113
RUB	<u>58,525</u>	<u>82,135</u>

Sensitivity analysis

The Group is mainly exposed to RUB against HK\$, the functional currency of the relevant group entity.

Considering the HK\$ is pegged with the US\$, management is of the opinion that the currency exposure arising from these transactions is not significant to the Group. As a result, the profit and equity of the Group are unlikely to be materially sensitive to movement in HK\$/US\$ exchange rates.

The following table details the Group's sensitivity to a 30% (31 December 2019: 30%) increase and decrease in HK\$ against the relevant foreign currency. 30% (31 December 2019: 30%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 30% (31 December 2019: 30%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the period/year where RUB strengthen 30% (31 December 2019: 30%) against HK\$. For a 30% (31 December 2019: 30%) weakening of RUB against HK\$, there would be an equal and opposite impact on the profit and equity and balances below would be negative.

	As at 31 March 2020 HK\$'000	As at 31 December 2019 HK\$'000
(Loss) profit for the period/year	<u>(731)</u>	<u>2,415</u>

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable rate bank balances. The management considers the cash flow interest rate risk in relation to variable-rate bank balances is insignificant and therefore no sensitivity analysis on such risk has been prepared.

Credit risk and impairment assessment

As at 31 March 2020 and 31 December 2019, the financial assets' carrying amounts best represent the maximum exposure to credit risk.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for other receivable because these consist of a large number of miscellaneous receivables with common risk characteristics that are representative of the counterparties' abilities to pay all amounts due in accordance with the contractual terms. Debtors with significant outstanding balances or credit-impaired as at 31 December 2019 and 31 March 2020 were assessed individually.

The Directors have also assessed all available forward looking information, including but not limited to expected growth rate of the industry and changes in regulatory and economic environment, and concluded that there is no significant increase in credit risk.

There were no impairment allowance during the three months ended 31 March 2020 and 31 March 2019 for debtors that were assessed individually. Allowance for other receivables of HK\$599,000 (31 December 2019: HK\$599,000) represents certain amounts that the Directors considered uncollectible. For the amount due from an employee of a substantial shareholder of the Company, the Directors of make periodic individual assessment on the recoverability of the amount based on historical settlement records, past experience, and supportive forward-looking information. The Directors assessed the ECL for the amount are insignificant and thus no loss allowance was recognised.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant.

Other than concentration of credit risk on liquid funds which are deposited with banks with good reputation, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk table

	Weighted average interest rate %	On demand or less than 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 March 2020							
Trade and other payables	-	21,036	-	-	-	21,036	21,036
Lease liabilities	9.10	1,813	607	1,820	8,002	12,242	5,385
Liabilities for VAT arrangement	8.47	6,283	8,943	26,829	5,996	48,051	36,300
Loans from non-controlling shareholders of a subsidiary	11.28	237,367	-	-	-	237,367	229,550
		<u>266,499</u>	<u>9,550</u>	<u>28,649</u>	<u>13,998</u>	<u>318,696</u>	<u>292,271</u>
At 31 December 2019							
Trade and other payables	-	24,385	-	-	-	24,385	24,385
Lease liabilities	9.10	2,598	762	2,285	10,237	15,882	7,103
Liabilities for VAT arrangement	8.47	10,603	10,603	31,809	14,792	67,807	55,244
Loans from non-controlling shareholders of a subsidiary	11.28	237,367	-	-	-	237,367	223,214
		<u>274,953</u>	<u>11,365</u>	<u>34,094</u>	<u>25,029</u>	<u>345,441</u>	<u>309,946</u>

31c. Fair value measurement of financial instruments

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities	Loans from non-controlling shareholders of a subsidiary	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 25)</i>	<i>(Note 26)</i>	
At 1 January 2020	7,103	223,214	230,317
Financing cash flows	(1,879)	–	(1,879)
Interest expenses	<u>161</u>	<u>6,336</u>	<u>6,497</u>
At 31 March 2020	<u><u>5,385</u></u>	<u><u>229,550</u></u>	<u><u>234,935</u></u>
At 1 January 2019	8,507	257,892	266,399
Financing cash flows (unaudited)	(679)	–	(679)
Foreign exchange translation (unaudited)	474	–	474
Interest expenses (unaudited)	<u>203</u>	<u>7,240</u>	<u>7,443</u>
At 31 March 2019 (unaudited)	<u><u>8,505</u></u>	<u><u>265,132</u></u>	<u><u>273,637</u></u>

33. RETIREMENT BENEFIT PLAN

Defined contribution plan

Hong Kong

The Group participates in the Mandatory Provident Fund Scheme (“MPF Scheme”) established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes 5% of the relevant payroll costs to the MPF Scheme subject only to the maximum level of payroll costs of HK\$30,000 per employee, which contribution is matched by the employees.

