SUMMIT ASCENT
凱升控股有限公司 Holdings Limited

Annual Report 2017

Summit Ascent Holdings Limited

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

CONTENTS

HIGHLIGHTS

- The Adjusted Property EBITDA generated by Oriental Regent Limited, a subsidiary of the Group through which Tigre de Cristal, our majority-owned integrated resort in the Russian Far East, is operated, was HK$173.7 million for the year 2017 (2016: HK$131.5 million), representing an increase of 32% year-over-year.

- The Group's total revenue for the year 2017 was HK$470.8 million (2016: HK$323.3 million), representing an increase of 46% year-over-year.

- Profit attributable to owners of the Company was HK$13.8 million for the year ended 31 December 2017 (2016: HK$559,000), after deducting depreciation and amortisation of HK$133.7 million and other notional non-operating and non-cash items.

- The main contribution to the profitability of the Group is the rolling chip business, which targets VIP customers from Northeast Asia. Rolling chip turnover at Tigre de Cristal in 2017 amounts to HK$18.8 billion (2016: HK$14.1 billion), representing an increase of 33% year-over-year.

- On 28 February 2018, the local parliament of Primorsky Krai voted overwhelmingly to maintain the gaming tax rates at existing levels, despite the new power given to them to double gaming taxes pursuant to a new federal law enacted on 27 November 2017. Accordingly, no changes in gaming tax rates have been applied to Tigre de Cristal.

CHAIRMAN'S STATEMENT

2017 was the second full year operation of our majority-owned hotel and casino resort Tigre de Cristal. Tigre de Cristal generated an Adjusted Property EBITDA of HK$173.7 million for the year (2016: HK$131.5 million), representing a year-over-year increase of 32%. Most impressively, this was achieved during a period of substantial ownership changes at the Summit Ascent level, the changeover of Chief Operating Officer at Tigre de Cristal, policy uncertainties regarding gaming taxes in the Russian Federation as well as geopolitical instability in the region.

I would like to commend our management team for the ongoing enthusiasm and professionalism they have demonstrated despite the aforementioned challenges during the year. Also, I would also like to express my appreciation for the government officials in the Russian Far East for their ongoing support and in particular, the tremendous efforts they made in maintaining consistent tax and regulatory stability that makes the Russian Far East such an attractive destination for investment.

I am proud to state that Summit Ascent remains fully committed to our majority-owned asset Tigre de Cristal, and our Phase II project in the Russian Far East. I strongly believe in the massive potential of tourism growth in the Russian Far East and that outbound tourism and investment will be a key success factor in China's 'One Belt, One Road' strategy. I also believe that our strategy of developing both gaming and non-gaming facilities will enhance the attractiveness of the Russian Far East as a tourism destination for customers from nearby Asian countries, and will help our casino, hotel, and restaurant business to continue to expand. With the support and cooperation of our devoted management team and staff, a pro-business government in the Russian Far East and our new shareholders and investment partners, I maintain a positive view towards Summit Ascent's business prospects going forward.

Kuo Jen Hao
Chairman and Non-executive Director

Hong Kong, 22 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The gaming and hotel operations of Summit Ascent Holdings Limited (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 development rights on two parcels of land in the Primorsky Krai Integrated Entertainment Zone ("IEZ") in the Russian Federation, namely, Lot 9 and Lot 10. 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. We are currently refining the design and construction requirements of our Phase II project on Lot 10 and expect to open the first stage of our Phase II for operations in the second half of 2019.

Tigre de Cristal is the first and, for the time being, the only casino, hotel and entertainment destination operating in the Russian Far East where gaming and casino activities are permitted. 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, which has been certified as a 5-star hotel since October 2017;
- Casual and fine dining in 2 restaurants and 4 bars;
- Spa and health club, karaoke rooms and a virtual golf zone;
- 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".

Financial Review

Segment Information

Subsequent to the disposal of the entire equity interest in Easy Market Trading Limited on 14 March 2016, a subsidiary engaged in the trading of tiles and engineering operations products, the Group operates in only one business segment, namely the gaming and hotel operations.

Gaming revenue of Tigre de Cristal

Gaming revenue of Tigre de Cristal comprises three main sources, namely, rolling chip business, mass table business and slots business.

Rolling chip business

The table below sets forth the key performance indicators of our rolling chip business in 2017.

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	FY 2016
(HK$'million)						
Rolling chip turnover	3,438	4,965	5,570	4,818	18,791	14,081
Gross win	164	148	197	193	702	504
Less: Rebate	(118)	(114)	(148)	(140)	(520)	(334)
Net win after rebate	46	34	49	53	182	170
Gross win %	4.77%	2.98%	3.54%	4.01%	3.74%	3.58%
Daily average number of tables opened	13	18	17	16	16	10

Rolling chip turnover at Tigre de Cristal in 2017 was HK$18.8 billion (2016: HK$14.1 billion), up 33% year-over-year. Revenue from rolling chip business for 2017, net of all commissions rebated directly or indirectly to customers, increased by 7.1% to HK$182 million.

The main contribution to the profitability of the Group is the rolling chip business, which targets VIP customers from Northeast Asia. Despite occasional inclement weather in the winter months, recent improvements in highway infrastructure, increased airline flight frequency and the free electronic visa policy in the Russian Far East have lessened the impact of seasonal factors on our rolling chip business notably compared to previous years.

Mass table business

The table below sets forth the key performance indicators of our mass table business in 2017.

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	FY 2016
(HK$'million)						
Total table drop	132	127	155	163	577	496
Table net win	26	31	39	36	132	117
Hold %	19.7%	24.4%	25.2%	22.1%	22.9%	23.6%
Daily average number of tables opened	21	20	19	19	20	22

Revenue from our mass table business increased by 13%, from HK$117 million in 2016 to HK$132 million in 2017. The increase is in line with the growth in mass table drop from HK$496 million in 2016 to HK$577 million in 2017, partially offset by a decrease in mass table hold percentage from 23.6% in 2016 to 22.9% in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Slot business

Our slot business primarily targets the local Russian market. The table below sets forth the key performance indicators in 2017.

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	FY 2016
(HK$'million)						
Total slot handle	415	518	595	664	2,192	1,620
Slot net win	22	29	35	34	120	99
Hold %	5.3%	5.6%	5.9%	5.1%	5.5%	6.1%
Average number of slots deployed	309	302	286	285	295	319

Revenue from slot business increased by 21% year-over-year to HK$120 million in 2017. The increase was due to the continuous growth in slot handle by 35% to HK$2,192 million in 2017.

Adjusted Property EBITDA of Tigre de Cristal

Adjusted Property EBITDA is used by management as the primary measure of operating performance of our gaming and hotel operations under Tigre de Cristal. Adjusted Property EBITDA is defined as net income before share-based compensation benefits, management fee payable to the holding company, corporate expenses, gain or loss on disposal or impairment of assets, depreciation and amortisation, interest, and taxes. The following table sets forth a reconciliation of the Adjusted Property EBITDA to the reported profit for the year attributable to owners of the Company as per the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017.

On 14 April 2016, the shareholders of Oriental Regent, a 60% owned subsidiary of the Group, entered into an amendment agreement to amend certain terms of the shareholders' agreement pursuant to which the Group has obtained additional rights to appoint two extra directors and certain reserved matters for which unanimous written approval of all the members of the board of Oriental Regent are required have been deleted or amended. As a result of the amendments referred to above, Oriental Regent would no longer be accounted for as a joint venture for financial reporting purposes and its results have been consolidated, instead of being equity accounted for, in the consolidated financial statements of the Group from 14 April 2016 onwards. For illustrative purposes, the comparative figures in 2016 are presented below as if the acquisition of Oriental Regent had been completed on 1 January 2016. In determining the "pro-forma" revenue and loss of the Group had Oriental Regent been acquired on 1 January 2016, depreciation and amortisation were calculated based on the recognised amounts of property, operating right and equipment from 14 April 2016.

Reconciliation of Adjusted Property EBITDA to the profit for the year ended 31 December 2017 attributable to owners of the Company

	2017 **HK$'000**	2016 HK$'000
Gross revenue from rolling chip business	**702,243**	503,559
Less: Rebates	**(520,782)**	(333,614)
Revenue from rolling chip business	**181,461**	169,945
Revenue from mass table business	**132,364**	116,957
Revenue from slot business	**120,281**	98,601
Net revenue from gaming operations	**434,106**	385,503
Revenue from hotel operations	**36,715**	28,845
Total revenue from gaming and hotel operations	**470,821**	414,348
Add: Other income	**1,071**	1,640
Less: Other gains and losses	**(265)**	(1,651)
Gaming tax	**(13,899)**	(14,246)
Inventories consumed	**(12,311)**	(10,571)
Marketing and promotion expenses	**(19,236)**	(22,368)
Employee benefits expenses	**(146,278)**	(137,808)
Other expenses	**(106,175)**	(97,834)
Adjusted Property EBITDA of Tigre de Cristal	**173,728**	131,510
Add: Management fee payable to the Company	**13,023**	11,564
Less: Company corporate expenses	**(16,307)**	(22,202)
	170,444	120,872
Add: Bank interest income	**1,567**	955
Less: Interest on obligations under finance leases	**(883)**	(762)
Income tax expense	**(109)**	(797)
	171,019	120,268

MANAGEMENT DISCUSSION AND ANALYSIS

	2017 HK$'000	2016 HK$'000
Notional non-cash items:		
Add: Imputed interest income from loans to a joint venture	**187**	12,765
Net exchange gains	**7,593**	7,583
Gain on deemed disposal of interest in a joint venture	**–**	20,180
Profit for the year from discontinued operations	**–**	2,607
Less: Imputed interest expenses	**(43,081)**	(44,498)
Depreciation and amortisation	**(133,717)**	(102,421)
Notional share-based compensation benefits	**(3,149)**	(14,786)
Share of losses of a joint venture	**(284)**	(273)
Non-recurring write-off relating to goodwill	**(8,525)**	–
Non-recurring write-offs relating to construction	**(3)**	(1,889)
Loss for the year of the Group	**(9,960)**	(464)
Add: Loss for the year attributable to non-controlling interests	**23,738**	1,023
Profit for the year attributable to owners of the Company	**13,778**	559

The Group made positive growth in 2017, which was our second full year of operations. Total revenue of Tigre de Cristal increased by 14% to HK$470.8 million. Revenue from gaming operations increased by 13% year-over-year to HK$434.1 million with progress on all fronts. Revenue from hotel operations increased by 27% year-over-year to HK$36.7 million primarily due to our efforts to encourage visitation and extend the length of customers' stay within Tigre de Cristal. Hotel occupancy has remained satisfactory – weekends are at 89% occupancy, and weekdays are at 52%. Food and beverage covers have continued to increase in line with the optimisation of F&B offerings.

In parallel, the Company has maintained its stringent cost controls and streamlined our operations. Total operating costs of Tigre de Cristal, including inventories consumed, marketing and promotion expenses, employee benefits expenses and other expenses, were HK$284.0 million, increased by a single digit of 6% year-over-year. Company corporate expenses were HK$16.3 million (2016: HK$22.2 million), representing a decrease of 27% year-over-year.

As a result, the Adjusted Property EBITDA of Tigre de Cristal increased by 32%, from HK$131.5 million in 2016 to HK173.7 million in 2017. The Adjusted Property EBITDA margin, as a percentage of the Group's total revenue, was 37% in 2017 compared to 32% in 2016.

Profit attributable to owners of the Company was HK$13.8 million for the year ended 31 December 2017 (2016: HK$559,000), after deducting depreciation and amortisation of HK$133.7 million and other notional non-cash items. Loss for the year of the Group was HK$10.0 million, primarily caused by the notional imputed interest expenses of HK$43.1 million arising from interest-free loans from the non-controlling shareholders of Oriental Regent.

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 system 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 rates based on a range stipulated by the Tax Code of the Russian Federation as follows:

Since 2004 up to 31 December 2017

Each gaming table	Minimum RUB25,000	Maximum RUB125,000
Each gaming machine	Minimum RUB1,500	Maximum RUB7,500

Effective from 1 January 2018

Each gaming table	Minimum RUB50,000	Maximum RUB250,000
Each gaming machine	Minimum RUB3,000	Maximum RUB15,000

For the year ended 31 December 2017, the monthly tax rates per gaming table and per gaming machine applicable to the Group were RUB125,000 and RUB7,500 respectively (2016: RUB125,000 and RUB7,500 respectively), which corresponded to approximately 3.2% of the Group's gaming revenue for the year 2017.

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.

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%.

No provision for taxation in Hong Kong has been made as the Group has no assessable profit for the year 2017.

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 the daily compliance; client identification and screening; and reporting unusual transactions subject to mandatory requirements.

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 December 2017, total assets of the Group were HK$2,006.3 million (2016: HK$2,050.4 million) which were financed by shareholders' equity of HK$1,213.9 million (2016: HK$1,196.1 million), non-controlling interests of HK$394.0 million (2016: HK$434.8 million), non-current liabilities of HK$339.4 million (2016: HK$342.0 million), and current liabilities of HK$59.1 million (2016: HK$77.5 million).

The Group had no outstanding external borrowings throughout the years ended 31 December 2017 and 31 December 2016, except for the obligations under finance leases amounted to HK$1.0 million and HK$2.3 million respectively. The gearing ratio, expressed as a percentage of total borrowings divided by total assets, was 0% as at 31 December 2017 (2016: 0.1%).

The Group remains conservative in its working capital management. As at 31 December 2017, cash and bank balances held by the Group amounted to HK$400.2 million (2016: HK$335.1 million), of which 47.8% was denominated in United States dollar, 35.2% in Hong Kong dollar, and 17.0% in Russian ruble.

The following table sets forth a summary of our cash flows for the year 2017:

	2017 **HK$'000**	2016 HK$'000
Net cash from operating activities	**180,136**	76,501
Net cash (used in) from investing activities	**(58,440)**	126,704
Net cash used in financing activities	**(58,225)**	(591)
Net increase in cash and cash equivalents	**63,471**	202,614
Cash and cash equivalents at 1 January	**335,138**	130,276
Effect of foreign exchange rate changes	**1,599**	2,248
Cash and cash equivalents at 31 December	**400,208**	335,138

Net cash from operating activities in both 2016 and 2017 largely represented the positive EBITDA contributed by the gaming and hotel operations of Tigre de Cristal.

