

SUMMIT ASCENT
凱升控股有限公司 Summit Ascent Holdings Limited

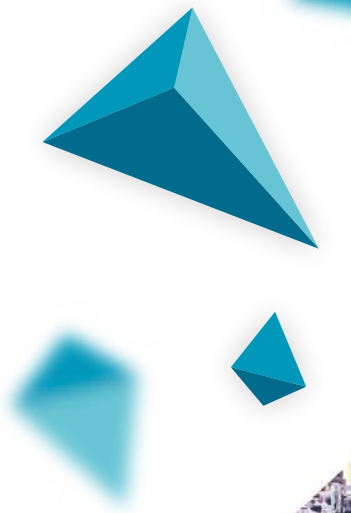
Summit Ascent Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 102



2019

INTERIM REPORT



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HIGHLIGHTS

- Adjusted Property EBITDA generated by Oriental Regent Limited, a 60% owned subsidiary of the Company operating our integrated resort in the Russian Far East – Tigre de Cristal, was HK\$108.5 million in 1H 2019, up 62% compared to HK\$66.8 million in 1H 2018. Adjusted Property EBITDA margin also jumped to 42.2% in 1H 2019, versus 32.1% in 1H 2018.
- Profit attributable to owners of the Company was HK\$42.8 million in 1H 2019, compared to HK\$2.6 million in 1H 2018.
- The Group's total revenue in 1H 2019 was HK\$257.3 million, representing an increase of 24% compared to HK\$207.8 million in 1H 2018.
- The slot business outperformed the Company's other lines of business in 1H 2019 and recorded revenue of HK\$90.6 million, up 37% compared to HK\$66.3 million in 1H 2018. Rolling chip business also saw significant improvement with revenue increasing by 69% from HK\$40.8 million in 1H 2018 to HK\$68.8 million in 1H 2019.
- On 23 April 2019, we were informed by First Steamship Company Limited, a former substantial shareholder of the Company and Mr. Kuo Jen Hao, then Chairman of the Company, that they had disposed of all the shares they held in the Company in an off-market transaction, at the price of HK\$1.94 per share, to a wholly-owned subsidiary of Suncity Group Holdings Limited, which at that time became the single-largest and a substantial shareholder of the Company.
- Among other changes at the board level in 1H 2019, Mr. Chau Cheok Wa has been appointed as Non-executive Director and Chairman of the Company with effect from 1 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The gaming and hotel operations of Summit Ascent Holdings Limited (the "Company", together with its subsidiaries, 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 Primorye Integrated Entertainment Zone ("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 the only casino, hotel and entertainment destination operating in the IEZ Primorye. We continuously strive to enhance our property and the key 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 4 bars;
- Karaoke rooms, a virtual golf zone and a soon to be opened private club;
- A convenience store, a health food store and a Tigre de Cristal branded shop;
- A jewelry boutique and a Montblanc outlet; and
- A high-end diamond and luxury watch boutique "DOMINO".

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 organized by World Travel Awards.

MANAGEMENT DISCUSSION AND ANALYSIS

Change of Substantial Shareholder

On 23 April 2019, we were informed by First Steamship Company Limited, a former substantial shareholder of the Company and Mr. Kuo Jen Hao ("Mr. Kuo"), then Chairman of the Company, that they had disposed of all the shares they held in the Company in an off-market transaction, at the price of HK\$1.94 per share, to a wholly-owned subsidiary of Suncity Group Holdings Limited ("Suncity"), which at that time became the single-largest and a substantial shareholder of the Company.

Changes of Directors

During the first half of 2019, we have the following changes to the board of directors (the "Board" or the "Directors") of the Company:

- Mr. Chau Cheok Wa, currently the chairman, executive director and controlling shareholder of Suncity and also the founder and chairman of the Suncity Group (the "Suncity Group") which is one of Asia's leading VIP services and entertainment conglomerates, has been appointed as Non-executive Director and Chairman of the Board with effect from 1 June 2019;
- Mr. Lo Kai Bong, currently an executive director of Suncity and the chief investment officer of the Suncity Group, was re-designated from Non-executive Director to Executive Director and appointed as Deputy Chairman of the Board on 26 April 2019;
- Mr. Chiu King Yan, currently the chief financial officer of Suncity, was appointed as Executive Director on 26 April 2019;
- Mr. Wong Pak Ling Philip, currently the chief financial officer of the Suncity Group, has been appointed as Non-executive Director with effect from 1 June 2019;
- Mr. Lam Kwan Sing has been appointed as Independent Non-executive Director with effect from 14 June 2019; and
- Mr. Wang, John Peter Ben, Mr. Kuo and Mr. Gerard Joseph McMahon stepped down as Executive Director and Deputy Chairman, Non-executive Director and Chairman, and Independent Non-executive Director on 12 April 2019, 26 April 2019, and 14 June 2019 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Segment Information

The Group operates currently only in the gaming and hotel businesses 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, depreciation and amortisation, and notional share-based compensation benefits, was HK\$108.5 million in the first half of 2019, up 62% compared to HK\$66.8 million in the same period of 2018.

Adjusted Property EBITDA margin (represented the ratio of Adjusted Property EBITDA to total revenue) also jumped to 42.2% in the first half of 2019, versus 32.1% in the first half of 2018 – demonstrating that the operating expenses of the Company have remained relatively constant despite ongoing growth in revenues.