Russian Federation

The Group is required to contribute for the range of 0% to 30% of payroll costs to the Russian Federation State Pension Fund depending on the annual gross remuneration of the staff, to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expense recognised in profit or loss of HK\$8,412,000 for the three months ended 31 March 2020 (for the three months ended 31 March 2019 (unaudited): HK\$7,693,000) represented contributions paid or payable to the plans by the Group at rates specified in the rules of the plans.

At 31 March 2020 and 31 March 2019, there were no forfeited contributions which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years.

34. CAPITAL COMMITMENTS

	As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property and equipment contracted for but not provided in the consolidated statement of financial position	<u>1,542</u>	<u>23,729</u>

35. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties during the period:

	Three months ended 31 March 2020 <i>HK\$'000</i>	Three months ended 31 March 2019 <i>HK\$'000</i> (Unaudited)
<i>Transaction with a subsidiary of a non-controlling shareholder of a subsidiary:</i>		
Marketing fee expenses	40	26
<i>Transaction with non-controlling shareholders of a subsidiary:</i>		
Imputed interest expense on loans	6,336	7,240
<i>Transactions with a related company controlled by a substantial shareholder:</i>		
Service fee income	(193)	–
Service fee expenses	<u>44</u>	<u>–</u>

Details of the balances with the related parties have been disclosed in the consolidated statement of financial position on pages 3 and 4 and notes 22 and 26.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the period, which is included in “Total employee benefits expenses (including Directors’ emoluments)” in note 13, were as follows:

	Three months ended 31 March 2020 <i>HK\$'000</i>	Three months ended 31 March 2019 <i>HK\$'000</i> (Unaudited)
Short-term benefits	2,608	1,337
Post-employment benefits	<u>9</u>	<u>9</u>
	<u>2,617</u>	<u>1,346</u>

The remuneration of Directors and key management personnel are determined by the remuneration committee having regard to the performance of individuals and market trends.

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

During the three months ended 31 March 2020 and as at the date of this announcement, the Company has direct and indirect shareholding/equity interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital			Proportion of ownership/effective interest held by the Company						Principal activities	Notes
			31 December 2019	31 March 2020	as at the date of this announcement	Directly			Indirectly				
						31 December 2019	31 March 2020	as at the date of this announcement	31 December 2019	31 March 2020	as at the date of this announcement		
Summit Ascent Russia Limited	BVI	Hong Kong	1 ordinary share of US\$1	1 ordinary share of US\$1	1 ordinary share of US\$1	100%	100%	100%	-	-	-	Investment holding	<i>a</i>
Summit Ascent Services Limited	Hong Kong	Hong Kong	1 ordinary share	1 ordinary share	1 ordinary share	100%	100%	100%	-	-	-	Provision of administrative services	<i>b</i>
Summit Ascent Investments Limited	BVI	Hong Kong	-	-	1 ordinary share of US\$1	-	-	100%	-	-	-	Investment holding	<i>a</i>
Oriental Regent	Hong Kong	Hong Kong	140,000 ordinary shares	140,000 ordinary shares	140,000 ordinary shares	-	-	-	60%	60%	60%	Investment holding	<i>b</i>
G1 Entertainment	Russian Federation	Russian Federation	Charter capital of RUB 1,190,795,312	Charter capital of RUB 1,190,795,312	Charter capital of RUB 1,190,795,312	-	-	-	60%	60%	60%	Operation of hotel and gaming business in IEZ Primorye in the Russian Federation	<i>c</i>
EZ Transport Limited Liability Company	Russian Federation	Russian Federation	Charter capital of RUB20,000	Charter capital of RUB20,000	Charter capital of RUB20,000	-	-	-	30.6%	30.6%	30.6%	Provision of bus services in the Russian Federation	<i>a, d</i>
Oriental Winner Limited	Hong Kong	Hong Kong	10,000 ordinary shares	10,000 ordinary shares	10,000 ordinary shares	-	-	-	100%	100%	100%	Investment holding	<i>b</i>

Notes:

- No audited financial statements of these companies have been prepared since their respective dates of incorporation as they are incorporated in the jurisdiction where there are no statutory audit requirements.
- The statutory financial statements of these companies for the year ended 31 December 2019 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by Deloitte Touche Tohmatsu and no subsequent financial statements are due for issuance as at the date of the announcement.
- The statutory financial statements of this company for the year ended 31 December 2019 were prepared in accordance with Russian Accounting Standards and were audited by Deloitte & Touche CIS and no subsequent financial statements are due for issuance as at the date of the announcement.