Net cash used in investing activities of HK$58.4 million for the year ended 31 December 2017 was mainly due to the cash payments for property, operating right and equipment, out of which HK$24.6 million was the retention money paid to a subcontractor for the construction works of Tigre de Cristal. Net cash from investing activities of HK$126.7 million in 2016 was mainly contributed by the acquisition of subsidiaries amounted to HK$82.5 million and refund of value-added tax amounted to HK$44.8 million from the Russian tax authority.

Net cash used in financing activities of HK$58.2 million for the year ended 31 December 2017 primarily represented the partial repayment of loans from non-controlling shareholders of Oriental Regent. Net cash used in financing activities of HK$591,000 in 2016 mainly represented the interest payment.

Charge on Assets

None of the Group's assets were pledged or otherwise encumbered as at 31 December 2017 and 31 December 2016.

Exposure to Fluctuations in Exchange Rates

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

For financial reporting purposes, the 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 dollar. 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.

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 had no capital commitment as at 31 December 2017 and 31 December 2016.

Contingent Liabilities

There were no contingent liabilities as at 31 December 2017 and 31 December 2016.

Employees

As at 31 December 2017, total number of employees employed by the Group was 1,000 (31 December 2016: 1,014). Currently, more than 97% of our full time employees are local Russian citizens (2016: 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook

The ramp up of our business has been satisfactory with all areas showing year-over-year improvements. We expect to see continued growth across all major business areas in 2018 and believe the following factors will assist in the ongoing expansion of our business.

- **Growth of tourism.** Foreign tourist visitation has grown substantially over the past few years in the Russian Far East and shows no signs of slowing. In December 2017, there were nearly 50% more direct flights than in December 2016. Improvements in infrastructure, increased tourist attractions like the Primorye Oceanarium, the new free e-visa regime implemented in August 2017, the local tourism department's promotional efforts, and the subsequent increased international awareness of Vladivostok as a tourist destination have all contributed to ongoing growth in foreign visitation. We expect awareness of the Russian Federation as a tourist destination to only continue to grow when hosting the "2018 FIFA World Cup Russia" this summer.

- **Other integrated resort developments in the IEZ.** We have seen increased preparatory and building works by other future integrated resort operators and at least two other operators appear to be committed to their investment and development plans with targeted openings in late 2019. We also continue to target an opening of the first stage of our Phase II property in the latter half of 2019 and are in the midst of finalizing design and financing options so that we can commence construction. Finally, we expect the Primorsky Krai and the IEZ to directly benefit and our current and future integrated resort projects to incidentally benefit from China's ongoing investment in the Russian Far East as part of their "One Belt, One Road" initiative.

- **Expansion and refinement of our non-gaming facilities.** We relentlessly strive to improve our non-gaming facilities within the property. We now have 6 retail outlets in the property including a convenience store, a midrange jewelry boutique, a Montblanc outlet, a health food store, a Tigre de Cristal branded shop, and a high-end luxury watch and diamond retailer. Our two restaurants have both received increased recognition and subsequently improved visitation as we have refined the offerings to suit our clientele's taste while maintaining high quality materials and services. We are also very proud to state that our resort has received a 5-star designation by the Russian Federation since October 2017.

- **Russian government policy.** On 28 February 2018, the local parliament of the Primorsky Krai voted overwhelmingly to maintain the gaming tax rates at the existing levels. In addition, a duty free regime for the IEZ and Primorye Free Port is expected to be effectively put in place later this year. The above initiatives signify the Russian government's commitment to maintaining a welcoming environment and consistent policies to stimulate ongoing foreign investment.

In conclusion, the aforementioned positive macro-trends in tourism and positive government policy, coupled with our relentless focus on the constant improvement of gaming and non-gaming offerings and services should enable us to continue to grow our business.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Kuo Jen Hao (aged 41)
Chairman and Non-executive Director

Mr. Kuo has been the Chairman and a Non-executive Director of the Company since December 2017. He is currently the chairman and the general manager of First Steamship Co., Ltd. ("First Steamship"), a company listed on the Taiwan Stock Exchange Corporation ("TWSE") and a substantial shareholder of the Company. He is also a director and the chairman of Grand Ocean Retail Group Limited, a company listed on the TWSE and a subsidiary of First Steamship, a director of Taiwan Environment Scientific Co., Ltd., a company listed on the Taipei Exchange, a director of IRC Properties, Inc., a company listed on the Philippine Stock Exchange and a non-executive director of Sandmartin International Holdings Limited ("Sandmartin"), a company listed on the Hong Kong Stock Exchange. A winding up petition dated 5 July 2017 was filed by a petitioner against Sandmartin (the "Petition"), which was prior to the appointment of Mr. Kuo as a non-executive director of Sandmartin on 18 August 2017. As of 22 March 2018, judgement in respect of the Petition has yet to be delivered to the High Court of Hong Kong (the "Court") and the Court ordered that a case management hearing to be held on 25 April 2018.

Mr. Kuo has several years of experience in investment advisory, financial advisory and corporate finance at PricewaterhouseCoopers, Bank of America Merrill Lynch and Private Equity Management Group and held various key roles at several private and listed companies engaging in (i) administrative and corporate business; (ii) corporate finance; and (iii) general management in real estate development, shipping business, retail business and logistics business. Mr. Kuo has a wealth of experience in business strategy development and innovation management.

Mr. Kuo graduated with a bachelor's degree in Business Administration from Aletheia University in Taiwan and holds a master's degree in Business Administration from Pace University in the United States. He is a certified public accountant of the New Jersey State Board of Accountancy.

Mr. Wang, John Peter Ben (aged 57)
Deputy Chairman and Executive Director

Mr. Wang has been an Executive Director of the Company since March 2011. He was appointed as Deputy Chairman of the Company in July 2013 and before that, he was the Chairman of the Company from March 2011 to July 2013. He is a director of certain subsidiaries of the Company.

Mr. Wang previously held non-executive directorships in Anxin-China Holdings Limited, MelcoLot Limited (now known as Loto Interactive Limited), Oriental Ginza Holdings Limited (now known as Carnival Group International Holdings Limited) and China Precious Metal Resources Holdings Co., Ltd (now known as Munsun Capital Group Limited), companies listed on the Hong Kong Stock Exchange, and Melco Crown Entertainment Limited (now known as Melco Resorts & Entertainment Limited), a company listed on the NASDAQ Global Select Market in the United States. From 2004 to 2009, Mr. Wang was the chief financial officer of Melco International Development Limited ("Melco International"), a company listed on the Hong Kong Stock Exchange. Prior to joining Melco International in 2004, Mr. Wang had over 18 years of professional experience in the securities and investment banking industry. His previous employers include JS Cresvale Securities International Limited, Deutsche Morgan Grenfell Securities Hong Kong Limited, Credit Lyonnais Securities (Asia) Limited, Carr Indosuez Asia Limited and Bear Stearns (Hong Kong) Limited. Mr. Wang qualified as a chartered accountant with the Institute of Chartered Accountants of England and Wales in 1985.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Eric Daniel Landheer (aged 49)
Executive Director

Mr. Landheer has been an Executive Director of the Company since 4 September 2017. He joined the Company as Director – Corporate Finance and Strategy in March 2014 and is responsible for leading the Company's fundraising and other capital markets activities, strategic planning and execution, as well as investor and media relations. He is a director of a subsidiary of the Company.

Mr. Landheer has more than 20 years of experience in the financial markets. Prior to joining the Company, he was Senior Vice President and Head of Issuer Marketing at Hong Kong Exchanges and Clearing Limited from 2011 to 2012 and led their efforts to attract international and Chinese listings to Hong Kong as well as the promotion of offshore Renminbi products. Previously, Mr. Landheer was Head of Asia Pacific for the NASDAQ OMX Group, Inc. for four years based in London and Hong Kong, and was responsible for the NASDAQ's new listings and retention business as well as media and government relations throughout Asia. Prior to his position as Head of Asia Pacific for the NASDAQ OMX Group, Inc., he worked as Managing Director in the Corporate Client Group for The NASDAQ Stock Market, Inc. for three years and was responsible for IPOs in the Western United States. Before that, Mr. Landheer worked for various brokerage and securities houses in the United States in equity finance and institutional brokerage.

Mr. Landheer holds a bachelor's degree in Political Science with high honors from The University of California, Berkeley in the United States.

Mr. Tsui Yiu Wa, Alec (aged 68)
Independent Non-executive Director

Mr. Tsui has been an Independent Non-executive Director of the Company since March 2011. He is also the chairman of the remuneration committee and corporate governance committee and a member of the audit committee and nomination committee of the Company.

Mr. Tsui is currently an independent non-executive director of a number of listed public companies including COSCO SHIPPING International (Hong Kong) Co., Ltd., Pacific Online Limited, Kangda International Environmental Company Limited and DTXS Silk Road Investment Holdings Company Limited, all of them are listed on the Hong Kong Stock Exchange, and Melco Resorts & Entertainment Limited, a company listed on the NASDAQ and an independent director of ATA Inc., a company listed on NASDAQ and Melco Resorts and Entertainment (Philippines) Corporation (formerly known as Melco Crown (Philippines) Resorts Corporation), a company listed on the Philippine Stock Exchange. He is also an independent non-executive director of Industrial & Commercial Bank of China (Asia) Limited ("ICBC (Asia)") starting from 2000. ICBC (Asia) was listed on the Hong Kong Stock Exchange till December 2010 when it was privatized.

Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management, having served at various international companies. He held key positions at the Securities and Futures Commission prior to joining the Hong Kong Stock Exchange in 1994 as an executive director of the Finance and Operations Services Division and becoming the chief executive in 1997. He was the chairman of the Hong Kong Securities Institute (now known as Hong Kong Securities and Investment Institute) from 2001 to 2004. He was an advisor and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. He previously was the chairman of WAG Worldsec Corporate Finance Limited and served as an independent non-executive director of certain Hong Kong listed companies, namely Synergis Holdings Limited, Vertex Group Limited (now known as National Arts Entertainment and Culture Group Limited), Greentown China Holdings Limited, China Huiyuan Juice Group Limited, China BlueChemical Ltd., China Chengtong Development Group Limited, China Power International Development Limited and China Oilfield Services Limited, a company also listed on the Shanghai Stock Exchange.

Mr. Tsui graduated from the University of Tennessee with a Bachelor of Science degree and a Master of Engineering degree in industrial engineering. He completed a Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Pang Hing Chung, Alfred (aged 56)
Independent Non-executive Director

Mr. Pang has been an Independent Non-executive Director of the Company since March 2011. He is also a member of the audit committee of the Company.

Mr. Pang is currently vice chairman of Silk Road Finance Corporation Limited ("Silk Road"). From March 1999 to July 2017, he was an independent non-executive director of MelcoLot Limited (now known as Loto Interactive Limited), a company listed on the Hong Kong Stock Exchange. Mr. Pang has over 30 years of financial, management and investment banking experience in China, Asia and the United States. Before joining Silk Road, Mr. Pang was the chairman of Standard Advisory Asia Limited and a member of Asia Executive Committee. He was previously the managing director and vice chairman, Investment Banking Division, at BOC International Holdings Limited ("BOCI") where he was also the chairman of BOCI's commitment committee. Prior to joining BOCI, he was the managing director and president, Asia at the US investment banking firm of Donaldson Lufkin & Jenrette.

Mr. Pang holds dual Bachelor of Arts (in Economics) & Bachelor of Science (in Electrical Engineering) Degrees from Cornell University, and MBA Degree from Stanford University Graduate School of Business in the United States.

Dr. Tyen Kan Hee, Anthony (aged 62)
Independent Non-executive Director

Dr. Tyen has been an Independent Non-executive Director of the Company since March 2011. He is also the chairman of the audit committee and nomination committee and a member of the remuneration committee and corporate governance committee of the Company. Dr. Tyen is currently an independent non-executive director of Melco International and China Baofeng (International) Limited, both of them are listed on the Hong Kong Stock Exchange. He was previously an independent non-executive director of three Hong Kong listed companies, namely, Value Convergence Holdings Limited, Recruit Holdings Limited (now known as KK Culture Holdings Limited) and ASR Logistics Holdings Limited (now known as Beijing Sports and Entertainment Industry Group Limited). He was also an independent director (until 3 July 2017) of Entertainment Gaming Asia Inc., a company which was delisted on the NASDAQ Capital Market in the United States on 22 June 2017 and was an independent director of Alpha Peak Leisure Inc. until 16 November 2017, a company listed on the TSX Venture Exchange in Canada.

Dr. Tyen holds a Doctoral degree in Philosophy and a Master degree in Business Administration, both from The Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of both the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators in United Kingdom and a member of the Taxation Institute of Hong Kong. He is currently a practising certified public accountant in Hong Kong and has over 40 years' experience in auditing, accounting, management and company secretarial practice.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Stylianos Tsifetakis (aged 46)
Chief Operating Officer – Russian Operations

Mr. Tsifetakis has joined the Group in a senior management capacity since September 2014. Mr. Tsifetakis has over 20 years of experience in the casino and hospitality industry. Prior to joining the Group, he was the Director of Operations at Regency Casino Mont Parnes and a Director at Hyatt Regency Casino, both of which are located in Greece. Mr. Tsifetakis also held senior managerial roles in various world class hotels in multiple jurisdictions including the United Kingdom, Romania and Kazakhstan.

Mr. Tsifetakis holds a casino management certificate in Greece and graduated from London South Bank University in the United Kingdom with a Bachelor of Arts (Honours) degree in hotel management.

Mr. Yip Ho Chi (aged 48)
Finance Director

Mr. Yip has been Finance Director of the Company since October 2013. He is a director of a subsidiary of the Company. Prior to joining the Company, Mr. Yip was the chief financial officer of MelcoLot Limited (now known as Loto Interactive Limited), a company listed on the Hong Kong Stock Exchange, from 2009 to 2013. Before this, he had been serving as an executive director, finance director and company secretary of Sandmartin International Holdings Limited, a company listed on the Hong Kong Stock Exchange, for nine years. Mr. Yip was also an audit manager of Deloitte Touche Tohmatsu with whom he worked for over seven years.