The following table sets forth a reconciliation of Adjusted Property EBITDA to the reported profit for the period attributable to owners of the Company as per the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six-month period ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Reconciliation of Adjusted Property EBITDA to the profit for the six-month period ended 30 June 2019 attributable to owners of the Company

	Six-month period ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Gross revenue from rolling chip business	255,563	189,230
Less: Rebates	(186,725)	(148,422)
Revenue from rolling chip business	68,838	40,808
Revenue from mass table business	77,400	83,497
Revenue from slot business	90,626	66,348
Net revenue from gaming operations	236,864	190,653
Revenue from hotel operations	20,427	17,139
Total revenue from gaming and hotel operations	257,291	207,792
Add: Other income	411	650
Less: Other gains and losses	696	115
Gaming tax	(7,125)	(6,614)
Inventories consumed	(6,573)	(6,507)
Marketing and promotion expenses	(7,705)	(8,172)
Employee benefits expenses	(69,124)	(68,569)
Other expenses	(59,328)	(51,940)
Adjusted Property EBITDA of Tigre de Cristal	108,543	66,755
Add: Management fee payable to the Company	7,230	5,802
Less: Company corporate expenses	(10,483)	(8,499)
	105,290	64,058

MANAGEMENT DISCUSSION AND ANALYSIS

	Six-month period ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Add: Bank interest income	2,890	1,047
Less: Interest on lease liabilities/obligations under finance leases	(403)	(90)
Income tax expense	(81)	(48)
	107,696	64,967
<i>Notional non-cash items:</i>		
Add: Net exchange gains	9,756	2,207
Gain on disposal of interest in subsidiaries	180	–
Imputed interest income from loan to a joint venture	–	101
Less: Depreciation and amortisation	(46,187)	(58,716)
Imputed interest expenses	(16,081)	(18,748)
Share of losses of a joint venture	–	(119)
Profit (loss) and total comprehensive income (expense) for the period of the Group	55,364	(10,308)
Profit (loss) and total comprehensive income (expense) for the period attributable to:		
Owners of the Company	42,814	2,554
Non-controlling interests	12,550	(12,862)
	55,364	(10,308)

Operating Revenues of the Group

Total revenue of the Group in the first half of 2019 was HK\$257.3 million, representing an increase of 24% compared to the corresponding period in 2018.

Gaming Revenues

Gaming revenue of Tigre de Cristal, which comprises three main sources, namely the rolling chip business, mass table business and slot business, increased to HK\$236.9 million, compared to HK\$190.7 million in the first half of 2018, and such improvement is primarily benefited from the rebound in rolling chip business and growth in slot business versus the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Rolling chip business

Our rolling chip business primarily targets foreign players. The table below sets forth the key performance indicators of our rolling chip business in the first half of 2019.

<i>(HK\$'million)</i>	Q1 2019	Q2 2019	1H 2019	1H 2018
Rolling chip turnover	4,471	3,889	8,360	6,507
Gross win	155	101	256	189
Less: Rebate	(115)	(72)	(187)	(148)
Net win after rebate	40	29	69	41
Gross win %	3.47%	2.60%	3.06%	2.90%
Daily average number of tables opened	21	22	21	12

Rolling chip turnover (measured as the sum of all non-negotiable chips wagered and lost by players) at Tigre de Cristal in the first half of 2019 was HK\$8.4 billion, representing an increase of 28% compared with the corresponding period in 2018. Net win after all commissions rebated directly or indirectly to customers from rolling chip business increased by 68% to HK\$69 million in the first half of 2019. Gross win percentage (represented the ratio of gross win to rolling chip turnover) increased from 2.90% in the first half of 2018 to 3.06% in the first half of 2019.

Since 23 April 2019, Suncity has become the substantial shareholder of the Company and, together with the subsequent changes at the Board level of the Company, we believe our cooperation with the Suncity Group will continue to grow in scope. In addition, Tigre de Cristal fits into the strategic roadmap of the 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 our majority-owned subsidiary to pay attractive rebates while maintaining solid margins, and Suncity, as the single-largest shareholder of the Company, captures the additional economics by using the equity method of accounting to share in the results of the Group. We will continue to enhance the non-gaming offerings at Tigre de Cristal in order to further attract player volumes and drive higher value rolling chip business to the property.

MANAGEMENT DISCUSSION AND ANALYSIS

Mass table business

Our 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 in the first half of 2019.

<i>(HK\$'million)</i>	Q1 2019	Q2 2019	1H 2019	1H 2018
Total table drop	171	179	350	348
Table net win	41	36	77	84
Hold %	24.0%	20.1%	22.0%	24.1%
Daily average number of tables opened	26	27	26	20

Total table drop (measured as the sum of gaming chips purchased or exchanged at the cage) increased by 1% to HK\$350 million in the first half of 2019. Table net win from mass table business decreased by 8% to HK\$77 million in the first half of 2019. Hold percentage (represented table net win as a percent of table drop) decreased from 24.1% in the first half of 2018 to 22.0% in the first half of 2019.

Since the revenue from mass table business are denominated in the Russian rubles, a weak ruble in the first half of 2019 had a negative impact on the Group's revenue reported in Hong Kong dollars. If the Group had presented the table net win of mass table business for the first half of 2018 and 2019 using the Russian rubles, the revenue would have increased by 2% from RUB633 million to RUB647 million.

Slot business

Our slot business primarily targets the local Russian market. The table below sets forth the key performance indicators in the first half of 2019.

<i>(HK\$'million)</i>	Q1 2019	Q2 2019	1H 2019	1H 2018
Total slot handle	826	819	1,645	1,348
Slot net win	42	49	91	66
Hold %	5.1%	6.0%	5.5%	4.9%
Average number of slots deployed	325	357	343	291

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from the slot business increased by 38% to HK\$91 million in the first half of 2019, from HK\$66 million in the first half of 2018. The increase was principally due to the continuous growth in slot handle by 22% to HK\$1.6 billion in the first half of 2019, compared to HK\$1.3 billion in the corresponding period in 2018. The average hold percentage also increased to 5.5% in the first half of 2019 from 4.9% in the corresponding period of 2018.

Non-gaming Revenues

Revenue from hotel operations, which is largely dependent on foreign guests, increased to HK\$20.4 million or by 19% compared to the corresponding period in 2018. Average hotel occupancy rates were maintained at 87% during weekends and 59% during weekdays in the first half of 2019.

Operating Expenses of the Group

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 amortization, were HK\$142.7 million in the first half of 2019, a decrease of HK\$7.5 million or 6% compared with the corresponding period in 2018.