- (d) Despite the Group indirectly holds less than 50% of the effective equity interest of the subsidiary, the Group considers to have control over the subsidiary through G1 Entertainment as G1 Entertainment holds more than 50% of the equity interest of EZ Transport Limited Liability Company.

None of the subsidiaries had issued any debt securities at the end of the period/year.

The table below shows details of non wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation or establishment and operations	Proportion of equity interest/ voting rights held by non-controlling interests		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31 March	31 December	31 March	31 March	31 March	31 December
		2020	2019	2020	2019	2020	2019
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Oriental Regent and its subsidiaries	Hong Kong and Russian Federation	40%/43%	40%/43%	(15,289)	9,797	(376,736)	392,025

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests, on a group consolidation basis is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Oriental Regent

	As at 31 March 2020 HK\$'000	As at 31 December 2019 HK\$'000
Current assets	<u>174,099</u>	<u>200,720</u>
Non-current assets	<u>1,427,059</u>	<u>1,444,120</u>
Current liabilities	<u>625,248</u>	<u>615,000</u>
Non-current liabilities	<u>34,070</u>	<u>49,778</u>
Equity attributable to owners of Oriental Regent	<u>565,104</u>	<u>588,037</u>
Non-controlling interests	<u>376,736</u>	<u>392,025</u>

	Three months ended 31 March 2020 HK\$'000	Three months ended 31 March 2019 HK\$'000 (Unaudited)
Revenue	<u>91,934</u>	<u>132,263</u>
Expenses	<u>113,978</u>	<u>116,386</u>
(Loss) profit for the period	<u>(38,309)</u>	<u>24,406</u>
(Loss) profit and total comprehensive (expense) income for the period attributable to:		
– owners of the Company	<u>(23,020)</u>	14,609
– non-controlling interests	<u>(15,289)</u>	9,797
	<u>(38,309)</u>	<u>24,406</u>
Net cash inflow from operating activities	9,656	54,350
Net cash outflow from investing activities	(21,681)	(9,248)
Net cash outflow from financing activities	(1,478)	(464)
Effect of foreign exchange rate changes	<u>(18,160)</u>	<u>(4,708)</u>
Net cash (outflow) inflow	<u>(31,663)</u>	<u>39,930</u>

Note: The amounts are presented on the basis of the Group and reflected the fair value adjustments on property, operating right, and equipment, goodwill and additional post-acquisition depreciation charge resulted from the acquisition of Oriental Regent.

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at 31 March 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Non-current assets		
Unlisted investments in subsidiaries (<i>Note i</i>)	94,957	180,778
Advance to subsidiaries (<i>Note ii</i>)	<u>788,968</u>	<u>696,563</u>
	<u>883,925</u>	<u>877,341</u>
Current assets		
Other receivables, deposits and prepayments	807	435
Bank balances and cash	<u>710,695</u>	<u>719,258</u>
	<u>711,502</u>	<u>719,693</u>
Current liability		
Other payables	<u>2,825</u>	<u>3,033</u>
Net current assets	<u>708,677</u>	<u>716,660</u>
Net assets	<u><u>1,592,602</u></u>	<u><u>1,594,001</u></u>
Capital and reserves		
Share capital (<i>Note 28</i>)	45,094	45,094
Reserves (<i>Note iii</i>)	<u>1,547,508</u>	<u>1,548,907</u>
Total equity	<u><u>1,592,602</u></u>	<u><u>1,594,001</u></u>

Note i: Unlisted investments in subsidiaries

	As at 31 March 2020 HK\$'000	As at 31 December 2019 HK\$'000
Unlisted interests, at cost (Note a)	–	–
Deemed capital contribution (Note b)	<u>94,957</u>	<u>180,787</u>
	<u><u>94,957</u></u>	<u><u>180,787</u></u>

Notes:

- (a) The balances are presented as zero when rounded to the nearest thousand for the period/year.
- (b) Deemed capital contribution represented the imputed interest on the interest-free advances provided to subsidiaries.

Note ii: Advance to subsidiaries

ECL for advance to subsidiaries, other receivables and bank balances are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition. No material impairment allowance is made based on the Company's internal and/or external credit rating.