Mr. Yip graduated from The University of Hong Kong with a Bachelor of Business Administration degree. He is a fellow member of both the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

Summit Ascent Holdings Limited (the "Company", together with its subsidiaries, collectively the "Group") is committed to maintaining high standards of corporate governance. Our business culture and practices are founded upon a common set of values that govern our relationships with customers, employees, shareholders, suppliers and the communities in which we operate.

Compliance of Corporate Governance Code

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2017 except code provision A.2.7 which will be discussed further in this report.

The Board of Directors

Composition of the Board

The board of directors of the Company (the "Board") currently has six members, consisting of one Non-executive Director, Mr. Kuo Jen Hao (Chairman), two Executive Directors, Mr. Wang, John Peter Ben (Deputy Chairman) and Mr. Eric Daniel Landheer, and three Independent Non-executive Directors, Mr. Tsui Yiu Wa, Alec, Mr. Pang Hing Chung, Alfred and Dr. Tyen Kan Hee, Anthony. Biographies of the directors of the Company (the "Directors") are contained in the section headed "Biographical Details of Directors and Senior Management" set out on pages 13 to 16 of this annual report.

The roles of Chairman and Chief Executive Officer are separate and held by different persons to ensure their independence, accountability and responsibility. The Chairman is responsible for setting the Group's strategy and ensuring the Board is functioning properly and with good corporate governance practices and procedures. During the year ended 31 December 2017, Mr. Ho, Lawrence Yau Lung, a Non-executive Director, assumed the role of Chairman of the Company until he resigned on 28 December 2017. Subsequent to Mr. Ho's resignation, Mr. Kuo Jen Hao was appointed as a Non-executive Director and Chairman of the Board in place of Mr. Ho. During the year ended 31 December 2017, Mr. Wang, John Peter Ben, Deputy Chairman and Executive Director of the Company, was responsible for managing the Group's business, including implementing major strategies set by the Board, making day-to-day decisions and coordinating overall business operations. The division of the responsibilities between the Chairman and the Deputy Chairman has been established and set out clearly in writing.

The Non-executive Directors, all of whom are independent of the management of the Group's business, are professionals with substantial experience in accounting, banking, financial management and business. The mix of skills and business experience is a major contribution to the future development of the Company. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board's decision-making process. In addition, they ensure the Company maintains a high standard of financial and legal reporting and provide checks and balances to safeguard the interests of the shareholders.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the guidelines.

All Directors have formal letters of appointment with the Company, which set out the key terms and conditions of their appointment. Each Independent Non-executive Director was appointed for a term of three years.

Every Director will retire once every three years. In accordance with the Bye-laws of the Company, Mr. Kuo Jen Hao, Mr. Eric Daniel Landheer, Mr. Tsui Yiu Wa, Alec and Dr. Tyen Kan Hee, Anthony will retire and will offer themselves for re-election at the forthcoming annual general meeting. The biographies of Mr. Kuo, Mr. Landheer, Mr. Tsui and Dr. Tyen have been set out in the circular sent with this report to provide information to shareholders to decide on their re-elections.

Board diversity policy

The Board adopted a board diversity policy which sets out the approach by the Company to achieve diversity on the Board. The Company considers diversity can be achieved from different age, gender, cultural and educational background, ethnicity, professional experience, skills and knowledge. All Board appointments are considered according to objective criteria, having regard to benefits of diversity, and decided on merits.

The Nomination Committee is in charge of implementing this policy and reports annually on Board appointment process in the corporate governance report.

Directors' training

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a comprehensive orientation package on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by meetings with senior management of the Company.

All Directors have participated in continuous professional development to develop and refresh their skills and knowledge in accordance with Paragraph A.6.5 of the CG Code. The Company has also sent information on external training courses and articles to Directors from time to time. A summary of training received by Directors during the year ended 31 December 2017 is set out below:

	Type of Continuous Professional Development	
Directors	**Attending seminars/ workshops/conferences relevant to the business of the Company or directors' duties**	**Reading regulatory updates**
Non-executive Chairman		
Mr. Kuo Jen Hao (appointed on 28 December 2017)	✓	–
Mr. Ho, Lawrence Yau Lung (resigned on 28 December 2017)	✓	✓
Executive Directors		
Mr. Wang, John Peter Ben	✓	✓
Mr. Eric Daniel Landheer (appointed on 4 September 2017)	–	✓
Independent Non-executive Directors		
Mr. Tsui Yiu Wa, Alec	✓	✓
Mr. Pang Hing Chung, Alfred	✓	✓
Dr. Tyen Kan Hee, Anthony	✓	✓

Board meetings

Pursuant to code provision A.1.1, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. In addition, pursuant to code provision A.2.7, the Chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.

During the year ended 31 December 2017, the Company had held six board meetings. No meeting between the Chairman and the Non-executive Directors was held due to the tight schedule of the Chairmen of the Board during the year. The Company shall optimize the planning and procedures of the meeting such that the Chairman could hold meetings with the Non-executive Directors in the future.

Wherever possible, ample notice of the Board meetings was given, and Board papers were provided in advance to Directors to enable them to prepare for the meetings. The Company Secretary (or his/her delegate(s)) keeps full records of the Board meetings.

Board and committee attendance

The attendance records of the Directors at Board meetings, Board committee meetings and general meetings during the year ended 31 December 2017 are as follows:

	No. of meetings attended/held					
Name of Directors	**Board meeting**	**Audit Committee meeting**	**Nomination Committee meeting**	**Remuneration Committee meeting**	**Corporate Governance Committee meeting**	**Annual general meeting**
						(Note 4)
Non-executive Chairman						
Mr. Kuo Jen Hao *(Note 1)*	–	–	–	–	–	–
Mr. Ho, Lawrence Yau Lung *(Note 2)*	5/6	–	–	–	–	1/1
Executive Directors						
Mr. Wang, John Peter Ben	6/6	–	–	–	–	1/1
Mr. Eric Daniel Landheer *(Note 3)*	2/3	–	–	–	–	–
Independent Non-executive Directors						
Mr. Tsui Yiu Wa, Alec	5/6	2/2	2/2	1/1	1/1	1/1
Mr. Pang Hing Chung, Alfred	4/6	1/2	–	–	–	0/1
Dr. Tyen Kan Hee, Anthony	5/6	2/2	2/2	1/1	1/1	1/1
Average Attendance Rate	**81.8%**	**83.3%**	**100%**	**100%**	**100%**	**80%**

Notes

(1) Mr. Kuo Jen Hao was appointed as Non-executive Director and the Chairman of the Board on 28 December 2017. No Board meeting was held after 28 December 2017.

(2) Mr. Ho, Lawrence Yau Lung resigned as Non-executive Director and the Chairman of the Board on 28 December 2017. Six Board meetings were held on or before 28 December 2017.

(3) Mr. Eric Daniel Landheer was appointed as Executive Director on 4 September 2017. Three Board meetings were held on or after 4 September 2017.

(4) The annual general meeting was held on 9 June 2017.

CORPORATE GOVERNANCE REPORT

Procedure to enable Directors to seek independent professional advice

To assist the Directors to discharge their duties to the Company, the Board has established written procedures to enable the Directors, upon reasonable request, to seek independent professional advice, at the Company's expense, in appropriate circumstances. No request was made by any Director for such independent professional advice in 2017.

Securities dealings by Directors and employees

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 for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"). We have received confirmation from all Directors that they have complied with the required standards set out in the Model Code and the Code of Securities Dealings throughout the year of 2017.

Directors' and officers' insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. The coverage and the amount insured are reviewed annually by the Company.

Delegation by the Board

Management functions

The Board delegates day-to-day operations of the Group to management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The ultimate responsibility for the day-to-day management of the Company is delegated to the Deputy Chairman and Executive Director, and the management.

The Board is responsible for establishing the strategic direction of the Group, setting objectives and business development plans, monitoring the performance of senior management and assuming responsibility for major decisions, significant transactions and corporate governance. The Board also reviews and approves the Company's annual budget and business plans, which serve as important benchmarks in assessing and monitoring the performance of the management.

The management, under the leadership of the Deputy Chairman and the Executive Director, is responsible for implementing the strategies and plans established by the Board. To ensure effective discharge of the Board's responsibilities, the management submits monthly, quarterly and annual operations reports to the Board. The Directors have full and ready access to the management on the Company's business and operations.

Board committees

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated to committees, which review and make recommendations to the Board in specific areas. Chairmen and members of the committees are set out in the section headed "Corporate Information" on page 110 of this annual report.

Each committee has its defined terms of reference and has power to decide on matters within its terms of reference. The Board committees' terms of reference have been posted on the Company's website at www.saholdings.com.hk under the section headed "Corporate Governance".

Each committee is provided with sufficient resources to perform its duties. It may seek independent professional advice at the Company's expense, where necessary.

(1) Audit Committee

The Audit Committee is made up of three Independent Non-executive Directors. They all possess appropriate professional qualifications and expertise required by Rule 3.21 of the Listing Rules. The role of the Audit Committee is to (a) monitor external auditor's work, appointment and remuneration, (b) review the Group's financial statements and published reports, (c) provide advice and comments thereon to the Board and (d) review and supervise the financial reporting system, risk management and internal control systems of the Group.

The detailed duties and powers of the Audit Committee are set out in the committee's terms of reference, which align with the requirements of the CG Code and the guidelines issued by the Hong Kong Institute of Certified Public Accountants.

The members of the Audit Committee met twice during the year ended 31 December 2017 and:

(a) reviewed the Group's financial results and reports;
(b) reviewed the internal control report and risk management report of the Company;
(c) approved the Group's internal audit plan;
(d) reviewed the continuing connected transactions of the Company; and
(e) approved the remuneration of external auditor.

(2) Nomination Committee

The Nomination Committee is made up of two Independent Non-executive Directors. It reviews the Board's size and composition and advises the Board on Director appointment.

The members of the Nomination Committee met twice during the year ended 31 December 2017 and:

(a) reviewed the structure, size, composition and diversity of the Board;
(b) assessed the independence of Independent Non-executive Directors;
(c) recommended to the Board on re-election of Directors; and
(d) recommended to the Board on the appointments of Mr. Kuo Jen Hao and Mr. Eric Daniel Landheer as a Non-executive Director and an Executive Director of the Company respectively.

(3) Remuneration Committee

The Remuneration Committee is made up of two Independent Non-executive Directors. It reviews the remuneration packages of the Executive Directors and senior management as well as guidelines on salary revision and bonus distribution to the Group's employees.

The members of the Remuneration Committee met once during the year ended 31 December 2017 and reviewed the remuneration of Directors and senior management of the Company.

When considering remuneration of the Executive Directors and senior management, the committee considers a number of factors, including salaries paid by comparable companies, job responsibilities, and individual and company performance. Details of remuneration of the Directors and senior management are set out in notes 14 and 15 to the consolidated financial statements.

(4) Corporate Governance Committee

The Corporate Governance Committee was formed to assist the Board to perform corporate governance functions. It is made up of two Independent Non-executive Directors.

The Board has delegated the following corporate governance duties to the Corporate Governance Committee:

(a) develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
(b) review and monitor the training and continuous professional development of Directors and senior management;
(c) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(d) develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
(e) review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The members of the Corporate Governance Committee met once during the year ended 31 December 2017 to review the Company's compliance with the CG Code and training and continuous professional development of Directors and senior management.

Company Secretary

The Company Secretary supports the Board and Board committees and facilitates good information flow between them and the Company's management. During the year ended 31 December 2017, Mr. Leung Hoi Wai, Vincent serviced as the Company Secretary of the Company until he resigned on 28 December 2017. Ms. Ho Siu Pik of Tricor Services Limited, an external service provider, was appointed as the Company Secretary in place of Mr. Leung on 28 December 2017. Both Mr. Leung and Ms. Ho's main contact person at the Company is Mr. Yip Ho Chi, Finance Director. All Directors have access to the Company Secretary's advice and services.

During the year ended 31 December 2017, both Mr. Leung and Ms. Ho, the former and existing Company Secretaries, have complied with the training requirement of the Listing Rules.

Directors' and Auditor's Responsibilities for Accounts

The Directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017. The Directors are responsible for the preparation and the true and fair presentation of the Group's financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining the necessary internal controls system, ensuring that the Group's financial statements are free from material misstatement, applying the appropriate accounting policies and making reasonable accounting estimates. The responsibilities of external auditor are set out in the Independent Auditor's Report on pages 45 to 49 of this annual report.

Auditor's Remuneration

For the year ended 31 December 2017, the Group paid and committed to pay to the external auditors of the Company, Messrs. Deloitte Touche Tohmatsu, approximately HK$3,689,000 (2016: HK$3,128,000) for audit services and approximately HK$1,574,000 (2016: HK$2,854,000) for non-audit services. The non-audit services mainly included interim review and advisory services on risk management and internal control systems, and environmental, social and governance reporting.

Risk Management and Internal Control

The Board acknowledged its responsibility for the risk management and internal control systems and reviewing their effectiveness.

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the Risk Management Taskforce. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Risk Management Taskforce identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has established an internal audit function and has engaged an independent professional advisor to assist the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control assessment report are submitted to the Audit Committee at least once a year. The Board, through the Audit Committee, had performed annual review on the effectiveness of the Group's risk management and internal control systems for 2017, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems are adequate and effective.

The Board, through the Audit Committee, had also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, and considers that they are adequate.

Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of Securities & Futures Ordinance ("SFO") and the Listing Rules in relation to the handling of inside information. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

Whistleblowing policy

The Group is committed to carrying out its business with the highest possible standards of professionalism, honesty, integrity and ethics. A whistleblowing policy is in place to create an anonymous channel for the employees, guests and business partners to confidentially raise any concern on potential misconduct relating to the Group to the Audit Committee and the Board and all of the cases will be independently investigated in strictest confidence to protect the whistleblowers' identities.

Constitutional Documents

During the year ended 31 December 2017, there was no change in the Company's constitutional documents.

Shareholders' Rights

Right to convene special general meeting

Pursuant to the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists, or any of them representing more than one half (1/2) of the total voting rights of all of them, may themselves convene a meeting in accordance with the provision of Section 74(3) of the Companies Act 1981 of Bermuda (the "Companies Act").

The written requisition requiring a special general meeting to be called must state the objects of the meeting, and must be signed by the requisitionists and deposited at the Registered Office of the Company in Bermuda for the attention of the Company Secretary.