Depreciation and Amortisation

Depreciation and amortisation of the Group decreased by 21% to HK\$46.2 million in the first half of 2019 as compared to HK\$58.7 million for the same period in 2018. 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\$16.5 million in the first half of 2019, a decrease of 12% compared to HK\$18.7 million for the corresponding period in 2018. 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:

MANAGEMENT DISCUSSION AND ANALYSIS

Since 2004 up to 31 December 2017:

	Minimum (RUB)	Maximum (RUB)
Each gaming table	25,000	125,000
Each gaming machine	1,500	7,500

Effective from 1 January 2018:

	Minimum (RUB)	Maximum (RUB)
Each gaming table	50,000	250,000
Each gaming machine	3,000	15,000

On 28 February 2018, the local parliament of Primorsky Krai voted overwhelmingly to maintain the gaming tax rates at existing levels as they are within the ranges stipulated by the new federal law enacted on 27 November 2017. Accordingly, no changes in gaming tax rates have been applied to Tigre de Cristal since its opening in 2015.

For the six-month period ended 30 June 2019, the monthly rates per gaming table and per gaming machine applicable to the Group were RUB125,000 and RUB7,500 respectively, which corresponded to approximately 3% of the Group's net gaming revenue for the first half of 2019.

Income Tax Expense

No provision for taxation in Hong Kong has been made as the Group has no assessable profit for the period.

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%.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company was HK\$42.8 million in the first half of 2019, compared to HK\$2.6 million in the same period of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

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 30 June 2019, total equity attributable to the owners of the Company was HK\$1,308.6 million (31 December 2018: HK\$1,250.7 million).

The Group had no outstanding external borrowings throughout the six-month period ended 30 June 2019 (31 December 2018: Nil). Thus, the gearing ratio, expressed as a percentage of total borrowings divided by total assets, was zero percent as at 30 June 2019 (31 December 2018: 0%).

The Group remains conservative in its working capital management. As at 30 June 2019, net current assets of the Group were HK\$492 million (31 December 2018: HK\$451.6 million) and bank balances and cash were HK\$507.2 million (31 December 2018: HK\$479.8 million), of which 52.5% was denominated in United States dollar, 35.3% in Hong Kong dollar, and 12.2% in Russian ruble. The majority of our cash equivalents were in fixed deposits with a maturity of three months or less.

The following table sets forth a summary of our cash flows for the first half of 2019:

	Six-month period ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Net cash from operating activities	100,240	74,592
Net cash used in investing activities	(21,011)	(20,459)
Net cash used in financing activities	(58,364)	(69,569)
Net increase (decrease) in cash and cash equivalents	20,865	(15,436)
Cash and cash equivalents at the beginning of the period	479,822	400,208
Effect of foreign exchange rate changes	6,531	(5,577)
Cash and cash equivalents at the end of the period	507,218	379,195

Net cash generated from operating activities of HK\$100.2 million and HK\$74.6 million for the six-month periods ended 30 June 2019 and 2018 respectively, represented the positive operating cash flows generated by the gaming and hotel operations of Tigre de Cristal.

MANAGEMENT DISCUSSION AND ANALYSIS

Net cash used in investing activities of HK\$21.0 million for the six-month period ended 30 June 2019 was mainly due to additions for equipment of HK\$11.3 million and the return of HK\$9.9 million of VAT refunded under VAT arrangements to the tax authority of the Russian Federation.

Net cash used in financing activities of HK\$58.4 million and HK\$69.6 million for the six-month periods ended 30 June 2019 and 2018 respectively represented primarily the partial repayment of the interest-free loans from non-controlling shareholders of Oriental Regent.

Anti-money Laundering Policy

Tigre de Cristal is governed by the Russian Federal Law No. 115-FZ of 7 August 2001 “On Anti-Money Laundering and Combating Financing of Terrorism” (the “Russian AML/CFT Law”), which is aimed at protecting the rights and lawful interests of citizens, society and the state by means of building up legal mechanism to counter the legalisation of illegal earnings (money laundering) and the financing of terrorism. According to the Financial Action Task Force’s (FATF) 6th Follow-up Report of Mutual Evaluation of the Russian Federation dated October 2013 (the “Follow-up Report”), since the adoption of the 2008 FATF Mutual Evaluation Report (the “MER”), the Russian Federation has focused its attention on updates of the Russian AML/CFT Law, which has been regarded as the main legal instrument for the implementation of the FATF Recommendations in the Russian Federation. The Follow-up Report also mentioned that the Russian Federation had focused its attention to the correction of the most important deficiencies identified in the MER.

In accordance with the provisions of the Russian AML/CFT Law, Tigre de Cristal has adopted its own anti-money laundering and combating financing of terrorism policies and the key components include: internal control systems; a special officer to oversee daily compliance; client identification and screening; and reporting unusual transactions subject to mandatory requirements.

Charge on Assets

None of the Group’s assets were pledged or otherwise encumbered as at 30 June 2019 and 31 December 2018.

Exposure to Fluctuations in Exchange Rates

The functional currency of the Company and its subsidiaries is the Hong Kong dollar and the condensed consolidated financial statements of the Group are presented in Hong Kong dollars.

For financial reporting purposes, the condensed consolidated financial statements of the Group incorporate the financial statements 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Notwithstanding, the majority of our costs incurred by subsidiaries operating in the Russian Federation 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 costs with revenue denominated in the same currency that is generated from the mass table and slot businesses.

Capital Commitment

The Group's capital commitment as at 30 June 2019 amounted to approximately HK\$1,158,000 (31 December 2018: HK\$1,776,000).

Contingent Liabilities

There were no contingent liabilities as at 30 June 2019 and 31 December 2018.

Employees

As at 30 June 2019, total number of employees employed by the Group was 1,133 (31 December 2018: 1,050). Currently, more than 97% of our full time employees are local Russian citizens (31 December 2018: 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.

Interim Dividend

The Board does not recommend the payment of interim dividend for the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: Nil).

Outlook

As the Company evolves under the strategic direction of the new board of directors, both our slot and mass table gaming segments continued their growth trajectory in the first half of 2019, and we saw a strong rebound on our VIP business versus the same period last year.