Note iii: Movements in the Company's reserves

	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2019	1,286,885	52,869	(189,909)	1,149,845
Profit and total comprehensive income for the year	–	–	95,222	95,222
Exercise of share options	21,387	(6,680)	–	14,707
Ordinary shares issued	295,500	–	–	295,500
Transaction costs attributable to issue of new shares	(6,367)	–	–	(6,367)
Forfeiture/cancellation of share options	<u>–</u>	<u>(13,089)</u>	<u>13,089</u>	<u>–</u>
At 31 December 2019	1,597,405	33,100	(81,598)	1,548,907
Loss and total comprehensive expense for the period	–	–	(1,399)	(1,399)
Forfeiture/cancellation of share options	<u>–</u>	<u>(9,090)</u>	<u>9,090</u>	<u>–</u>
At 31 March 2020	<u><u>1,597,405</u></u>	<u><u>24,010</u></u>	<u><u>(73,907)</u></u>	<u><u>1,547,508</u></u>

38. EVENTS AFTER REPORTING PERIOD

Proposed rights issue and subscription for convertible bonds

On 1 June 2020, the Group announced the proposal to raise not less than approximately HK\$1,623.40 million before expenses and not more than approximately HK\$1,641.70 million before expenses by the rights issue on the basis of three (3) rights shares for every two (2) shares held at the subscription price of HK\$0.6 per rights share.

In addition, on 1 June 2020, Summit Ascent Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company (the “**Subscriber**”) and Suntrust Home Developers, Inc. (“**SunTrust**”), a company incorporated in the Philippines, the shares of which are listed on The Philippine Stock Exchange, Inc. (stock code: SUN) and is 51% owned by Suncity Group Holdings Limited (“**Suncity**”), entered into a subscription agreement dated 1 June 2020, pursuant to which SunTrust has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the convertible bonds which may be converted into the conversion shares pursuant to the terms and conditions of the convertible bonds. The measurement of the convertible bonds at initial recognition and subsequent reporting period will follow HKFRS 9 *Financial Instruments* issued by the HKICPA. The convertible bonds contains embedded derivative (i.e. the conversion option) and would be accounted for as financial asset measured at FVTPL upon completion.

Details of the above transactions are included in the announcement of the Group dated 1 June 2020.

Extension of the loans from non-controlling shareholders of a subsidiary

On 15 July 2020, each of the shareholders of Oriental Regent entered into supplemental agreements to the loan agreements as described in note 26 with Oriental Regent pursuant to which, each of the shareholders agreed to amend the maturity date of the Loan to 15 July 2023, which shall automatically renew for another term of three years. All other terms in the original loan agreement remain unchanged.

39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the three months ended 31 March 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The gaming and hotel operations of the Company and its subsidiaries (collectively referred to as the “**Group**”) are conducted through its 60% equity interest in Oriental Regent Limited (“**Oriental Regent**”). The Group also receives a management fee income calculated at 3% of the total gaming revenue, net of rebates, generated by G1 Entertainment Limited Liability Company (“**G1 Entertainment**”), a wholly-owned subsidiary of Oriental Regent.

G1 Entertainment holds a gaming license granted by the Russian government for an indefinite period and the development rights on two adjacent parcels of land, namely Lot 9 and Lot 10, in the Integrated Entertainment Zone of the Primorye Region (“**IEZ Primorye**”) of the Russian Far East, being the largest of five designated zones in the Russian Federation where gaming and casino activities are legally permitted. The first gaming and hotel property, known as Tigre de Cristal, is built on Lot 9 and opened for business in the fourth quarter of 2015. Due to the recent changes in our substantial shareholders, we are currently refining the design and construction elements of our Phase II project on Lot 10.

Tigre de Cristal is currently the only casino, hotel and entertainment destination operating in the IEZ Primorye. We continuously strive to enhance our property and the current features of Tigre de Cristal are as follows:

- Approximately 36,000 square meters of gaming and hotel space, offering a broad range of gaming options 24 hours a day, 7 days a week, 365 days a year;
- The finest luxury hotel in the Russian Far East with 121 rooms and suites;
- Casual and fine dining in 2 restaurants and 3 bars;
- Virtual golf zone, and a soon to be opened private club with karaoke rooms;
- A convenience store and a Tigre de Cristal branded shop; and
- A high-end diamond and luxury watch boutique “DOMINO” and a Montblanc outlet.

Additional amenities to be added later this year include a hotel extension with 34 new rooms, new VIP gaming rooms, a stand-alone noodle bar, and a new hot pot section in our existing Pan-Asian restaurant.