Right to put forward proposals at general meetings

Under Section 79 of the Companies Act, shareholders may by written request include a resolution in a general meeting. The request must be made by shareholders holding in aggregate not less than one-twentieth (1/20) of the total voting rights of those shareholders having the right to vote at the general meeting or not less than one hundred (100) shareholders. The written requisition must be signed by the requisitionists and deposited at the Registered Office of the Company in Bermuda for the attention of the Company Secretary.

Right to put enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders and investors may contact the Company and the Board and send their enquiries or requests to the following:

Address: Units 3101-2A, 31st Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong
(For the attention of Mr. Eric Daniel Landheer, Executive Director)

Email: info@saholdings.com.hk

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to given effect thereto. Shareholders' information may be disclosed as required by law.

Procedures for nomination of Directors for election

Under Clause 88 of the Company's Bye-laws, shareholders are entitled to elect a person to be a Director at a general meeting or at any special general meeting by following the requirement set out in the said bye-law. The procedures for nomination of Directors for election are available on the Company's website at www.saholdings.com.hk.

Communication with Shareholders

The Company considers the annual general meeting ("AGM") an important event, as it provides an opportunity for the Board to communicate with the shareholders. The Company supports the CG Code's principle to encourage shareholders' participation. Questioning by shareholders at the Company's AGM is encouraged and welcomed. The Chairman, Board Committees' chairmen (or their delegates) and the Company's auditor attended the 2017 AGM and were available to answer questions.

The website of the Company at www.saholdings.com.hk also provides a medium to make information of the Group available to shareholders. Shareholders may refer to the "Shareholders' Communication Policy" posted on the Company's website for further details.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For the year ended 31 December 2017

As an ongoing commitment to generating long-term value to our stakeholders, Summit Ascent Holdings Limited and its subsidiaries (the "Group") have incorporated the principles of sustainable development into our business operation to help save the environment, support the development of the community, and create long term value to our stakeholders. Thus, the Group prepared this Environmental, Social and Governance ("ESG") report to provide our stakeholders with the information of our ESG policies, initiatives and performance of our main business operation, Tigre de Cristal, the integrated resort in the Primorsky Krai Integrated Entertainment Zone (the "IEZ") near Vladivostok, the Russian Far East for the year ended 31 December 2017 (the "Reporting Period"), in accordance with the framework, reporting principles and the "comply or explain" provisions as set out in Appendix 27 of the Listing Rules.

The Board of Directors is responsible for our ESG strategy and reporting, which includes evaluating and determining our ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. We have engaged our major stakeholders across various business functions to assess the materiality of ESG issues to the Group, as well as to provide information to compile this ESG report. Material ESG issues of the Group covered in this ESG report are as below.

Environmental Aspects

Emissions	• Improving air quality • Controlling wastewater discharges • Waste management • Carbon footprints
Use of Resources	• Efficient use of energy and water
The Environment and Natural Resources	• Environmental management of the gaming and resort development project

Social Aspects

Employment	• Equal opportunities • Talent retention • Connecting our people
Health and Safety	• Workplace health and safety
Development and Training	• Talent development
Labour Standards	• Anti-child and anti-forced labour
Supply Chain Management	• Supplier selection and evaluation
Product Responsibility	• Enhancing customers' satisfaction • Physical security and food safety • Responsible gaming • Data privacy
Anti-corruption	• Promoting business ethics
Community Investment	• Making positive impact on local community

Environmental Aspects

Emissions

As a responsible corporate citizen, the Group strives to enhance the sustainability of our operation by meeting and exceeding the requirements of all applicable environmental regulations and standards.

We take an active role in minimising our emissions, controlling wastewater discharges, managing our waste, and reducing our carbon footprints through various means such as incorporating environmental considerations into our activities and decision making, upgrading our facilities, motivating suppliers and contractors to implement environmental measures, enhancing environmental awareness of our employees and guests and encouraging their daily participation in the continuous improvement of environmental protection.

Improving air quality

Since the opening of Tigre de Cristal in October of 2015, the Group has been paying attention to the indoor air quality for the health of our customers and staff. As a result, we have performed regular checks and have taken timely actions to prevent air contaminants from accumulating. For instance, smoking is prohibited in our property with an exemption in the designated smoking areas to reduce the related health risks arising from cigarette smoke such as respiratory diseases.

Apart from the indoor air quality, we are also aware of the air emissions generated from our motor vehicles for transportation of customers and employees. During the Reporting Period, the nitrogen oxides (NO_x), sulphur oxides (SO_x) and particulate emitted from our own vehicles were amounted to 6,723 kg, 7.50 kg and 473 kg respectively *(Note 1)*. To reduce vehicle emissions, we have chosen vehicles that meet the European Emission Standards and have carefully planned the transportation schedules to avoid traffic during rush hours.

Note 1: The amount of air pollutant was calculated with reference to the emission factors in "Reporting Guidance on Environmental KPIs" published by The Stock Exchange of Hong Kong Limited.

Controlling wastewater discharges

During the Reporting Period, we discharged 38,038 m^3 of sewage in compliance with the regulatory requirements of the Russian Federation. To control the impact of the wastewater discharged from our operation, the Group has heavily involved in the establishment of a sewage treatment plant with the local government. We have also closely monitored our sewage discharges and identify opportunities to enhance the sewage treatment process. For instance, we installed treatment facilities to prevent the detergents from laundry, and potential engine oil and sand from both the construction site and the parking areas from being discharged into the environment without being processed properly.

Waste management

During the Reporting Period, 2,994 tonnes of non-hazardous waste was produced and handled, and no significant hazardous waste was identified due to our business nature.

We have integrated "Reduce", "Reuse" and "Replace" principles into our operation by various measures, especially for food waste due to the size of our food and beverage business. To avoid ordering of excessive food, we continually make improvements on our procurement planning process. For example, we have deployed an interface between the Point of Sale System in our restaurants and the Material Control System for procurement to allow a more accurate consumption monitoring to control our purchases and minimise wastage. Although the recycling business in Vladivostok has not yet been developed, we have been actively seeking recycling partners to utilise our resources discarded instead of disposing of waste directly to landfill. In 2017, we explored the opportunity for partnering with a local farm to make use of our food waste for animal feeding.

Moreover, we have launched other initiatives such as deployment of electronic communication platform to reduce printed materials, installation of recycling facilities in our properties, as well as various staff and guest education programmes for better waste management. We have also adopted waste sorting in our operation to separate cooking oil, food waste and construction waste to ensure they are properly collected and handled by relevant licensed contractors.

Carbon footprints

To help in mitigating climate change, we take proactive actions to reduce our carbon footprints by controlling our use of energy, which is the major contributor of our carbon emissions. During the Reporting Period, the amount of carbon dioxide equivalent (CO_2e) generated from our operation was 13,052 tonnes *(Note 2)*. Please refer to "Use of Resources" below for details of our energy saving initiatives.

The Group has not identified any case of significant non-compliance with environmental laws and regulations of Hong Kong and the Russian Federation during the Reporting Period.

Note 2: Carbon emissions were calculated based on the "Greenhouse Gas Protocol" published by World Resources Institute and World Business Council on Sustainable Development, "Reporting Guidance on Environmental KPIs" published by the Stock Exchange of Hong Kong Limited, "Guidelines to Account for and Report on Greenhouse Gas Emission and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" published by Hong Kong Environmental Protection Department and Electrical and Mechanical Services Department, "Greenhouse Gas Reporting – Conversion Factors 2017" published by Department of Business, Energy and Industrial Strategy of the United Kingdom Government, and "Development of The Electricity Carbon Emission Factors – Baseline Study for Russia" published by European Bank for Reconstruction.

Use of Resources

To ensure the resources used efficiently, the Group has adopted the following principles:

- Resource usage should be strictly monitored and any unnecessary consumption should be identified and improved as soon as possible;
- Awareness of the environmental impact of using each type of the resources should be raised among our employees and guests; and
- Resource-saving measures, technologies and equipment should be deployed whenever possible and should be regularly reviewed to evaluate their effectiveness.

Efficient use of energy and water

During the Reporting Period, we have implemented various initiatives across our business activities in reducing energy and water consumption.

In respect of power efficiency, we have launched a building management system to regularly monitor power usage, evaluate the energy-saving initiatives, and identify sources of inessential energy consumption.

To reduce electricity consumption, each of our guest rooms has been equipped with a key card power switch to facilitate energy-saving when the room is not in use. We have also installed automatic daylight switch at carriage porch which helped save approximately 100,000 kWh of electricity for lighting annually. Besides, light-emitting diode ("LED") lamps were installed in all guest areas of our property to further cut down the energy consumption.

We have also made use of heat exchangers in our chiller system instead of burning liquefied petroleum gas ("LPG") to produce hot water, which helped reduce around 171,000 kg of LPG in 2017.

In respect of water efficiency, we have carried out the initiatives as below:

- Water-friendly housekeeping practices have been promoted to avoid unnecessary towel and bedsheet changes while maintaining a high hygiene standard;
- Sensors have been installed in washrooms to control water outflow;
- Reminder messages have been placed inside our guestrooms to make our guests aware of our mindful water-saving endeavours;
- Devices have been installed throughout the property to measure water consumption, and to identify and take immediate remedial actions against excessive consumption; and
- In-house training has been conducted to raise the awareness of employees on water conservation.

Aside from the above, we consumed the municipal water in our operation and there was no significant issue in sourcing water that is fit for purpose during the Reporting Period.

During the Reporting Period, the amount of our resource consumption was as below:

Type of resources	**Amount**	**Intensity (per m^2 of floor area)**
Electricity	10,546,150 kWh	292.9 kWh/m^2
LPG	524,381 kg	14.6 kg/m^2
Diesel	331,403 litre	9.2 litre/m^2
Petrol	148,733 litre	4.1 litre/m^2
Water	45,380 m^3	1.3 m^3/m^2

No significant packaging materials were consumed in our operation during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For the year ended 31 December 2017

The Environment and Natural Resources

To manage different environmental risks arising from our operation, the Group has developed a comprehensive Environmental Management System ("EMS"), which enables us to identify, assess, prioritise and respond to various environmental risks. Based on the risks identified, we will formulate environmental action plans including expected outcomes, timelines and responsible personnel.

Environmental management of the gaming and resort development project

We were aware that our gaming and resort development project in the IEZ required the removal of trees in certain parts of our site. To mitigate the impact, we developed a plan for planting a minimal of 10 trees annually, which has been executed since 2017. We have also continued the landscaping to restore the natural environment by greening the areas around the property and continue to build up a grass embankments nearby our property to avoid any soil erosion.

Furthermore, we have cleaned up the construction and storage areas of the gaming and resort development project by removing all waste and unnecessary construction materials, and have stored all other construction materials in accordance with local and international requirements to minimise the impact on the environment.

Social Aspects

Employment

Equal opportunities

To promote equal opportunities in the workplace, the Group has developed a number of standard operating procedures to govern human resources management. These procedures articulate systematic and objective approaches to govern different areas of human resources management including employment, dismissal, remuneration determination, performance evaluation, working hours, paid leaves, as well as other benefits to prevent employees from discrimination or unfair treatment due to age, gender, pregnancy, race, skin colour and etc. We also encourage internal recruitment and provide our people with equal opportunities to develop their careers according to their own interest and strengths.

Talent retention

The Group offers competitive remuneration packages to attract and retain the best people and regularly reviews the remuneration packages of employees to make necessary adjustments based on prevailing market conditions. Our remuneration packages consist of basic salary, bonus, overtime pay, daily travelling allowance for business trips, regional premium payment for employees in the Russian Far East region, long-term service award, contributions to employees' social insurance and provident fund, as well as a share option scheme for qualified directors and employees of the Group. We also provide free canteen facilities and transportation travelling to/from work from/to the city of Vladivostok for our employees.

The Group emphasises "work-life balance" of our employees so we have granted our local Russian staff 36 calendar days of annual leave, in addition to public holidays and other paid leaves specified by the Labour Code of the Russian Federation, and early releases on the eve of public holidays. Moreover, it is our policy to prohibit employees from working two consecutive shifts in order to ensure our employees are provided with enough rest time for the sake of their physical and mental health.

Apart from the above, we provide medical insurance for our permanent employees so that they can receive proper healthcare services and emergency medical assistance as needed. In addition, we provide financial support and leave for our employees in times of need, such as during severe illness and bereavement, to help them overcome hardships.

Connecting our people

In order to build a strong bonding among our employees and ensure their understanding of the Group's missions and values, the Group has established various communication channels and organised different types of activities across the year, including:

- Chief Operating Officer's quarterly business blogs to communicate the key objectives, operation results and latest strategic plans;
- Information boards and newsletters to inform employees of current and upcoming events in the Group and important announcements;
- Comment boxes to provide employees with a channel to give feedback on the Group's operation;
- Mobile social apps such as Facebook, Telegram and Instagram for sharing of information with employees;
- Technical advisory and support for employees during working hours via telephone and e-mail;
- Monthly chatting sessions with the Chief Operations Officer held in the form of no-tie meeting to discuss issues which employees are concerned for and also their ideas to improve business processes;
- Sponsorship for our five Dragon Boat teams who took part in contests of the Vladivostok Annual Dragon Boat race to celebrate youth day;
- Financial support for our employees who participated in "Vladivostok Marathon"; and
- "Employee of the Quarter" to recognise the contribution and the loyalty of the employees who are nominated by the management each quarter.

During the Reporting Period, the Group has not identified any cases of material non-compliance with employment-related laws and regulations of Hong Kong and the Russian Federation.

Health and Safety

Workplace health and safety

The Group has a long-standing commitment to building a healthy and safe working environment for our people. To this end, we have developed and implemented the following workplace health and safety principles:

- None of the employees, including the management, can take any actions to put our people's safety at risk;
- Employees are required to take the responsibilities for ensuring the workplace safety and strictly comply with the workplace health and safety requirements of our internal policy as well as the applicable laws and regulations;
- Our management is responsible for ensuring that the working conditions follow the relevant sanitation and hygiene standards such as Russian National Standards (GOST), Industry Specific Standards (OST) and Sanitary Norms and Regulations (SanPin);
- Employees are obligated to complete relevant training on workplace safety as required by laws and regulations before taking up their job duties;

- Workplace safety risk assessment and analysis should be conducted on a regular basis to identify and address areas of higher safety risks;
- Employees should be provided with adequate protective equipment and sanitary clothes as necessary for their job duties; and
- All work injuries and accidents, if any, should be investigated and reported in a timely manner.