The Company remains optimistic about our prospects in the foreseeable future as the following factors should assist us in further developing our business:

- Expansion and refinement of the customer offerings in our existing integrated resort. In order to attract and retain the higher end VIP customers, we are in the process of adding the following non-gaming amenities to our existing property: a Korean BBQ restaurant near the front entrance to the property, a Chinese hot pot section in the rear of our existing Asian restaurant, a noodle bar, a private club, and other amenities. We are targeting completion of these enhancements by the first quarter of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

- Phase II. Due to expected redesigns with the input of Suncity, we are now targeting an opening of the first stage of our Phase II development by early 2022. The first stage of Phase II is expected to have more than double of the existing capacity in guest rooms and gaming facilities. It will also include four restaurants and bars, an indoor beach club, a duty-free shopping mall, and multipurpose MICE facilities. On 19 August 2019, we added to the Company's strong cash position with a placing of 300,000,000 shares under general mandate, generating the net proceeds of approximately HK\$297 million. The Company intends to apply the net proceeds to our Phase II development.
- The "Cluster Effect". Three other operators continue moving forward with their development plans and are at various stages of the construction process. Based on their current progress we may see a cluster effect as early as 2021 or 2022.
- Growth in awareness of the Russian Far East as a tourist and business destination. The Primorye Tourism Department has done an outstanding job of raising the profile of the area as a tourism destination as evidenced by continued growth in flight connectivity and tourism, while the annual Eastern Economic Forum attracts world leaders, entrepreneurs, and investors; both of the above adding fuel to the continued economic development of the region.

We believe the winning combination of Suncity's unparalleled leadership and experience in the gaming industry and Summit Ascent's proven success in the Russian Far East will enable continued growth in all facets of our business and we are sanguine about The Company's prospects going forward.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF SUMMIT ASCENT HOLDINGS LIMITED

凱升控股有限公司

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Summit Ascent Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 37, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

26 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

		Six-month period ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
	NOTES		
Revenue from gaming and hotel operations	4	257,291	207,792
Other income	5	3,301	1,798
Other gains and losses	7	10,456	2,322
Gaming tax		(7,125)	(6,614)
Inventories consumed		(6,573)	(6,507)
Marketing and promotion expenses		(7,705)	(8,172)
Employee benefits expenses		(74,095)	(72,751)
Depreciation and amortisation		(46,187)	(58,716)
Other expenses	8	(57,434)	(50,455)
Finance costs	9	(16,484)	(18,838)
Share of losses of a joint venture		–	(119)
		<hr/>	<hr/>
Profit (loss) before taxation		55,445	(10,260)
Income tax expense	10	(81)	(48)
		<hr/>	<hr/>
Profit (loss) and total comprehensive income (expense) for the period	11	55,364	(10,308)
		<hr/>	<hr/>
Profit (loss) and total comprehensive income (expense) for the period attributable to:			
Owners of the Company		42,814	2,554
Non-controlling interests		12,550	(12,862)
		<hr/>	<hr/>
		55,364	(10,308)
		<hr/>	<hr/>
		HK cents	HK cent
		(Unaudited)	(Unaudited)
Earnings per share	13		
Basic		2.86	0.17
		<hr/>	<hr/>
Diluted		2.85	0.17
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

		As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
	<i>NOTES</i>		
Non-current assets			
Property, operating right and equipment	14	1,429,321	1,460,566
Right-of-use assets		7,961	–
Long-term prepayments and deposits	15	16,499	16,687
Intangible assets		475	115
		1,454,256	1,477,368
Current assets			
Inventories		2,531	2,802
Trade and other receivables	16	42,674	45,287
Bank balances and cash		507,218	479,822
		552,423	527,911
Current liabilities			
Contract liabilities, trade and other payables	17	58,114	76,266
Lease liabilities		2,281	–
		60,395	76,266
Net current assets		492,028	451,645
Total assets less current liabilities		1,946,284	1,929,013

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

		As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
	<i>NOTES</i>		
Non-current liabilities			
Loans from non-controlling shareholders of a subsidiary	18	210,932	257,892
Provision for value-added tax ("VAT") arrangements	19	41,221	44,537
Lease liabilities		5,838	–
		257,991	302,429
Net assets		1,688,293	1,626,584
Capital and reserves			
Share capital	20	37,594	37,209
Reserves		1,270,977	1,213,456
Equity attributable to owners of the Company		1,308,571	1,250,665
Non-controlling interests		379,722	375,919
Total equity		1,688,293	1,626,584

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	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 (Note)	Accumulated losses HK\$'000			
At 31 December 2018 (Audited)	37,209	1,286,885	148,178	(221,607)	1,250,665	375,919	1,626,584
Profit and total comprehensive income for the period	-	-	-	42,814	42,814	12,550	55,364
Deemed distribution to non-controlling shareholders (Note 18)	-	-	-	-	-	(8,747)	(8,747)
Exercise of share options	385	21,387	(6,680)	-	15,092	-	15,092
At 30 June 2019 (Unaudited)	37,594	1,308,272	141,498	(178,793)	1,308,571	379,722	1,688,293
At 1 January 2018 (Audited)	37,209	1,286,885	119,003	(229,218)	1,213,879	394,000	1,607,879
Profit (loss) and total comprehensive income (expense) for the period	-	-	-	2,554	2,554	(12,862)	(10,308)
Deemed distribution to non-controlling shareholders (Note 18)	-	-	-	-	-	(14,526)	(14,526)
At 30 June 2018 (Unaudited)	37,209	1,286,885	119,003	(226,664)	1,216,433	366,612	1,583,045