Since October 2017, Tigre de Cristal has been certified as a 5-star hotel. The property was also named “Russia’s Leading Resort 2018” at the Europe Gala Ceremony 2018 and one of the Top 5 nominees of “Russia’s Leading Resort 2019” organised by World Travel Awards.

Change of director

During the first quarter of 2020, we had the following change to the Company's board of directors:

Mr. Eric Daniel Landheer has resigned as Executive Director of the Company with effect from 23 March 2020.

Financial Review

Segment Information

The Group operates only in one operating and reportable segment, i.e. the gaming and hotel operations in the IEZ Primorye of the Russian Far East. Accordingly, the Group does not present separate segment information other than entity-wide disclosures.

Adjusted Property EBITDA of Tigre de Cristal

Adjusted Property EBITDA generated by Oriental Regent, a 60% owned subsidiary of the Company operating our integrated resort in the Russian Far East, Tigre de Cristal, is used by management as the primary measure of operating performance of our gaming and hotel operations. Adjusted Property EBITDA, which is a non-IFRS financial measure and defined as net income before management fee payable to the Company, company corporate expenses, unrealised exchange differences, interest, taxes, and depreciation and amortisation, was HK\$9.7 million in the three months ended 31 March 2020 ("**Q1 2020**"), down 83% compared to HK\$58.1 million in the three months ended 31 March 2019 ("**Q1 2019**").

Adjusted Property EBITDA margin (represented the ratio of Adjusted Property EBITDA to total revenue) also dropped to 10.6% in Q1 2020, versus 44.0% in Q1 2019.

The Coronavirus Disease 2019 ("**COVID-19**") continues to affect everyone across the globe, by putting many businesses under considerable pressure which is leading to the closure of businesses and loss of employment. The hospitality and gaming sector has not been immune from the effects of COVID-19. Indeed, the gaming business, which thrives on air travel and large groups of people in close proximity, is one of the hardest hit as the world goes into lockdown. Physical barriers such as cross-border travel restrictions (inter-provincial or international), much more limited transportation options (in particular, via airlines, but also for cruise ships and buses) and quarantine requirements for customers traveling to or from Vladivostok, the Russian Far East, already are and will continue to, make it extremely difficult for customers to visit our property as easily as they once could.

The following table sets forth a reconciliation of Adjusted Property EBITDA to the reported loss for the period attributable to owners of the Company as per the consolidated statement of profit or loss and other comprehensive income for Q1 2020.

Reconciliation of Adjusted Property EBITDA to the loss for Q1 2020 attributable to owners of the Company

	Q1 2020 <i>HK\$'000</i>	Q1 2019 <i>HK\$'000</i>
Gross revenue from rolling chip business	47,489	154,692
Less: Rebates	<u>(31,057)</u>	<u>(114,917)</u>
Revenue from rolling chip business	16,432	39,775
Revenue from mass table business	32,578	40,993
Revenue from slot business	<u>39,358</u>	<u>41,772</u>
Net revenue from gaming operations	88,368	122,540
Revenue from hotel operations	<u>3,566</u>	<u>9,723</u>
Total revenue from gaming and hotel operations	91,934	132,263
Add: Other income	358	145
Less: Other gains and losses	(7,327)	677
Gaming tax	(2,941)	(3,528)
Inventories consumed	(2,760)	(3,319)
Marketing and promotion expenses	(3,628)	(3,853)
Employee benefits expenses	(40,228)	(33,816)
Other expenses	<u>(25,692)</u>	<u>(30,422)</u>
Adjusted Property EBITDA of Tigre de Cristal	9,716	58,147
Add: Management fee payable to the Company	2,661	3,735
Less: Company corporate expenses	<u>(4,880)</u>	<u>(4,141)</u>
	7,497	57,741
Add: Bank interest income	3,399	1,506
Less: Interest on lease liabilities	(161)	(203)
Income tax expense	<u>(22)</u>	<u>(33)</u>
	10,713	59,011

	Q1 2020	Q1 2019
	HK\$'000	HK\$'000
<i>Non-cash items:</i>		
Less: Depreciation and amortisation	(22,479)	(22,777)
Net exchange (losses) gains	(9,577)	8,979
Imputed interest expenses	<u>(7,213)</u>	<u>(8,240)</u>
(Loss) profit for the period of the Group	(28,556)	36,973
Less: Loss (profit) for the period attributable to non-controlling interests	<u>15,289</u>	<u>(9,797)</u>
(Loss) profit for the period attributable to owners of the Company	<u>(13,267)</u>	<u>27,176</u>

Operating Revenues of the Group

Total revenue of the Group for Q1 2020 was HK\$91.9 million, representing a decrease of 30% compared to Q1 2019.