During the Reporting Period, the Group has not identified any cases of material non-compliance with occupational health and safety-related laws and regulations of Hong Kong and the Russian Federation.

Development and Training

Talent development

The skills and knowledge of our talents are of vital importance to the sustainable growth of the Group. Hence, we have developed a structured corporate and departmental training programme which covers a wide range of subjects including supervisory skills, mentoring techniques, management approaches and language skills. Each of our departments is required to set training targets and develop their own professional training programmes based on operational needs, for example, we have arranged management skills and customer relations training for selected managerial-level and operational-level employees respectively to enhance their skill level. During the Reporting Period, we have also developed a gaming and casino operation textbook specifically for helping our employees to efficiently understand our casino operation and provided a 3-month Chinese language course to our employees for improving their communication with the customers. Additionally, a highly specialised Gaming Training team was established and 15 employees have been trained to become the facilitators for our internal courses to build up our training capacity in a sustainable manner.

In ensuring our employees have a better understanding of the Group as well as their responsibilities, during the Reporting Period, we conducted 15 induction training courses for 189 new joiners. Furthermore, starting from 2017, we have cooperated with an oversea casino resort to organise an exchange programme for employees of the two resorts to share their experience, develop new skills and establish professional network.

Other than internal training, we also encourage our employees to attend external professional training programmes and obtain relevant qualifications for career development. Accordingly, we provide sponsorship for employees who attend the external training in relation to their job duties as considered appropriate. During the Reporting Period, we have supported 45 employees on external professional training. Also, employees who are enrolled in part-time courses in higher educational institutes accredited by the Russian Federation are entitled to additional paid leave.

To build a supportive culture, we have developed a one-to-one mentorship programme. Under this mentorship programme, each new hire will be assigned with a senior or supervisor as a mentor who is responsible for providing advice and guidance on daily tasks, problem solving and other career-related issues.

In addition to the existing training activities, we have developed a training plan for 115 management personnel for 2018, which comprises leadership programmes, persuasion skills and efficiency enhancement workshops, as well as management skills courses for various levels of managers.

Labour Standards

Anti-child and anti-forced labour

The Group prohibits any child and/or forced labour in any of our operation. We do not employ any child who is below the age set by the local labour law requirements as well as relevant hotel and casino regulations. Likewise, we forbid any forced labour by means of physical punishment, abuse, involuntary servitude, peonage or trafficking. Each of our employees voluntarily signs the employment contract and accepts employment conditions under the protection of the local labour legislations such as Hong Kong Employment Ordinance and Russian Federation Labour Code.

During the Reporting Period, the Group has not identified any cases of material non-compliance with the prevention of child and forced labour-related laws and regulations of Hong Kong and the Russian Federation.

Supply Chain Management

Supplier selection and evaluation

The Group seeks to select environmentally and socially responsible suppliers and therefore, apart from quality of goods and services and suppliers' reputation, our supplier evaluation criteria also focus on their ESG performance such as waste management practices, volunteer programmes and staff training development. On top of that, we highly prefer suppliers that have been certified by International Organisation for Standardisation (ISO) standards on environmental protection and social responsibility such as ISO 14001 and ISO 26001.

As the Group does not tolerate any fraud and bribery in our supply chain. We have established a fair and transparent quotation or tendering process which requires at least three suppliers (where possible) each time and suppliers which meet our quality requirements of goods and services as well as relevant environmental and social measures with the best price offer will be selected. We have also established a direct communication channel allowing suppliers to submit their offers for our consideration. A response to the offer will be made within 48 hours as possible. Furthermore, the Group regularly evaluates suppliers' performance and requires suppliers to take remedial measures once we have noted any of their non-compliance with our requirements.

Product Responsibility

Enhancing customers' satisfaction

To maintain a high quality of service, the Group has established a set of customer service policies to provide guidelines to our staff according to their functions and duties, on the areas such as handling customers' enquires, complaint management and standard service procedures. We have also developed extensive training programmes for our frontline staff to equip them with appropriate service manner. Besides, we collect our customers' feedback and follow up on their opinions in accordance with our internal protocol on a timely basis. The results are subsequently communicated to relevant employees as a part of their development and performance evaluation processes.

During the Reporting Period, we have also introduced a concept "Quality Circle" and developed "Cristal Standards" to set a high standard of service delivery for our employees. We have held regular meetings to evaluate the progress of our quality objectives and communicate with department heads who are accountable for measuring the performance of their teams and ensuring adherence to the Cristal Standards.

Physical security and food safety

The Group aims at providing a safe and hygienic environment to our guests and therefore we have established the principles as follows:

- To maintain a sound physical security and food safety management system and ensure the effective implementation of our internal policies related to these areas;
- To comply with and exceed the regulatory requirements such as Russian National Standards (GOST), Industry Specific Standards (OST), Sanitary Norms and Regulations (SanPin), as well as international standards such as Hazard Analysis and Critical Control Points (HACCP) principles;
- To provide adequate emergency support for customers including 24-hour clinical services, first aid, life-saving equipment and ambulance services; and
- To organise training regularly to remind our employees of the importance of physical security and food safety and promote the best practices.

Responsible gaming

Tigre de Cristal holds the gaming license to conduct gaming business in the IEZ, under Federal Law No. 244-FZ "On The State Regulation of Activities Associated with the Organisation of and Carrying Out Gambling and on Amending Individual Legislative Acts of the Russian Federation". Although there is no regulatory requirements for gaming operators in the region about controlling problem gambling, the Group, as a responsible company, strives to promote responsible gaming through initiatives such as forbidding underage visitors to our casino, monitoring of gaming floor to identify customers with abnormal behaviour, as well as creating and promoting the responsible gaming slogan of "Winner Knows When To Stop" to build the awareness of customers.

Data privacy

The Group is committed to protecting customers' data privacy and we have established standard procedures for data collection and handling based on Federal Law of the Russian Federation. We only request the minimal personal information on a necessary basis and only authorised personnel with dedicated roles and responsibilities related to the purposes of data collection are permitted to access the customers' data.

With respect to data security, the Group has established information security policies and has deployed various measures including closed-circuit television, physical locks, firewall, and prohibition of use of unauthorised computer equipment and software to protect our servers from cyber-attack and unauthorised access.

During the Reporting Period, the Group has not identified any case of material non-compliance with service quality, physical security, food safety, gaming service and data privacy-related laws and regulations of Hong Kong and the Russian Federation.

Anti-corruption

Promoting business ethics

The Group is committed to the highest standards of business ethics and has implemented an effective ethics management mechanism. We regularly assess our risks related to corruption and money laundering throughout our business processes, and implement appropriate internal controls to ensure we mitigate risks to an acceptable level.

It is our policy to adhere to local and national laws and regulations, especially the Prevention of Bribery Ordinance of Hong Kong, Federal Law No. 273-FZ "About Anti-corruption" and Federal Law No. 115-FZ "On Countering the Legalisation of Illegal Earnings (Money Laundering) and the Financing of Terrorism" in the Russian Federation, and work with the relevant authorities to eliminate unethical behaviour. Our staff, guests and suppliers can report any potential misconduct they observe in our operation through an anonymous whistle-blowing channel. All cases reported will be independently investigated and corrective actions will be taken where necessary.

In addition, we have established a set of standard operating procedures and the Code of Business Conduct and Ethics, which provide clear guidelines regarding anti-bribery and corruption as well as handling conflict of interest, to communicate our expectation to all of our employees.

During the Reporting Period, the Group has not identified any cases of material non-compliance with anti-corruption-related laws and regulations of Hong Kong and the Russian Federation.

Community Investment

Making positive impact on local community

The Group takes an active role on community investment and consistently makes positive contributions to our society. In the economic perspective, our integrated resort has created more than 1,000 jobs in the IEZ. Also, we have enforced a local procurement policy to support the business development of the area in which we operate, and we have created further opportunities for employment and improving the level of income of our supply chain partners. Furthermore, the Group has continuously supported the Eastern Economic Forum held in Vladivostok and participated in tourism exhibitions in South Korea and Japan to promote the wonderful city of Vladivostok since 2016.

In the community perspective, the Group has supported various local activities including "Save The Tiger" campaign to protect endangered tiger species and showing our care to the underserved children through a disabled child sponsorship programme launched in the second quarter of 2017. Its key goal is to render comprehensive assistance to local specialised childcare centres through collective efforts of our employees. In 2017, our employees joined the programme and formed a group to provide volunteer services for the following two non-profit organisations:

- Artyom City Boarding School for orphans, children without parental care, and physically challenged children (including 134 foster children aged from 7 to 17); and

- Vladivostok Special Boarding School for aurally challenged children (including 90 foster children aged from 7 to 19).

Under this programme, we have organised a series of activities and provided sponsorship as follows:

- A school ground beautification project was launched to build flower beds, plant flowers and bushes, as well as paint benches and curbs in the schools;
- Magic shows during Russian New Year were organised and performed by our volunteers for the children;
- A friendly football match with children was organised to support the World Health Day;
- Special Taekwondo equipment were sponsored and given to the children of the boarding schools; and
- A fishing club has been established to allow our volunteers to spend quality time with the children during their fishing trips. We also held fishing and sport competitions on the riverbank and sponsored various fishing equipment for the event.

Apart from the above, our volunteers also took an active part in the World Charity Week and made a video clip to engage a wider community for volunteering. Moreover, as a part of our charitable donations in 2017, the Group sponsored teachers from one of the mentioned boarding schools to attend training held in Khabarovsk, one of the largest cities and the administrative centres in the Far East region of Russia, for the purpose of enhancing teaching quality.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of the Company has pleasure in submitting their report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

Principal Activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are shown in note 38 to the consolidated financial statements.

Business Review

The business review of the Group for the year ended 31 December 2017, including a description of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, are provided in the Chairman's Statement on page 3 and the Management Discussion and Analysis on pages 4 to 12 of this annual report, which form part of this report.

The financial risk management objectives and policies of the Group are set out in note 32 to the consolidated financial statements.

In addition, discussions on the Group's environmental policies and performance, compliance with the relevant laws and regulations, and relationships with its employees, customers and suppliers and others that have a significant impact on the Group are set out in the Environmental, Social and Governance Report on pages 26 to 36 of this annual report.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 50 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2017.

Five-Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 109 of this annual report.

Share Capital

Details of the movements in share capital of the Company are set out in note 29 to the consolidated financial statements. Shares were issued during the year on exercise of share options, details of which are set out in note 30 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 39 to the consolidated financial statements, respectively. As at 31 December 2017, no reserve was available for distribution to the owners of the Company (31 December 2016: Nil).

REPORT OF THE DIRECTORS

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors

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

Non-executive Chairman

Mr. Kuo Jen Hao	(appointed on 28 December 2017)
Mr. Ho, Lawrence Yau Lung	(resigned on 28 December 2017)

Executive Directors

Mr. Wang, John Peter Ben *(Deputy Chairman)*	
Mr. Eric Daniel Landheer	(appointed on 4 September 2017)

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec
Mr. Pang Hing Chung, Alfred
Dr. Tyen Kan Hee, Anthony

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. Kuo Jen Hao and Mr. Eric Daniel Landheer, having been appointed as Directors during the year ended 31 December 2017, will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Clause 87(1) and 87(2) of the Company's Bye-laws, Mr. Tsui Yiu Wa, Alec and Dr. Tyen Kan Hee, Anthony will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Pursuant to Rule 3.13 of the Listing Rule, the Company has received annual confirmation from each of the Independent Non-executive Directors concerning his independence to the Company and considered that each of the Independent Non-executive Directors is independent to the Company.

During the year ended 31 December 2017, Mr. Ho, Lawrence Yau Lung resigned on 28 December 2017 as a Non-executive Director and Chairman of the Board. Mr. Ho confirmed that he has no disagreement with the Board and there are no other matters in relation to his resignation that need to be brought to the attention of the shareholders of the Company.

Brief biographical details of the Directors as at the date of this report are set out on pages 13 to 16 of this annual report.

Change of Information on Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes and updated information regarding the Directors of the Company since the Company's last published interim report and up to the date of this annual report are set out below:

Dr. Tyen Kan Hee, Anthony, an independent Non-executive Director, who had ceased to act as an independent Non-executive Director of Entertainment Gaming Asia Inc. (a company delisted on the NASDAQ Capital Market in United States on 22 June 2017) and Alpha Peak Leisure Inc. (a company listed on TSX Venture Exchange in Canada) with effect from 3 July 2017 and 16 November 2017 respectively.

Directors' Service Contracts

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

Directors' Material Interests in Transactions, Arrangements and Contracts that are Significant in Relation to the Company's Business

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

As at 31 December 2017, none of the Directors or their respective associates had any interest in a business, which competes or may compete, either directly or indirectly with the business of the Company pursuant to the Listing Rules.

Directors' Interests in the Shares, Underlying Shares and Debentures of the Company or any Other Associated Corporations

As at 31 December 2017, 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 Transactions by Directors of Listed Issuers", to be notified to the Company and the Hong Kong Stock Exchange were as follows:

REPORT OF THE DIRECTORS

Long positions in the shares and underlying shares of the Company

(a) Ordinary shares of the Company (Note 1)

Name of Director	Capacity/ Nature of Interest	Number of ordinary shares held	Approximate % of total issued shares of the Company
Mr. Wang, John Peter Ben	Beneficial owner	161,079,980	10.82%
Mr. Tsui Yiu Wa, Alec	Beneficial owner	1,180,000	0.08%
Mr. Pang Hing Chung, Alfred	Beneficial owner	1,180,000	0.08%
Mr. Eric Daniel Landheer *(Note 4)*	Beneficial owner	86,000	0.01%

(b) Share options granted by the Company (Notes 2 & 3)

Name of Director	Number of underlying shares held pursuant to share options	Approximate % of total issued shares of the Company
Mr. Eric Daniel Landheer *(Note 4)*	2,300,000	0.15%

Notes:

1. As at 31 December 2017, the total number of issued shares of the Company was 1,488,377,836.

2. The options granted to the Director are registered under the name of the Director who is also the beneficial owner.

3. 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.