Note: Share-based compensation reserve represents the cumulative expenses recognised on the fair value of the share options granted to the directors of the Company ("Directors"), employees and consultants over the vesting period pursuant to the share option scheme of the Company. Details of the share option scheme are set out in 2018 annual report of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	NOTES	Six-month period ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
NET CASH FROM OPERATING ACTIVITIES		<u>100,240</u>	<u>74,592</u>
INVESTING ACTIVITIES			
Payment for property, operating right and equipment		(11,335)	(6,895)
Return of VAT refunded under VAT arrangements		(9,924)	(10,446)
Deposits paid for purchase of property, operating right and equipment		(2,966)	(4,880)
Payment for intangible assets		(391)	(12)
Interest received		2,890	1,047
Proceeds from disposal of property, operating right and equipment		535	–
Proceeds from disposal of subsidiaries	22	180	–
VAT refunded under VAT arrangements		<u>–</u>	<u>727</u>
Net cash used in investing activities		<u>(21,011)</u>	<u>(20,459)</u>
FINANCING ACTIVITIES			
Repayment of loans from non-controlling shareholders of a subsidiary	18	(71,576)	(68,464)
Repayment of lease liabilities/obligations under finance leases		(1,477)	(1,015)
Interest paid		(403)	(90)
Proceeds from exercise of share options of the Company		<u>15,092</u>	<u>–</u>
Net cash used in financing activities		<u>(58,364)</u>	<u>(69,569)</u>
Net increase (decrease) in cash and cash equivalents		20,865	(15,436)
Cash and cash equivalents at 1 January		479,822	400,208
Effect of foreign exchange rate changes		<u>6,531</u>	<u>(5,577)</u>
Cash and cash equivalents at 30 June, represented by bank balances and cash		<u>507,218</u>	<u>379,195</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements are presented in Hong Kong dollars (“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, and engaged in the gaming and hotel operations in the Russia Federation is HK\$. This is based on the fact that the currency that mainly influences its gaming revenue is HK\$.

2. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

In May 2019, Oriental Regent Limited (“Oriental Regent”), a non-wholly owned subsidiary of the Company and the immediate holding company of G1 Entertainment, resolved by board resolution to make a voluntary early repayment of US\$23,000,000 (equivalent to HK\$178,940,000) to settle partially the loans from its shareholders for an original amount of US\$137,691,000 (equivalent to HK\$1,071,236,000). Details are set out in note 18.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2019 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies on application of HKFRS 16 Lease

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Lease (“HKAS 17”) and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies on application of HKFRS 16 Lease (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Right-of-use assets (continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies on application of HKFRS 16 Lease (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies on application of HKFRS 16 Lease (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessor (continued)

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$8,507,000 and the related right-of-use assets of HK\$8,507,000 at 1 January 2019 by applying HKFRS 16.C8(b)(ii) transition.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies on application of HKFRS 16 Lease (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 9.10%.

At 1 January 2019

HK\$'000

Operating lease commitments disclosed as at 31 December 2018	9,294
Less: Recognition exemption – short-term leases	<u>(308)</u>
	<u>8,986</u>
Lease liabilities discounted at relevant incremental borrowing rates	6,814
Add: Extension options reasonably certain to be exercised	<u>1,693</u>
Lease liabilities as at 1 January 2019	<u>8,507</u>
Analysed as:	
Current	2,074
Non-current	<u>6,433</u>
	<u>8,507</u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

Right-of-use assets

HK\$'000

Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	<u>8,507</u>
Represented by:	
– Leasehold lands	4,851
– Office	2,749
– Warehouse	<u>907</u>
	<u>8,507</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Significant changes in significant judgements and key sources of estimation uncertainty

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 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.

4. REVENUE FROM GAMING AND HOTEL OPERATIONS

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue from gaming and hotel operations:		
– Gaming operations	236,864	190,653
– Hotel operations	20,427	17,139
	<u>257,291</u>	<u>207,792</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.

5. OTHER INCOME

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Bank interest income	2,890	1,047
Rental income	264	441
Imputed interest income from loan to a joint venture	–	101
Others	147	209
	<u>3,301</u>	<u>1,798</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

6. 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 current period, all revenue is derived from customers patronising in the Group's property located in the Russian Federation. In addition, almost all non-current assets of the Group are located in the Russian Federation.

7. OTHER GAINS AND LOSSES

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Exchange gains, net	9,756	2,207
Gain on disposal of interest in subsidiaries (Note 22)	180	–
Impairment losses reversed on other receivables, deposits and prepayments	742	250
Loss on disposal/written off of property, operating right and equipment	(222)	(126)
Loss on written-off of intangible assets	–	(9)
	10,456	2,322

8. OTHER EXPENSES

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Travel agency expenses	10,344	7,332
Security expenses	7,820	7,776
Repair and maintenance expenses	5,266	4,023
Utilities and fuel	3,879	3,796
Oversea travel expenses	2,543	1,764
Insurance expenses	2,081	2,429
Minimum lease payments under operating leases	–	1,280
Others	25,501	22,055
	57,434	50,455

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

9. FINANCE COSTS

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Imputed interest on loans from non-controlling shareholders of a subsidiary	14,053	16,104
Imputed interest on VAT arrangements	2,028	2,644
Interest on lease liabilities/obligations under finance leases	403	90
	16,484	18,838

10. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for taxation in Hong Kong has been made as the Group has no estimated assessable profit for both periods.

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.

11. PROFIT (LOSS) FOR THE PERIOD

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Profit (loss) for the period has been arrived at after charging:		
Directors' remunerations	1,904	1,431
Salaries, wages, bonus and other benefits, excluding Directors	57,859	57,223
Contributions to retirement benefits schemes, excluding Directors	14,332	14,097
Total employee benefits expenses (including Directors' emoluments)	74,095	72,751
Amortisation of intangible assets	31	32
Depreciation of property, operating right and equipment	44,977	58,684
Depreciation of right-of-use assets	1,179	–
Total depreciation and amortisation	46,187	58,716

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the six-month period ended 30 June 2019, nor has any dividend been proposed since 30 June 2019 (six-month period ended 30 June 2018: HK\$Nil).

13. EARNINGS PER SHARE

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

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Profit for the purposes of basic and diluted earnings per share	<u>42,814</u>	<u>2,554</u>
	Number of shares (in thousands)	
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,494,903	1,488,378
Effect of dilutive potential shares:		
Share options issued by the Company	<u>7,482</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,502,385</u>	<u>1,488,378</u>

The computation of diluted earnings per share for the six-month period ended 30 June 2018 did not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price of the Company's shares for the period.

14. PROPERTY, OPERATING RIGHT AND EQUIPMENT

The Group paid approximately HK\$11,335,000 (six-month period ended 30 June 2018: HK\$6,895,000) during the period mainly on gaming equipment. For the six-month period ended 30 June 2019, the Group also disposed of mainly futures and equipment for cash proceeds of approximately HK\$535,000. No proceeds from disposal were received during the six-month period ended 30 June 2018.