Gaming Revenues

Gaming revenue of Tigre de Cristal, which comprises three main sources, namely the rolling chip business, mass table business and slot business, decreased to HK\$88.4 million, compared to HK\$122.5 million in Q1 2019, and such decline, especially rolling chip business which targeting foreign players, was primarily due to the number of foreigners visiting our property plummeted after several governments have issued entry restrictions, visa suspensions and quarantine measures for travellers.

Rolling chip business

The table below sets forth the key performance indicators of our rolling chip business for the period ended Q1 2020.

<i>(HK\$'million)</i>	Q1 2020	Q1 2019
Rolling chip turnover	1,167	4,471
Gross win	47	155
Less: Rebate	(31)	(115)
Net win after rebate	16	40
Gross win %	4.03%	3.47%
Daily average number of tables opened	15	21

Rolling chip turnover (measured as the sum of all non-negotiable chips wagered and lost by players) at Tigre de Cristal Q1 2020 was HK\$1,167 million, representing a decrease of 74% compared to Q1 2019. Net win after all commissions rebated directly or indirectly to customers from rolling chip business decreased by 60% to HK\$16 million for Q1 2020. Gross win percentage (represented the ratio of gross win to rolling chip turnover) increased slightly from 3.47% in Q1 2019 to 4.03% in Q1 2020.

Mass table business

Mass table business targets both the foreign tourists and the local market. The table below sets forth the key performance indicators of our mass table business for the period ended Q1 2020.

<i>(HK\$'million)</i>	Q1 2020	Q1 2019
Total table drop	136	171
Table net win	33	41
Hold %	24.3%	24.0%
Daily average number of tables opened	24	26

Total table drop (measured as the sum of gaming chips purchased or exchanged at the cage) decreased by 20% to HK\$136 million for Q1 2020. Table net win from mass table business decreased by 20% to HK\$33 million for Q1 2020. Hold percentage (represented table net win as a percent of table drop) increased slightly from 24.0% in Q1 2019 to 24.3% in Q1 2020.

Slot business

Our slot business primarily targets the local Russian market. The table below sets forth the key performance indicators for Q1 2020.

<i>(HK\$' million)</i>	Q1 2020	Q1 2019
Total slot handle	782	826
Slot net win	39	42
Hold %	5.0%	5.1%
Daily average number of slots deployed	317	325

The slot business recorded revenue of HK\$39 million, down 7% compared to HK\$42 million in Q1 2019. The average hold percentage decreased slightly to 5.0% in Q1 2020 from 5.1% in Q1 2019. The average number of slots deployed decreased by 2% to 317 in Q1 2020.

Non-gaming Revenues

Revenue from hotel operations, which is largely dependent on foreign guests, decreased to HK\$3.6 million or by 63% compared to Q1 2019. Average hotel occupancy rates were maintained at 20% (Q1 2019: 85%) during weekends and 26% (Q1 2019: 60%) during weekdays in Q1 2020.

Operating Expenses

The Group continued to maintain stringent cost controls and streamline our operations during the period. Total operating costs, including inventories consumed, marketing and promotion expenses, employee benefits expenses and other expenses but excluding non-cash items like depreciation and amortisation.

Depreciation and Amortisation

Depreciation and amortisation of the Group decreased by 1% to HK\$22.5 million in Q1 2020 as compared to HK\$22.8 million for Q1 2019. The decrease was primarily due to some assets, which were depreciated over a three-year time period, having become fully depreciated as Tigre de Cristal has been operating for more than three years.

Finance Costs

Finance costs of the Group were HK\$7.4 million in 2020, a decrease of 12% compared to HK\$8.4 million for Q1 2019. These costs were primarily comprised non-cash imputed interest by applying the effective notional interest rate on the interest-free loans payable to non-controlling shareholders of Oriental Regent. The decrease in imputed interest was due to the continuous repayments to the shareholders of Oriental Regent by using internally generated cash flows.

Gaming Tax

Unlike in Macau and most other jurisdictions in Asia, gaming tax in the Russian Federation is not levied on a percentage of gaming revenue. The Russian Federation has established a gaming tax regime which is based on a fixed levy on each gaming table and gaming machine deployed in a particular calendar month in the casino. Gaming taxes are payable to the local governments, who can set their own tax rate based on a range stipulated by the Tax Code of the Russian Federation as follows:

	Minimum	Maximum
	<i>(RUB)</i>	<i>(RUB)</i>
Each gaming table	50,000	250,000
Each gaming machine	3,000	15,000

In Q1 2020, the monthly rates per gaming table and per gaming machine applicable to the Group were RUB125,000 and RUB7,500 respectively, resulting in total gaming tax of approximately HK\$2.9 million (Q1 2019: HK\$3.5 million) which corresponded to 3.3% of the Group's net gaming revenue for Q1 2020 (Q1 2019: 2.9%).