4. Mr. Eric Daniel Landheer was appointed as an Executive Director of the Company on 4 September 2017.

Save as disclosed above, so far as known to any Directors as at 31 December 2017, 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

Particulars of the Company's Share Option Scheme are set out in note 30 to the consolidated financial statements.

Movements of share options granted under the Share Option Scheme during the year are set out below:

Category of Participants	As at 1 January 2017	Granted during the year	Exercised during the year	Reclassified during the year	As at 31 December 2017	Date of grant	Exercise price (HK$)	Exercise period
				(Note 5)				*(Note)*
Directors								
Mr. Ho, Lawrence Yau Lung (resigned on 28 December 2017 but still a consultant of the Company at 31 December 2017)	20,000,000	–	–	–	20,000,000	10 July 2013	1.73	2
Mr. Eric Daniel Landheer (appointed on 4 September 2017)	–	–	–	2,300,000	2,300,000	1 September 2016	1.99	3
Mr. Tsui Yiu Wa, Alec	1,180,000	–	(1,180,000)	–	–	26 August 2011	0.375	4
Mr. Pang Hing Chung, Alfred	1,180,000	–	(1,180,000)	–	–	26 August 2011	0.375	4
Employees	6,892,000	–	–	(5,600,000)	1,292,000	1 September 2016	1.99	3
Consultants (excluding the resigned Director Mr. Ho, Lawrence Yau Lung)	4,500,000	–	–	–	4,500,000	10 July 2013	1.73	2
	2,512,000	–	–	3,300,000	5,812,000	1 September 2016	1.99	3
Total	**36,264,000**	**–**	**(2,360,000)**	**–**	**33,904,000**			

Notes:

1. 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.

2. The share options granted on 10 July 2013 are divided into 4 tranches exercisable from 31 October 2013, 31 October 2014, 31 October 2015 and 31 October 2016 respectively to 9 July 2018.

3. 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.

4. The share options granted on 26 August 2011 are divided into 2 tranches exercisable from 26 August 2011 and 26 August 2012 respectively to 25 August 2021.

5. On 4 September 2017, Mr. Eric Daniel Landheer, who was an employee of the Group, has been appointed as a Director. On 28 September 2017, a grantee, who was an employee of the Group, became a consultant of the Group.

6. During the year, no share options were cancelled or lapsed under the Share Option Scheme.

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 year ended 31 December 2017 or subsisted at the end of the year.

Substantial Shareholders' Interests in the Shares and Underlying Shares

As at 31 December 2017, 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 ordinary shares held	No. of underlying shares held	Approximate % of total issued shares of the Company
First Steamship Company Limited *(Note 2)*	Interest of controlled corporation	188,634,464	–	12.67%
First Steamship S.A. *(Note 2)*	Interest of controlled corporation	188,634,464	–	12.67%
Heritage Riches Limited *(Note 2)*	Beneficial owner	188,634,464	–	12.67%
Mr. Wang, John Peter Ben	Beneficial owner	161,079,980	–	10.82%

Notes:

1. As at 31 December 2017, the total number of issued shares of the Company was 1,488,377,836.

2. Heritage Riches Limited is wholly owned by First Steamship S.A, which is in turn wholly owned by First Steamship Company Limited. By virtue of the SFO, First Steamship Company Limited and First Steamship S.A. were deemed to be interested in the shares of the Company held by Heritage Riches Limited.

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

Major Customers and Suppliers

In 2017, revenue generated from the Group's five largest customers accounted for less than 30% of the total revenue for the year.

During the year ended 31 December 2017, the Group purchased less than 30% of its goods and services from its five largest suppliers.

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued shares) had an interest in these major customers or suppliers.

Continuing Connected Transactions

The following transactions between certain connected parities (as defined in the Listing Rules) and the Company are ongoing for which relevant announcements had been made by the Company in accordance with Chapter 14A of the Listing Rules.

Amendments to the Management Services Agreement in relation to the gaming and resort development project in Russia

On 20 January 2015, Oriental Regent Limited ("Oriental Regent") entered into a management services agreement (the "Management Services Agreement") with Tiga Gaming Incorporated ("TGI"), pursuant to which Oriental Regent agreed to receive from TGI certain services, including installing electronic gaming machines and other equipment, reviewing and analyzing the performance of the equipment and repair and maintenance of the equipment etc. for the casino Tigre de Cristal for a term of three years commencing from 20 January 2015.

On 22 March 2016, Oriental Regent and TGI entered into a Supplemental Agreement (the "Supplemental Agreement"), pursuant to which Oriental Regent and TGI agreed to amend certain provisions of the Management Services Agreement.

Oriental Regent is a subsidiary of the Company. Firich Investment Limited ("Firich"), which owns 25% of the total number of issued shares of Oriental Regent, is a substantial shareholder of Oriental Regent and hence is a connected person of the Company. Firich is a wholly owned subsidiary of Firich Enterprises Co., Ltd., which is a controlling shareholder of TGI. Therefore, TGI is a connected person of the Company at the subsidiary level of the Company. As such, the transactions contemplated under the Management Services Agreement as amended by the Supplemental Agreement constituted continuing connected transactions (the "Continuing Connected Transactions") of the Company under Chapter 14A of the Listing Rules.

The annual caps in respect of the Management Services Agreement for the years ended 31 December 2015, 2016 and 2017 are HK$29,000,000, HK$70,000,000 and HK$95,000,000 respectively. For the year ended 31 December 2017, there was no transaction between TGI and Oriental Regent under the Management Services Agreement.

The Company's auditor was engaged to report on the Continuing Connected Transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the Continuing Connected Transactions disclosed by the Company in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

Further details of the transactions are set out in the announcements of the Company dated 20 January 2015 and 22 March 2016.

REPORT OF THE DIRECTORS

Related Party Transactions

Significant related party transactions entered into by the Group during the year ended 31 December 2017, which do not constitute connected transactions under the Listing Rules, are disclosed in note 37 to the consolidated financial statements.

Permitted Indemnity Provision

Pursuant to the Bye-laws of the Company, a permitted indemnity provision for the benefit of the Directors was in force throughout the year ended 31 December 2017 and is currently in force as of the date of this report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

Auditor

The consolidated financial statements for the year ended 31 December 2017 have been audited by Messrs. Deloitte Touche Tohmatsu who will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wang, John Peter Ben
Deputy Chairman and Executive Director

Hong Kong, 22 March 2018

Deloitte. 德勤

TO THE SHAREHOLDERS OF SUMMIT ASCENT HOLDINGS LIMITED
凱升控股有限公司
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Summit Ascent Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 108, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment on Goodwill	
We identified the impairment on goodwill as a key audit matter due to significant judgment required by the management in estimating the recoverable amount of the cash generating unit ("CGU") which goodwill has been allocated in the annual impairment test. For the year ended 31 December 2017, an impairment loss on goodwill arising from acquisition of Oriental Regent Limited in 2016 amounted to HK$8,525,000 was recognised. As further disclosed in note 20 to the consolidated financial statements, the impairment assessment on goodwill is determined based on an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows which are discounted to their present value taking in account key assumptions including growth rates, discount rates and the forecast performance based on past practices and expectations of future changes in the market.	Our procedures in relation to management's impairment assessment include: • obtaining the cash flow forecast prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecast for the CGU and checking arithmetic accuracy of the forecast calculation; • evaluating the reasonableness of the key assumptions including growth rates, discount rates and the forecast performance used by the management with reference to the historical performance and market data; • evaluating the discount rate used by management in the cash flow forecast and engaging our internal valuation expert to assess the appropriateness of the discount rate adopted and the overall integrity of the impairment assessment model; and • checking the inputs used in the cash flow projections against supporting documentation.

Key Audit Matters (Continued)

Key audit matters	How our audit addressed the key audit matters
Revenue from Gaming Operations	
We identified the revenue from gaming operations as a key audit matter due to its significance to the consolidated financial statements. As discussed in note 5 to the consolidated financial statements, revenue generated from gaming operations amounted to HK$434,106,000 for the year ended 31 December 2017 representing over 92% of the total revenues of the Group. In addition, revenue recognition from gaming operations is mainly based on a daily cash count in order to measure the aggregate net difference between gaming wins and losses. Any discrepancy in the cash count may lead to a material impact in the recognition of revenue from gaming operations.	Our procedures in relation to the revenue from gaming operations included: • Evaluating and testing the controls over the recognition of gaming operations revenues; • Re-performing cash counts, on a selected basis, to ensure the controls are carried out consistently throughout the year; • Performing analytical review and trend analysis to identify any irregular or unexplained revenues; and • Tracing samples of revenue transactions from gaming operations throughout the year to source documents, recalculating the gaming wins and losses and agreeing to the amount recorded for revenue.

Other Information

The directors of the Company (the "Directors") are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Au Chun Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Continuing operations			
Revenue from gaming and hotel operations	5	**470,821**	323,286
Other income	6	**2,945**	17,180
Other gains and losses	8	**(1,200)**	(643)
Gaming tax		**(13,899)**	(10,331)
Inventories consumed		**(12,311)**	(8,258)
Marketing and promotion expenses		**(19,236)**	(16,883)
Employee benefits expenses		**(155,887)**	(119,013)
Depreciation and amortisation		**(133,717)**	(86,916)
Other expenses	9	**(103,119)**	(76,963)
Gain on deemed disposal of interest in a joint venture	36(i)	**–**	20,180
Finance costs	10	**(43,964)**	(32,532)
Share of losses of a joint venture		**(284)**	(17,070)
Loss before taxation		**(9,851)**	(7,963)
Income tax expense	11	**(109)**	–
Loss for the year from continuing operations	12	**(9,960)**	(7,963)
Discontinued operations			
Profit for the year from discontinued operations	13	**–**	2,607
Loss for the year		**(9,960)**	(5,356)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Reclassification adjustment of translation reserve upon deemed disposal of interest in a joint venture		**–**	342,284
Total comprehensive (expense) income for the year		**(9,960)**	336,928

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTE	**2017 HK$'000**	2016 HK$'000
Profit (loss) for the year attributable to owners of the Company			
– from continuing operations		**13,778**	(2,048)
– from discontinued operations		**–**	2,607
Profit for the year attributable to owners of the Company		**13,778**	559
Loss for the year attributable to non-controlling interests			
– from continuing operations		**(23,738)**	(5,915)
– from discontinued operations		**–**	–
Loss for the year attributable to non-controlling interests		**(23,738)**	(5,915)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**13,778**	342,843
Non-controlling interests		**(23,738)**	(5,915)
		(9,960)	336,928
		HK cent	HK cent
Earnings (loss) per share	17		
From continuing and discontinued operations			
Basic		**0.93**	0.04
Diluted		**0.93**	0.04
From continuing operations			
Basic		**0.93**	(0.14)
Diluted		**0.93**	(0.14)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	**2017 HK$'000**	2016 HK$'000
Non-current assets			
Property, operating right and equipment	18	**1,548,989**	1,658,383
Long-term prepayments	19	**13,533**	13,533
Goodwill	20	**–**	8,525
Intangible assets		**158**	168
Interest in a joint venture	21	**329**	613
Loan to a joint venture	21	**1,759**	1,572
		1,564,768	1,682,794
Current assets			
Inventories	22	**3,462**	4,462
Trade and other receivables	23	**37,873**	27,999
Bank balances and cash	24	**400,208**	335,138
		441,543	367,599
Current liabilities			
Other payables	25	**56,750**	71,838
Amount due to a non-controlling shareholder of a subsidiary	26	**1,302**	–
Amount due to a related party	26	**–**	4,156
Obligations under finance leases			
– due within one year		**1,029**	1,516
		59,081	77,510
Net current assets		**382,462**	290,089
Total assets less current liabilities		**1,947,230**	1,972,883
Non-current liabilities			
Loans from non-controlling shareholders of a subsidiary	27	**281,535**	286,240
Provision for value-added tax ("VAT") arrangements	28	**57,816**	54,932
Obligations under finance leases			
– due after one year		**–**	800
		339,351	341,972
Net assets		**1,607,879**	1,630,911

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTE	**2017** **HK$'000**	2016 HK$'000
Capital and reserves			
Share capital	29	**37,209**	37,150
Reserves		**1,176,670**	1,158,918
Equity attributable to owners of the Company		**1,213,879**	1,196,068
Non-controlling interests		**394,000**	434,843
Total equity		**1,607,879**	1,630,911

The consolidated financial statements on pages 50 to 108 were approved and authorised for issue by the Board of Directors on 22 March 2018 and are signed on its behalf by:

Wang, John Peter Ben
DIRECTOR

Eric Daniel Landheer
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company							
	Share capital HK$'000	**Share premium** HK$'000	**Translation reserve** HK$'000	**Share-based compensation reserve** HK$'000	**Accumulated losses** HK$'000	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2016	37,137	1,285,239	(342,284)	101,706	(243,555)	838,243	–	838,243
Profit (loss) for the year	–	–	–	–	559	559	(5,915)	(5,356)
Reclassification adjustment of translation reserve upon deemed disposal of interest in a joint venture	–	–	342,284	–	–	342,284	–	342,284
Profit (loss) and total comprehensive income (expense) for the year	–	–	342,284	–	559	342,843	(5,915)	336,928
Acquisition of subsidiaries *(Note 36)*	–	–	–	–	–	–	440,758	440,758
Exercise of share options	13	298	–	(115)	–	196	–	196
Recognition of equity-settled share-based payments	–	–	–	14,786	–	14,786	–	14,786
At 31 December 2016 and 1 January 2017	37,150	1,285,537	–	116,377	(242,996)	1,196,068	434,843	1,630,911
Profit (loss) and total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**13,778**	**13,778**	**(23,738)**	**(9,960)**
Deemed distribution to non-controlling shareholders *(Note 27)*	**–**	**–**	**–**	**–**	**–**	**–**	**(17,105)**	**(17,105)**
Exercise of share options	**59**	**1,348**	**–**	**(523)**	**–**	**884**	**–**	**884**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**3,149**	**–**	**3,149**	**–**	**3,149**
At 31 December 2017	**37,209**	**1,286,885**	**–**	**119,003**	**(229,218)**	**1,213,879**	**394,000**	**1,607,879**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTES	**2017 HK$'000**	2016 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(9,851)**	(5,356)
Adjustments for:			
Depreciation and amortisation		**133,717**	86,916
Finance costs		**43,964**	32,532
Impairment loss recognised on goodwill		**8,525**	–
Share-based payments expense		**3,149**	14,786
Share of losses of a joint venture		**284**	17,070
Loss on disposal of property, operating right and equipment		**265**	1,654
Bank interest income		**(1,567)**	(948)
Imputed interest income from loan to a joint venture		**(187)**	(12,765)
Impairment losses recognised on other receivables, deposits and prepayments		**3**	1,889
Gain on deemed disposal of interest in a joint venture		**–**	(20,180)
Gain on disposal of subsidiaries		**–**	(2,607)
Operating cash flows before movements in working capital		**178,302**	112,991
Decrease in inventories		**1,000**	395
(Increase) decrease in trade and other receivables		**(10,318)**	24,349
Increase (decrease) in other payables		**9,959**	(61,234)
Increase in amount due to a non-controlling shareholder of a subsidiary		**1,302**	–
Cash generated from operation		**180,245**	76,501
Income tax paid		**(109)**	–
Net cash from operating activities		**180,136**	76,501
INVESTING ACTIVITIES			
Payment for property, operating right and equipment		**(49,632)**	(19,298)
Return of VAT refunded under VAT arrangements	28	**(11,172)**	–
Payment for intangible assets		**(44)**	(8)
Interest received		**1,567**	948
Proceeds from disposal of property, operating right and equipment		**568**	567
VAT refunded under VAT arrangements	28	**273**	44,824
Acquisition of subsidiaries	36	**–**	82,470
Repayment from related parties		**–**	19,298
Proceeds from disposal of subsidiaries	13	**–**	190
Advance to a joint venture		**–**	(2,287)
Net cash (used in) from investing activities		**(58,440)**	126,704
FINANCING ACTIVITIES			
Repayment of loans from non-controlling shareholders of a subsidiary		**(52,905)**	–
Repayment to a related party		**(4,156)**	–
Repayment of obligations under finance leases		**(1,165)**	(155)
Interest paid		**(883)**	(632)
Proceeds from exercise of share options		**884**	196
Net cash used in financing activities		**(58,225)**	(591)
Net increase in cash and cash equivalents		**63,471**	202,614
Cash and cash equivalents at 1 January		**335,138**	130,276
Effect of foreign exchange rate changes		**1,599**	2,248
Cash and cash equivalents at 31 December, represented by bank balances and cash		**400,208**	335,138

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

Summit Ascent Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are the operation of hotel and gaming business in the Integrated Entertainment Zone of the Primorye Region in the Russian Federation. The principal subsidiaries and their activities are set out in note 38.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the consolidated financial statements for the year, the Group has consistently applied all HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("HK(IFRIC) – Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for the accounting periods beginning on 1 January 2017 consistently throughout the year.

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financial activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates: (iv) changes in fair value; and (v) other changes.

The Group's liabilities arising from financing activities consist of amount due to a related party, obligations under finance leases and loans from non-controlling shareholders of a subsidiary. A reconciliation between the opening and closing balances of these items is provided in note 33. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 33, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs in issue but not yet effective (continued)

Except for the new HKFRSs mentioned below, the directors of the Company ("Directors") anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss; and

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would not be significantly different from that under HKAS 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors have assessed the impact on application of HKFRS 15 and did not anticipate a material impact on the Group's results from the operation. However, application of HKFRS 15 may have impact on the following areas:

- a change in the presentation of, and accounting for, revenue from hotel operations that are provided on a discount to gaming patrons and certain agents which the current revenue from hotel operations is reduced for such allowance. The application of HKFRS 15 may result in a reallocation of revenue from gaming operations to hotel operations.

- a change in the measurement of the loyalty points related to its customer relationship programs which is accounted for as a separate performance obligation and transaction price is allocated between performance obligations for providing gaming and hotel operations and loyalty points under the stand-alone selling price. When the benefits are redeemed, revenue will be recognised in the respective category of the goods or services provided.

In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The Directors intend to apply the full retrospective method of transition to HKFRS 15.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$7,299,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$550,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of cash-generated unit within the group of cash generating units in which the Group monitors goodwill).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over a joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the joint venture, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in a joint venture (continued)

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from gaming operations is measured by the aggregate net difference between gaming wins and losses less accruals for the anticipated payouts of progressive slot jackpots, with liabilities recognised for chips in the customers' possession. Revenues are recognised net of certain sales incentives and points earned in customer royalty programs.

Revenue from hotel operations is recognised when services are performed.

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Management fee income is recognised when services are provided.

The Group's accounting policy for recognition of revenue from operating lease is described in the accounting policy for leasing below.

Gaming tax

The Group is required to make certain variable and fixed payments to the tax authority in the Russian Federation based on the number of tables and slot machines in its possession. These expenses are reported as "gaming tax" in the consolidated statement of profit or loss and other comprehensive income and are charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and the Russian Federation State Pension Fund are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, operating right and equipment

Properties, operating right and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property in the course of construction for production, supply or administrative purposes is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, operating right and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than properties under construction over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, operating right and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, operating right and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan to a joint venture, trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment loss on financial assets could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio for receivables from the gaming and hotels operations business which are repayable on demand, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities, including other payables, amount due to a related party, amount due to a non-controlling shareholder of a subsidiary and loans from non-controlling shareholders of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees (including directors)

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at grant date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to employees (including directors) (continued)

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting condition is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised the amount previously recognised in the share-based compensation reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will continue to be held in share-based compensation reserve.

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the counterparty renders the service. The fair values of the services received are recognised as expenses, unless the services qualify for recognition as assets.

4. 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 financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of trade and other receivables

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2017, the carrying amount of the Group's trade and other receivables was HK$37,873,000 (2016: HK$27,999,000), with HK$1,326,000 (2016: HK$1,889,000) allowance for other receivables, deposits and prepayments.

Useful lives and depreciation and impairment of property, operating right and equipment

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 under a medium-term lease 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.

Determining whether certain property, operating right and equipment are impaired requires an estimation of the recoverable amount which is the higher of value in use and fair value less costs of disposal. For the Group's long-lived assets, recoverable amount at reporting date is determined based on value in use of those property, operating right and equipment. The value in use calculation requires the Group to estimate the future cash flows expected to arise from respective property, operating right and equipment and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected due to unfavourable changes in the major assumptions adopted in the Group's estimation, a material impairment loss may arise.

As at 31 December 2017, the carrying amount of property, operating right and equipment was HK$1,548,989,000 (2016: HK$1,658,383,000), net of accumulated depreciation and amortisation of HK$192,555,000 (2016: HK$87,027,000). No impairment on property, operating right and equipment has been recognised for the year ended 31 December 2017 (2016: Nil).

5. REVENUE FROM GAMING AND HOTEL OPERATIONS

	2017 HK$'000	2016 HK$'000
Continuing operations		
Revenue from gaming and hotel operations:		
– Gaming operations	**434,106**	299,558
– Hotel operations	**36,715**	23,728
	470,821	323,286

6. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Continuing operations		
Bank interest income	**1,567**	948
Rental income	**772**	398
Imputed interest income from loan to a joint venture	**187**	12,765
Management fee income *(Note 37)*	**–**	2,578
Others	**419**	491
	2,945	17,180

7. 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 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 years ended 31 December 2016 and 2017, all revenue from the continuing operations is derived from customers patronising in the Group's property located in the Russian Federation.

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8. OTHER GAINS AND LOSSES

	2017 **HK$'000**	2016 HK$'000
Exchange gains, net	**7,593**	2,900
Impairment loss recognised on goodwill *(Note 20)*	**(8,525)**	–
Loss on disposal of property, operating right and equipment	**(265)**	(1,654)
Impairment losses recognised on other receivables, deposits and prepayments *(Note 23)*	**(3)**	(1,889)
	(1,200)	(643)

9. OTHER EXPENSES

	2017 **HK$'000**	2016 HK$'000
Security expenses	**16,162**	10,657
Repair and maintenance expenses	**12,682**	5,769
Travel agency expenses	**11,549**	6,176
Utilities and fuel	**7,879**	4,903
Insurance expenses	**4,548**	3,187
Auditor's remuneration		
– Audit services	**3,689**	3,128
– Non-audit services	**1,574**	2,854
Overseas travel expenses	**2,885**	7,370
Minimum lease payments under operating leases	**2,672**	1,893
Management fee expenses	**1,302**	–
Others	**38,177**	31,026
	103,119	76,963

10. FINANCE COSTS

	2017 **HK$'000**	2016 HK$'000
Imputed interest on loans from non-controlling shareholders of a subsidiary	**31,095**	22,079
Imputed interest on VAT arrangements	**11,011**	8,500
Imputed interest on payables	**975**	1,321
Interest on obligations under finance leases	**883**	632
	43,964	32,532

11. INCOME TAX EXPENSE

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

Russian corporation tax is calculated at a rate of 20% of the estimated assessable profit for both years; 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 year can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 **HK$'000**	2016 HK$'000
Loss before taxation (from continuing operations)	**(9,851)**	(7,963)
Tax at the domestic income tax rate of 20% *(Note)*	**(1,970)**	(1,593)
Tax effect of expenses not deductible for tax purpose	**87,987**	82,857
Tax effect of income not taxable for tax purpose	**(92,640)**	(86,139)
Tax effect of share of losses of a joint venture	**57**	3,414
Tax effect of deductible temporary difference not recognised	**(208)**	–
Tax effect of tax losses not recognised	**7,018**	1,279
Tax effect of utilisation of tax losses previously not recognised	**(122)**	–
Others	**(13)**	182
Income tax expense for the year (relating to continuing operations)	**109**	–

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$21,075,000 (2016: HK$17,771,000) and HK$413,451,000 (approximately RUB3,078,270,000) (2016: HK$382,276,000 (approximately RUB2,846,159,000)) 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 years due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

12. LOSS FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Continuing operations		
Loss for the year from continuing operations has been arrived at after charging:		
Directors' remunerations	**1,394**	812
Contributions to retirement benefits schemes to Directors	**6**	–
Share-based compensation benefits to Directors	**–**	12,602
Salaries, wages, bonus and other benefits, excluding Directors	**124,435**	86,567
Contributions to retirement benefits schemes, excluding Directors	**27,745**	17,635
Share-based compensation benefits, excluding Directors and consultants	**2,307**	1,397
Total employee benefits expenses (including Directors' emoluments)	**155,887**	119,013
Amortisation of intangible assets	**54**	38
Depreciation of property, operating right and equipment	**133,663**	86,878
Total depreciation and amortisation	**133,717**	86,916
Share-based compensation benefits to consultants	**842**	787

13. DISCONTINUED OPERATIONS

On 14 March 2016, the Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which the Company had conditionally agreed to dispose of the entire equity interest in Easy Market Trading Limited ("Easy Market") for a cash consideration of HK$200,000 (the "Disposal"). Completion of the sale of Easy Market under the Sale and Purchase Agreement took place on 14 March 2016 on which date control of Easy Market was passed to the acquirer. Easy Market was the owner of the entire issued share capital of Arnhold Trading Limited ("Arnhold Trading") which carried out majority of the Group's trading of tiles and engineering operations products business. After the completion of the Disposal, Easy Market and Arnhold Trading ceased to be subsidiaries of the Company and the assets, liabilities and financial results of Easy Market and Arnhold Trading were no longer consolidated in the consolidated financial statements of the Group. Details of the Disposal of the trading of tiles and engineering operations products business are set out in the announcement of the Company dated 14 March 2016.

The results from the discontinued trading of tiles and engineering operations products business for the year ended 31 December 2016 were analysed as follows:

	2016 HK$'000
Loss of trading of tiles and engineering operations products business for the period	(4)
Gain on disposal of trading of tiles and engineering operations products business	2,611
	2,607

13. DISCONTINUED OPERATIONS (continued)

An analysis of loss for the period from discontinued operations

The results of the discontinued operations for the period from 1 January 2016 to 14 March 2016, which had been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	From 1 January 2016 to 14 March 2016 HK$'000
Revenue	29
Changes in inventories	(22)
Other expenses	(11)
Loss before taxation	(4)
Income tax expense	–
Loss for the period from discontinued operations	(4)

Loss for the period from discontinued operations included the following:

	From 1 January 2016 to 14 March 2016 HK$'000
Cost of inventories recognised as expenses	22

No tax charge or credit arose from loss on discontinuance of the operations.

The net liabilities of Easy Market at the date of Disposal were as follows:

	HK$'000
Net liabilities disposed of	(579)
Waiver of the net amount due from the Group	(1,832)
	(2,411)
Gain on disposal	2,611
Total cash consideration	200
Net cash inflow arising on disposal:	
Total cash consideration received	200
Bank balances and cash disposed of	(10)
	190

Cash flows from Easy Market:

	From 1 January 2016 to 14 March 2016 HK$'000
Net cash flows from operating activities	(8)

14. DIRECTORS' EMOLUMENTS

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

	Year ended 31 December 2017							
	Former Non-Executive Director and Chairman	Non-Executive Director and Chairman	Executive Director and Deputy Chairman	Executive Director	Independent Non-Executive Directors			
	Ho, Lawrence Yau Lung HK$'000	Kuo Jen Hao HK$'000	Wang, John Peter Ben HK$'000	Eric Daniel Landheer HK$'000	Tsui Yiu Wa, Alec HK$'000	Pang Hing Chung, Alfred HK$'000	Tyen Kan Hee, Anthony HK$'000	Total HK$'000
	(Note i)	*(Note i)*		*(Note ii)*				
Fees	–	–	180	–	168	120	168	636
Other emoluments								
Salaries and other benefits	–	–	76	682	–	–	–	758
Contributions to retirement benefits schemes	–	–	–	6	–	–	–	6
Share-based compensation benefits	–	–	–	–	–	–	–	–
Total emoluments	–	–	256	688	168	120	168	1,400

	Year ended 31 December 2016					
	Non-Executive Director and Chairman	Executive Director and Deputy Chairman	Independent Non-Executive Directors			
	Ho, Lawrence Yau Lung HK$'000	Wang, John Peter Ben HK$'000	Tsui Yiu Wa, Alec HK$'000	Pang Hing Chung, Alfred HK$'000	Tyen Kan Hee, Anthony HK$'000	Total HK$'000
	(Note i)					
Fees	–	180	168	120	168	636
Other emoluments						
Salaries and other benefits	–	176	–	–	–	176
Contributions to retirement benefits schemes	–	–	–	–	–	–
Share-based compensation benefits	12,602	–	–	–	–	12,602
Total emoluments	12,602	356	168	120	168	13,414

14. DIRECTORS' EMOLUMENTS (continued)

Notes:

(i) Mr. Kuo Jen Hao was appointed on 28 December 2017 as a Non-Executive Director and Chairman to fill the vacancy occasioned by the resignation of Mr. Ho, Lawrence Yau Lung ("Mr. Ho").