15. LONG-TERM PREPAYMENTS AND DEPOSITS

	As at 30 June 2019	As at 31 December 2018
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Long-term prepayments	13,533	13,533
Deposits for purchase of property, operating right and equipment	<u>2,966</u>	<u>3,154</u>
	<u>16,499</u>	<u>16,687</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

16. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Trade receivables	<u>15,253</u>	29,852
Prepayments	26,479	14,465
Other receivables and deposits	1,451	2,221
Less: Allowance	<u>(509)</u>	(1,251)
	<u>27,421</u>	15,435
	<u>42,674</u>	<u>45,287</u>

Trade receivables mainly represent outstanding amounts pending settlements by customers which are usually repaid within 13 days (31 December 2018: 10 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. The amount has been fully settled subsequent to 30 June 2019.

All trade receivables were aged within 30 days based on the revenue recognition date, at the end of both reporting periods.

All of the Group's trade receivables as at 30 June 2019 and 31 December 2018 were within their credit terms with no default history and neither past due nor impaired.

Trade receivables from VIP customers as at 30 June 2019 and 31 December 2018 were assessed individually. There were no additional impairment allowance for both reporting periods. For other trade receivables, the Group assessed the expected credit losses collectively based on the provision matrix as at 30 June 2019 and 31 December 2018. 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\$509,000 and HK\$1,251,000 as at 30 June 2019 and 31 December 2018 respectively represented individually impaired prepayments and other receivables that the Directors considered uncollectible.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

17. CONTRACT LIABILITIES, TRADE AND OTHER PAYABLES

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Trade payables	84	233
Payable in respect of transfer of connection right to local electricity supply network	12,656	11,403
Provision for VAT arrangements (Note 19)	10,314	9,283
Outstanding gaming chips	4,123	23,980
Gaming taxes payables	1,210	1,113
Accruals and other payables	29,727	30,254
	58,114	76,266

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

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Within 30 days	84	185
31–90 days	–	7
Over 90 days	–	41
	84	233

The Group mainly has two types of liabilities related to contracts with customers which are included in the above: (1) outstanding gaming chips liabilities for gaming chips in the customers' possession amounting to HK\$4,123,000 (31 December 2018: HK\$23,980,000); and (2) loyalty programs liabilities for the revenue deferred in relation to points earned by customers under gaming revenue transactions amounting to HK\$1,510,000 (31 December 2018: HK\$1,006,000). Loyalty programs liabilities are included in 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

18. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

On 15 July 2014, each of the shareholders of 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 contributions proportionally 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 be renewed 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.

In May 2019, the board of Directors of Oriental Regent resolved to early repay part of the Loan with a total principal amount of US\$23,000,000 (approximately equivalent to HK\$178,940,000) (six-month period 30 June 2018: US\$22,000,000 (approximately equivalent to HK\$171,160,000)) to its shareholders on a pro-rata basis to their respective loans. The portion attributed to the non-controlling interests of Oriental Regent of US\$9,200,000 (approximately equivalent to HK\$71,576,000) (six-month period ended 30 June 2018: US\$8,800,000 (approximately equivalent to HK\$68,463,000)) was settled during the period. The difference between the carrying amount of the portion of the Loan repaid to the non-controlling interests and the repayment sum of HK\$8,747,000 (six-month period ended 30 June 2018: HK\$14,526,000) was recognised as deemed distribution to equity participant and attributable to and included in non-controlling interests.

19. PROVISION FOR VALUE-ADDED TAX 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 RUB414,618,000 (approximately HK\$51,535,000) (31 December 2018: RUB478,666,000 (approximately HK\$53,820,000)) 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 8.56% (31 December 2018: 8.56%) per annum. Accordingly, approximately RUB82,979,000 (approximately HK\$10,314,000) (31 December 2018: RUB83,027,000 (approximately HK\$9,283,000)) of such provision is presented as current and included in other payables (Note 17) 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 RUB331,639,000 (approximately HK\$41,221,000) (31 December 2018: RUB395,639,000 (approximately HK\$44,537,000)) presented as non-current.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

20. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.025 each		
Authorised:		
At 1 January 2018 (Audited), 31 December 2018 (Audited) and 30 June 2019 (Unaudited)	<u>3,200,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 January 2018 (Audited) and 31 December 2018 (Audited)	1,488,377,836	37,209
Exercise of share options	<u>15,400,000</u>	<u>385</u>
At 30 June 2019 (Unaudited)	<u>1,503,777,836</u>	<u>37,594</u>

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

21. SHARE-BASED PAYMENT TRANSACTIONS

No share option was granted to Directors, employees and consultants during the six-month period ended 30 June 2019. Details of the share option scheme are set out in 2018 annual report of the Company. 15,400,000 share options, 8,400,000 share options and 20,000,000 share options were exercised, cancelled and lapsed during the six-month period ended 30 June 2019 respectively.

All outstanding share options are fully vested and the Group did not recognise any expense for the six-month period ended 30 June 2019 and 2018 in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

22. DISPOSAL OF SUBSIDIARIES

On 28 June 2019, the Company entered into a share purchase agreement with an independent third party pursuant to which the Company agreed to dispose of the entire equity interest in its wholly-owned subsidiary, Colour Castle Limited and its subsidiary, for cash consideration of HK\$180,000. The disposal was completed on the same date and resulted in a gain on disposal of approximately HK\$180,000. The said disposal did not have any material impact on the Group.

	HK\$'000 (Unaudited)
Net liabilities disposal of	(310)
Waiver of amount due to immediate holding company	310
Gain on disposal	<u>180</u>
Total cash consideration	<u>180</u>

Cash inflow arising on disposal amounted to HK\$180,000 and represented cash consideration received.

23. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in these condensed consolidated financial statements, the Group entered into the following transactions with related parties during the six-month period ended 30 June 2019:

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<i>Transactions with a joint venture:</i>		
Imputed interest income on loan	–	101
Revenue from gaming and hotel operations	–	36
<i>Transactions with a subsidiary of a non-controlling shareholder of a subsidiary:</i>		
Marketing fee expenses	236	78
<i>Transactions with non-controlling shareholders of a subsidiary:</i>		
Imputed interest expense on loan	<u>14,053</u>	<u>16,104</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

23. RELATED PARTY TRANSACTIONS (continued)

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 11, were as follows:

	Six-month period ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Short-term benefits	3,267	2,686
Post-employment benefits	18	18
	<u>3,285</u>	<u>2,704</u>

Certain shares of the Company were issued to key management upon exercise of share options granted to them under the share option scheme of the Company during the six-month periods ended 30 June 2018 and 2019.