Income Tax Expense

No provision for taxation in Hong Kong has been made as the Group has no assessable profit for the period. As at 31 March 2020, the Group had unused tax losses of HK\$31.0 million (as at 31 March 2019: HK\$30.1 million) available under Hong Kong Profits Tax for offset against future profits.

G1 Entertainment has an exemption from the Russian corporate tax on profit generated from gaming operations. As for non-gaming revenues, the Group's subsidiaries in the Russian Federation are subject to the Russian corporate tax rate which currently stands at 20%.

At at 31 March 2020, the Group had unused tax losses of HK\$537.9 million (31 March 2019: HK\$522.3 million) available under Russian corporate tax and all losses may be carried forward indefinitely. The Group believes that these unrecognised tax losses are adequate to offset any adjustments related to uncertain tax matters that might be proposed by the Russian tax authorities.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company was HK\$13.3 million in Q1 2020, compared to profit of HK\$27.2 million in Q1 2019.

Liquidity, Financial Resources and Capital Structure

The Group continues to maintain a strong financial position and finances its business operations with internal resources and cash revenues generated from operating activities. As at 31 March 2020, total equity attributable to the owners of the Company was HK\$1,631.1 million (31 December 2019: HK\$1,644.4 million).

The Group had no outstanding external borrowings throughout the period and as at 31 March 2020 (31 December 2019: Nil). Thus, the gearing ratio, expressed as a percentage of total borrowings divided by total assets, was zero percent as at 31 March 2020 (31 December 2019: zero percent).

The Group remains conservative in its working capital management. As at 31 March 2020, net current assets of the Group were HK\$612.1 million (31 December 2019: HK\$638.6 million) and bank balances and cash were HK\$826.2 million (31 December 2019: HK\$860.7 million), of which 32% was denominated in United States dollar, 61% in Hong Kong dollar, and 7% in Russian ruble. The majority of our cash equivalents at 31 March 2020 was in fixed deposits with a maturity of three months or less generally.

The following table sets forth a summary of the Group's cash flows for Q1 2020:

	Q1 2020	Q1 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	4,128	54,789
Net cash used in investing activities	(18,563)	(9,533)
Net cash used in financing activities	(1,879)	(679)
Net (decrease) increase in cash and cash equivalents	(16,314)	44,577
Cash and cash equivalents at 1 January	860,698	479,822
Effect of foreign exchange rate changes	(18,161)	(4,709)
Cash and cash equivalents at 31 March	<u>826,223</u>	<u>519,690</u>

Net cash from operating activities of HK\$4.1 million and HK\$54.8 million for Q1 2020 and Q1 2019 respectively, represented the positive operating cash flows generated by Tigre de Cristal.

Net cash used in investing activities of HK\$18.6 million and HK\$9.5 million for Q1 2020 and Q1 2019, respectively, were mainly due to additions for equipment and the return of VAT refunded under VAT arrangements to the tax authority of the Russian Federation.

Net cash used in financing activities of HK\$1.9 million and HK\$0.7 million for Q1 2020 and Q1 2019, respectively, represented the repayment of leases liabilities.

Charge on Assets

None of the Group's assets were pledged or otherwise encumbered as at 31 March 2020 and 31 December 2019.

Exposure to Fluctuations in Exchange Rates

The functional currency of the Company is Hong Kong dollar and the consolidated financial information of the Group are presented in Hong Kong dollars.

For financial reporting purposes, the consolidated financial information of the Group incorporate the financial information of its subsidiaries. The income and expenses, and the assets and liabilities of subsidiaries which stated in currencies other than its functional currency are converted into Hong Kong dollars. The Group's equity position reflects changes in book values caused by exchange rates. Hence, period-to-period changes in average exchange rates may cause translation effects that have a significant impact on results, and assets and liabilities of the Group. As these fluctuations do not necessarily affect future cash flows, the Group does not hedge against exchange rate translation risk.

On the other hand, revenues from mass table business and slot business are denominated in Russian rubles. The risk of Russian ruble fluctuation impacting the results of the Group is substantially mitigated by a natural hedge in matching our operating costs, incurred by subsidiaries in the Russian Federation, denominated in the same currency.

Capital Commitment

The Group's capital commitment as at 31 March 2020 amounted to approximately HK\$1,542,000 for maintenance, improvement and refurbishment works of Tigre de Cristal (31 December 2019: HK\$23,729,000).

Contingent Liabilities

There were no contingent liabilities as at 31 March 2020 and 31 December 2019.

Employees

As at 31 March 2020, total number of employees employed by the Group was 1,202 (31 December 2019: 1,139). Currently, more than 97% of our full-time employees are local Russian citizens (31 December 2019: 97%). The Group continues to provide remuneration packages and training programs to employees in line with prevailing market practices. In addition to the contributions to employees' provident fund and medical insurance programs, the Company has a share option program in place and occasionally may grant shares options to directors, employees and consultants of the Group as incentives.

Outlook

Since 23 April 2019, Suncity has become the substantial shareholder of the Company and, together with the subsequent changes in directors of the Company, we believe the cooperation with Suncity Group will continue to grow in scope and scale. In addition, Tigre de Cristal fits into the strategic roadmap of Suncity Group to provide a diversified portfolio of gaming options for its players around the world. The comparatively low gaming tax rate in the Russian Federation enables Tigre de Cristal to pay attractive rebates while maintaining solid margins.

In addition, the Group continued to execute on several initiatives – most notably significant progress has been made in the expansion and refinement of the customer offerings at Tigre de Cristal. The completion of these enhancements has been inevitably slowed by the delays in deliveries of materials and other logistical constraints effected by the recent COVID-19 outbreak.

Current status of the property enhancements is detailed below:

- Suncity VIP Salon. The luxurious new VIP room has been slightly delayed but is nearing completion and will welcome its first VIP customers once travel connectivity returns to normalcy. With this addition to our gaming offering, the Company expects to more than double its number of VIP gaming tables.
- A separate hot pot section in the rear of the Company's existing Pan-Asian restaurant, and a large private club located on the lower level of the property are nearing completion, but they have been delayed due to the unavoidable logistical issues mentioned above.
- A 34-room extension to our existing hotel and a stand-alone noodle bar on the main gaming floor are both expected to be completed and operating later in 2020.

Going forward, the Group expects the following factors to drive its growth:

- More operators expected. In addition to the new Suncity VIP room referenced above, the Company expects to invite more traditional VIP operators to the property and believe that they will follow Suncity's lead into the Russian market. This is in line with the Company's strategy to move up the VIP value chain.
- The "Cluster Effect". Two other casino operators in the IEZ Primorye continue to develop their properties. The Company expects the smaller of the two to open for business in 2020 and the other in 2021 or 2022. the Company believes that more lodging, gaming choices, and amenities in the zone will increase the draw for both VIP and mass customers.

- Phase II. The Company has reviewed and is finalizing conceptual designs, and is targeting an opening of our next property in the IEZ Primorye in 2022. This new integrated resort is expected to double the Company's VIP and mass gaming tables, slots, and have at least twice the lodging capacity of its first property. The plans include four restaurants and bars, additional retail offerings, and an indoor beach club and spa.
- The Group continues to enjoy a constructive dialogue and relationship with relevant Russian officials at the provincial and national levels and the Company does not expect adverse changes in legislation for the foreseeable future.

Effective from 20 February 2020, as part of the efforts to contain the COVID-19 outbreak, the Russian government implemented a temporary entry ban for Chinese nationals, including passport holders from Hong Kong and Macau, which understandably had an adverse impact on its visitation to start 2020 and a negative impact on its rolling chip business in particular. Tigre de Cristal has followed the suggestions of the Russian government by temporarily suspending its gaming operations from 28 March 2020 until its reopening on 16 July 2020. The hotel operations of the Group continued to serve in a limited capacity during the period of suspension.

COVID-19 is and will continue to, unfortunately, present challenges to all forms of policy, economic and regulatory with many uncertainties, including:

- Length of closure period of our property, if any
- Time to reopen and ramp up once reopened
- Impact of COVID-19 on the economy and consumer behavior in the short and long term

Unlike many businesses taking a hit during the global crisis, the Group is well positioned to weather the current turmoil as it sits on huge piles of cash generated from the past years, with current ratio of 3.2 and debt to equity of zero at 31 March 2020. The Group has ample liquidity to survive this unprecedented period of 'near-zero revenue' for over a year. The past few months have presented Tigre de Cristal with an unprecedented challenge. However, we expect the industry's fortunes to rebound if travel restrictions are lifted. We are optimistic that customers will see that Tigre de Cristal invested time and effort to welcome them back to a safe and entertaining environment.