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

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

25. EVENT AFTER THE END OF THE REPORTING PERIOD

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.

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS

As at 30 June 2019, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Hong Kong Stock Exchange were as follows:

Long positions in the shares and underlying shares of the Company

(a) *Ordinary shares of the Company (the "Shares") (Note 1)*

Name of Director	Capacity/ Nature of Interest	Number of Shares held	Approximate % of total issued Shares
Mr. Chau Cheok Wa	Interest of controlled corporations (Note 2)	446,308,464	29.67%
Mr. U Chio leong	Beneficial owner	40,906,000	2.72%
Mr. Eric Daniel Landheer	Beneficial owner	2,086,000	0.13%
Mr. Li Chak Hung	Beneficial owner	400,000	0.02%

(b) *Share options granted by the Company (Notes 3 & 4)*

Name of Director	Number of Shares held	Approximate % of total issued Shares
Mr. Eric Daniel Landheer	10,200,000	0.67%
Mr. Lau Yau Cheung	1,000,000	0.06%
Mr. Li Chak Hung	1,000,000	0.06%

OTHER INFORMATION

Notes:

1. As at 30 June 2019, the total number of issued Shares was 1,503,777,836.
2. Suncity Group Holdings Limited (“Suncity”), a company listed on the Hong Kong Stock Exchange, is the beneficial owner of 49,302,000 Shares and is also interested in 397,006,464 Shares through its wholly-owned subsidiary, Victor Sky Holdings Limited. As at 30 June 2019, Suncity was 74.87% owned by Fame Select Limited, which is owned as to 50% by Mr. Chau Cheok Wa and 50% by Mr. Cheng Ting Kong. By virtue of the SFO, Mr. Chau Cheok Wa is deemed to be interested in the Shares held by Suncity.
3. The options granted to the Directors are registered under the name of the Directors who are also the beneficial owners.
4. Details of share options granted to the Directors pursuant to the share option scheme of the Company are set out in the section headed “Share Option Scheme” of this report.

Save as disclosed above, so far as known to any Directors as at 30 June 2019, none of the Directors of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to section 347 of the SFO and the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

SHARE OPTION SCHEME

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

Under the Share Option 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 share options to subscribe for the shares of the Company, subject to the terms and conditions stipulated therein.

OTHER INFORMATION

Movements of share options granted under the Share Option Scheme during the six-month period ended 30 June 2019 are set out below:

Category of Participants	As at 1 January 2019	Exercised during the period	Cancelled during the period	Lapsed during the period	As at 30 June 2019	Date of grant	Exercise price (HK\$)	Exercise period
<i>(Note)</i>								
Directors								
Mr. Eric Daniel Landheer	2,300,000	-	-	-	2,300,000	1 September 2016	1.99	2
	7,900,000	-	-	-	7,900,000	13 December 2018	0.98	3
Mr. Lau Yau Cheung	1,400,000	(400,000)	-	-	1,000,000	13 December 2018	0.98	3
Mr. Li Chak Hung	1,400,000	(400,000)	-	-	1,000,000	13 December 2018	0.98	3
Mr. Kuo Jen Hao	12,000,000	-	-	(12,000,000)	-	13 December 2018	0.98	3
Mr. Wang, John Peter Ben	12,000,000	(5,000,000)	-	(7,000,000)	-	13 December 2018	0.98	3
Mr. Gerard Joseph McMahon	1,400,000	(400,000)	-	(1,000,000)	-	13 December 2018	0.98	3
Employees	1,292,000	-	-	-	1,292,000	1 September 2016	1.99	2
	18,560,000	(3,200,000)	-	-	15,360,000	13 December 2018	0.98	3
Consultants	5,812,000	-	-	-	5,812,000	1 September 2016	1.99	2
	<u>14,400,000</u>	<u>(6,000,000)</u>	<u>(8,400,000)</u>	<u>-</u>	<u>-</u>	13 December 2018	0.98	3
Total	<u>78,464,000</u>	<u>(15,400,000)</u>	<u>(8,400,000)</u>	<u>(20,000,000)</u>	<u>34,664,000</u>			

Notes:

- Each option gives the holder the right to subscribe for one share of the Company and the vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The 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.
- The share options granted on 13 December 2018 are exercisable from 13 December 2018 to 12 December 2023.
- During the six-month period ended 30 June 2019, no share options were granted under the Share Option Scheme. In respect of the share options exercised during the period, the weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$1.53.

OTHER INFORMATION

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed in this report, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the six-month period ended 30 June 2019 or subsisted at the end of the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2019, within the knowledge of the Directors, the following persons or corporations had or deemed or taken to have an interest of a short position in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in the shares and underlying shares of the Company (Note 1)

Name	Capacity/ Nature of interest	No. of Shares held	No. of underlying Shares held	Approximate % of total issued Shares
Suncity	Beneficial owner	49,302,000	–	3.27%
	Interest of controlled corporations (Note 2)	397,006,464	–	26.40%
Victor Sky Holdings Limited	Beneficial owner	397,006,464	–	26.40%
Fame Select Limited	Interest of controlled corporations (Note 2)	446,308,464	–	29.67%
Mr. Chau Cheok Wa	Interest of controlled corporations (Note 2)	446,308,464	–	29.67%
Mr. Cheng Ting Kong	Interest of controlled corporations (Note 2)	446,308,464	–	29.67%
OPG Holdings LLC	Interest of controlled corporations (Note 3)	90,242,000	–	6.00%
Old Peak Asia Fund Ltd.	Interest of controlled corporations (Note 4)	78,837,000	–	5.24%

OTHER INFORMATION

Notes:

1. As at 30 June 2019, the total number of issued Shares was 1,503,777,836.
2. Suncity, a company listed on the Hong Kong Stock Exchange, is the beneficial owner of 49,302,000 Shares and is also interested in 397,006,464 Shares through its wholly-owned subsidiary, Victor Sky Holdings Limited. As at 30 June 2019, Suncity was 74.87% owned by Fame Select Limited, which is owned as to 50% by Mr. Chau Cheok Wa and 50% by Mr. Cheng Ting Kong. By virtue of the SFO, Mr. Chau Cheok Wa, Mr. Cheng Ting Kong and Fame Select Limited are deemed to be interested in the Shares held by Suncity.
3. OPG Holdings LLC is interested in 90,242,000 Shares through its wholly-owned subsidiaries, Old Peak Group Ltd. and Old Peak Ltd.
4. Old Peak Asia Fund Ltd. is interested in 78,837,000 Shares through its wholly-owned subsidiary, OP Master Fund Ltd.

Save as disclosed above, as at 30 June 2019, the Directors are not aware of any other person (other than the Directors) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. Our business culture and practices are founded upon a common set of values governing our relationships with customers, employees, shareholders, suppliers and the communities in which we operate.

The Company has complied with the Corporate Governance Code (“CG Code”) set out in Appendix 14 of the Listing Rules with the exception of code provision A.2.1 during the six-month period ended 30 June 2019.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and the chief executive should be segregated and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly stated and set out in writing. However, due to the change of chairman and deputy chairman of the Company as mentioned below, there was no separation of the roles of chairman and chief executive as well as no written guideline setting out the responsibilities between the chairman and chief executive during the corresponding transitional period from 12 April 2019 to 30 May 2019.

Mr. Kuo Jen Hao resigned as Chairman on 26 April 2019 and Mr. Chau Cheok Wa was appointed as Chairman with effect from 1 June 2019. Mr. Wang, John Peter Ben, the then Deputy Chairman, who was performing the role of Chief Executive Officer resigned on 12 April 2019, and Mr. Lo Kai Bong was appointed as Deputy Chairman to perform the role of Chief Executive Officer with effect from 26 April 2019. Subsequent to the appointment of Mr. Lo Kai Bong and Mr. Chau Cheok Wa as the Deputy Chairman and Chairman, the above-mentioned deviation was rectified.

OTHER INFORMATION

The Company sets up the following board committees to ensure maintenance of a high corporate governance standard:

- a. Audit Committee;
- b. Remuneration Committee;
- c. Nomination Committee; and
- d. Corporate Governance Committee.

Terms of reference of the aforesaid committees have been posted on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.saholdings.com.hk).

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code for dealing in the Company's securities by Directors and relevant employees who are likely to be in possession of inside information in relation to the securities of the Company (the "Code of Securities Dealings") on terms no less exacting than the required standards set out in the Model Code of the Listing Rules. We have received confirmation from all Directors that they have complied with the required standards as set out in the Model Code and the Code of Securities Dealings throughout the six-month period ended 30 June 2019.

UPDATE ON DIRECTORS' INFORMATION

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the publication of the Company's 2018 Annual Report are set out below:

Name of Director	Details of Changes
Mr. Eric Daniel Landheer	Entitled to a monthly salary of HK\$169,300 per calendar month since 1 April 2019, which was HK\$161,200 per calendar month from 1 April 2018 to 31 March 2019.

AUDIT COMMITTEE

The Company's Audit Committee is currently composed of three Independent Non-executive Directors. The primary duties of the Audit Committee are (i) to review the annual reports, interim reports and financial statements of the Group and to provide advice and comments thereon to the Board; (ii) to review and supervise the Group's financial reporting process; and (iii) to oversee the Group's risk management and internal control systems. The Audit Committee has reviewed the interim report for the six-month period ended 30 June 2019 which was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

During the six-month period ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lo Kai Bong
(Deputy Chairman)¹
Mr. Eric Daniel Landheer
Mr. Chiu King Yan²
Mr. Wang, John Peter Ben
(Deputy Chairman)³

Non-executive Directors

Mr. Chau Cheok Wa (Chairman)⁴
Mr. Wong Pak Ling Philip⁴
Dr. U Chio leong
Mr. Kuo Jen Hao (Chairman)⁵

Independent Non-executive Directors

Mr. Lam Kwan Sing⁶
Mr. Lau Yau Cheung
Mr. Li Chak Hung
Mr. Gerard Joseph McMahon⁷

AUDIT COMMITTEE

Mr. Li Chak Hung (Chairman)
Mr. Lam Kwan Sing⁶
Mr. Lau Yau Cheung
Mr. Gerard Joseph McMahon⁷

REMUNERATION COMMITTEE

Mr. Lam Kwan Sing (Chairman)⁶
Mr. Lau Yau Cheung
Mr. Gerard Joseph McMahon
(Chairman)⁷

NOMINATION COMMITTEE

Mr. Lau Yau Cheung (Chairman)
Mr. Lam Kwan Sing⁶
Mr. Gerard Joseph McMahon⁷

CORPORATE GOVERNANCE COMMITTEE

Mr. Lam Kwan Sing (Chairman)⁶
Mr. Li Chak Hung
Mr. Gerard Joseph McMahon
(Chairman)⁷

COMPANY SECRETARY

Ms. Ho Siu Pik

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1704, 17th Floor
West Tower, Shun Tak Centre
200 Connaught Road Central
Hong Kong
Tel: (852) 3729-2135
Fax: (852) 3167-7980
Email: info@saholdings.com.hk

PRINCIPAL BANKERS

Dah Sing Bank, Limited
Bank of Communications Co., Ltd.,
Hong Kong Branch
Tai Fung Bank Limited
Alfa-Bank
Primsotsbank

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISOR

Gibson, Dunn & Crutcher LLP

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MUFG Fund Services (Bermuda) Limited
4th floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

102 (Listed on The Stock Exchange of Hong Kong Limited)

WEBSITE

www.saholdings.com.hk

¹ Re-designated from Non-executive Director to Executive Director and appointed as Deputy Chairman on 26 April 2019

² Appointed on 26 April 2019

³ Resigned on 12 April 2019

⁴ Appointed on 1 June 2019

⁵ Resigned on 26 April 2019

⁶ Appointed on 14 June 2019

⁷ Resigned on 14 June 2019