(ii) Mr. Eric Daniel Landheer was appointed as an Executive Director of the Company on 4 September 2017.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year. In addition, no emolument was paid to Directors as an inducement to join for both years.

The Executive Directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The Non-Executive Directors' emoluments shown above were mainly 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 in the current year included an individual who was an employee ("Appointed Director") of the Group before his appointment as a Director during the year (2016: one director), details of whose remuneration as a director are set out in note 14. Details of the total remuneration for the year of the other four highest paid employees together with the Appointed Director (2016: other four highest paid employees) are as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries and other benefits	**6,125**	4,644
Discretionary and performance related incentive payments	**500**	475
Contributions to retirement benefits schemes	**38**	52
Share-based compensation benefits	**2,280**	1,380
	8,943	6,551

Their emoluments fell within the following bands:

	Number of employees **2017**	 2016
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**2**	–

The Group usually determines and pays discretionary bonuses to employees (including Directors) around March each year based on the actual financial results of the Group for the preceding year. The discretionary bonuses shown above therefore represent actual payments to the employees (including Directors) during the current financial year in relation to performance for the preceding year.

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 years.

16. DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

17. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

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

	2017 **HK$'000**	2016 HK$'000
Profit for the purposes of basic and diluted earnings per share	**13,778**	559
	Number of shares (in thousands)	
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,486,409**	1,485,632
Effect of dilutive potential ordinary shares: Share options issued by the Company	**25**	5,860
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,486,434**	1,491,492

From continuing operations

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

	2017 **HK$'000**	2016 HK$'000
Profit for the year attributable to owners of the Company	**13,778**	559
Less: Profit for the year from discontinued operations	**–**	(2,607)
Profit (loss) for the purpose of basic and diluted earnings (loss) per share from continuing operations	**13,778**	(2,048)

The denominators used are the same as detailed above for both basic and diluted earnings per share for the year ended 31 December 2017. The computation of diluted loss per share for the year ended 31 December 2016 did not assume exercise of share options since the exercise would result in a decrease in loss per share.

17. EARNINGS (LOSS) PER SHARE (continued)

From discontinued operations

For the year ended 31 December 2016, basic and diluted earnings per share for the discontinued operations is HK0.18 cent per share, based on the profit for the year from discontinued operations attributable to owners of the Company of HK$2,607,000 and the denominators detailed above for both basic and diluted earnings per share. There was no profit or loss from discontinued operations for the year ended 31 December 2017.

18. PROPERTY, OPERATING RIGHT AND EQUIPMENT

	Buildings, operating right and leasehold improvements HK$'000	**Furniture, fixtures and equipment** HK$'000	**Gaming equipment** HK$'000	**Motor vehicles** HK$'000	**Construction in progress** HK$'000	**Total** HK$'000
COST						
At 1 January 2016	–	493	–	–	–	493
Additions	512	439	893	563	7,795	10,202
Acquired on acquisition of subsidiaries *(Note 36)*	1,515,565	140,622	69,829	9,432	1,552	1,737,000
Transfer	1,572	2,600	3,697	–	(7,869)	–
Disposal	–	(1,892)	–	–	(393)	(2,285)
At 31 December 2016 and at 1 January 2017	1,517,649	142,262	74,419	9,995	1,085	1,745,410
Additions	1,624	19,950	2,555	274	699	25,102
Disposal	–	(27,907)	(185)	(410)	(466)	(28,968)
At 31 December 2017	1,519,273	134,305	76,789	9,859	1,318	1,741,544
DEPRECIATION						
At 1 January 2016	–	213	–	–	–	213
Provided for the year	38,048	36,238	10,491	2,101	–	86,878
Disposal	–	(64)	–	–	–	(64)
At 31 December 2016 and at 1 January 2017	38,048	36,387	10,491	2,101	–	87,027
Provided for the year	55,677	58,547	16,397	3,042	–	133,663
Disposal	–	(27,812)	(115)	(208)	–	(28,135)
At 31 December 2017	93,725	67,122	26,773	4,935	–	192,555
CARRYING VALUES						
At 31 December 2017	1,425,548	67,183	50,016	4,924	1,318	1,548,989
At 31 December 2016	1,479,601	105,875	63,928	7,894	1,085	1,658,383

18. PROPERTY, OPERATING RIGHT AND EQUIPMENT (continued)

Operating right represents the right to conduct business in the Integrated Entertainment Zone of the Primorye Region, 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 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

The building mainly includes the hotel and entertainment complex situated on land plots under a medium-term lease 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 at minimal consideration if the land lease is not extended, to reflect the estimated useful life of the buildings of 30 years.

The carrying amount of motor vehicles of HK$965,000 (2016: HK$2,412,000) is held under finance leases.

19. LONG-TERM PREPAYMENTS

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

20. GOODWILL AND IMPAIRMENT LOSS ON GOODWILL

	2017 HK$'000	2016 HK$'000
COST		
At 1 January	**8,525**	–
Arising on acquisition of subsidiaries *(Note 36)*	**–**	8,525
At 31 December	**8,525**	8,525
IMPAIRMENT		
At 1 January	**–**	–
Impairment loss recognised in the year	**8,525**	–
At 31 December	**8,525**	–
CARRYING VALUES		
At 31 December	**–**	8,525

20. GOODWILL AND IMPAIRMENT LOSS ON GOODWILL (continued)

For the purposes of impairment testing, goodwill has been allocated to the cash generating unit ("CGU"), comprising subsidiaries in the gaming and hotel operations segment. The carrying amount of goodwill (net of accumulated impairment losses) as at 31 December 2017 and 31 December 2016 allocated to this unit is as follows:

Goodwill

	2017	2016
	HK$'000	HK$'000
Gaming and hotel operations		
– Oriental Regent Limited ("Oriental Regent")	**–**	8,525

During the year ended 31 December 2017, the Group recognised an impairment loss of HK$8,525,000 (2016: Nil) in relation to goodwill arising on acquisition of Oriental Regent.

The basis of the recoverable amount of the above CGU and their major underlying assumptions are summarised below.

Oriental Regent:

The recoverable amount of this unit has been determined on the basis of value in use calculation. The key factors for the value in use calculation are discount rates, growth rates and expected changes to revenue and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for the goodwill, based on cash flow forecasts derived from the most recent financial budgets for the next five years using a discount rate of 17% (2016: 21.29%), while the remaining forecast beyond that five-year period are extrapolated using a steady 4% (2016: 4%) growth rate which is with reference to the long term inflation rate in the Russia Federation in which the CGU operates. Due to the lower recoverable amount of this CGU as assessed by the management based on the current business condition and operating environment in Primorye Integrated Entertainment Zone in the Russian Federation, the Group recognised an impairment loss of HK$8,525,000 (2016: Nil) in the current year in relation to goodwill arising from the acquisition of Oriental Regent (Note 36).

21. INTEREST IN/LOAN TO A JOINT VENTURE

Details of the Group's interest in and related loan to a joint venture are as follows:

	2017 HK$'000	2016 HK$'000
Cost of unlisted investment in a joint venture	5	5
Share of post-acquisition losses and other comprehensive expenses	(1,021)	(737)
Deemed capital contribution	1,345	1,345
	329	613
Loan to a joint venture *(Note)*	1,759	1,572

Note: 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 Winner Limited ("Oriental Winner") unless there are sufficient free cash flows generated from its operations to make the repayment.

Details of the Group's joint venture at the end of reporting period are as follows:

Name of entity	Place of incorporation	Principal place of business	Proportion of ownership interest held by the Group 2017	2016	Proportion of voting rights held by the Group 2017	2016	Principal activity
Oriental Winner	Hong Kong	Hong Kong	50%	50%	50%	50%	Travel and travel related business

Information of a joint venture that is not material

Oriental Winner

	2017 HK$'000	2016 HK$'000
The Group's share of loss and total comprehensive expense for the year	284	272

22. 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.

23. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**27,769**	17,208
Prepayments	**9,437**	9,932
Other receivables and deposits	**1,993**	2,748
Less: Allowance	**(1,326)**	(1,889)
	10,104	10,791
	37,873	27,999

Trade receivables mainly represent outstanding amounts pending settlements by patrons which are usually repaid within 7 days (2016: 10 days) after each trip to the Group's gaming property. The Group extends short-term temporary credit to approved patrons following background checks and credit risk assessments of these patrons. The amount has been fully settled subsequent to the end of the reporting period.

All of the Group's trade receivables as at 31 December 2017 and 31 December 2016 were within their credit terms with no default history and neither past due nor impaired.

The following is an aging analysis of trade receivables presented based on the revenue recognition date, at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Within 30 days	**27,769**	15,856
31 – 90 days	**–**	1,352
	27,769	17,208

Movements in allowance for other receivables, deposits and prepayments

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	**1,889**	–
Impairment losses recognised *(Note 8)*	**3**	1,889
Amounts written off	**(566)**	–
Balance at end of the year	**1,326**	1,889

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24. BANK BALANCES AND CASH

Bank balances carry interest at market rates which ranges from 0.001% to 1.4% (2016: 0.001% to 0.85%) per annum.

25. OTHER PAYABLES

	2017 **HK$'000**	2016 HK$'000
Payable in respect of transfer of connection right to local electricity supply network	**13,753**	12,127
Provision for VAT arrangements *(Note 28)*	**11,196**	10,728
Outstanding gaming chips	**2,554**	2,963
Gaming tax payables	**1,107**	1,117
Payables for purchase of property and equipment and construction costs	**–**	24,649
Accruals and other payables	**28,140**	20,254
	56,750	71,838

26. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY/A RELATED PARTY

The amount due to a non-controlling shareholder of a subsidiary was unsecured, non-interest bearing and repayable on demand as at 31 December 2017.

The related party was an entity controlled by a former director of the Company. The balance due to the related party was unsecured, non-interest bearing and repayable on demand as at 31 December 2016. The amount was fully repaid during the year.

27. 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 (Note 36), 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 (approximately 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. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY (continued)

In April 2017, the board of directors of Oriental Regent resolved to early repay part of the Loan with a total principal amount of US$17,000,000 (approximately equivalent to HK$132,260,000) to its shareholders on a pro-rata basis to their respective loan. The portion attributed to the non-controlling interests of Oriental Regent of US$6,800,000 (approximately equivalent to HK$52,905,000) was settled during the year. The difference between the carrying amount of the portion of the Loan repaid to the non-controlling interests and the repayment sum of HK$17,105,000 was recognised as deemed distribution to equity participant and attributable to and included in non-controlling interests.

28. PROVISION 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. During the current year, such Input VAT amounting to RUB2,044,000 (approximately HK$273,000) (2016: RUB349,467,000 (approximately HK$44,824,000)) was claimed for refund by G1 Entertainment.

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 RUB510,934,000 (approximately HK$69,012,000) (2016: RUB511,920,000 (approximately HK$65,660,000)) 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 9.35% (2016: 11.91%) per annum. Accordingly, approximately RUB82,889,000 (approximately HK$11,196,000) (2016: RUB83,642,000 (approximately HK$10,728,000)) of such provision is presented as current and included in other payables (Note 25) 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 RUB428,045,000 (approximately HK$57,816,000) (2016: RUB428,278,000 (approximately HK$54,932,000)) presented as non-current.

29. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.025 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	3,200,000,000	80,000
Issued and fully paid:		
At 1 January 2016	1,485,495,836	37,137
Exercise of share options	522,000	13
At 31 December 2016 and 1 January 2017	1,486,017,836	37,150
Exercise of share options	2,360,000	59
At 31 December 2017	1,488,377,836	37,209

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

30. 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.

30. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

As at 31 December 2017, the number of shares in respect of the options granted and remained outstanding under the Scheme was 33,904,000 (2016: 36,264,000), representing 2.28% (2016: 2.44%) of the total number of issued shares of the Company. As at the date of approval of these financial statements for issuance, the number of shares available for issue under the Scheme was 127,503,383 (2016: 127,503,383), representing 8.57% (2016: 8.58%) of the 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 directors, employees and consultants of the Company during the year ended 31 December 2017 are set out below:

Category of Participants	Number of share options As at 1 January 2017	Granted	Reclassified	Exercised	As at 31 December 2017	Date of grant	Exercise price HK$	Notes
			(Note v)					
Director	20,000,000	–	(20,000,000)	–	–	10 July 2013	1.73	ii
Directors	2,360,000	–	–	(2,360,000)	–	26 August 2011	0.375	iv
Director	–	–	2,300,000	–	2,300,000	1 September 2016	1.99	iii, vii
Employees	6,892,000	–	(5,600,000)	–	1,292,000	1 September 2016	1.99	iii, vii
Consultants	4,500,000	–	20,000,000	–	24,500,000	10 July 2013	1.73	ii
Consultants	2,512,000	–	3,300,000	–	5,812,000	1 September 2016	1.99	iii, vii
Total	36,264,000	–	–	(2,360,000)	33,904,000			
Exercisable at the end of the year					33,904,000			
Weighted average exercise price	1.709	–	–	0.375	1.802			

30. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

Movements of the Company's share options held by directors, employees and consultants of the Company during the year ended 31 December 2016 are set out below:

	Number of share options									
			Before granting of Replacement Share Options			After granting of Replacement Share Options				
Category of Participants	As at 1 January 2016	Granted	Exercised	Reclassified	Modified	Reclassified	As at 31 December 2016	Date of grant	Exercise price HK$	Notes
				(Note vi)	*(Note vii)*	*(Note vi)*				
Director	20,000,000	–	–	–	–	–	20,000,000	10 July 2013	1.73	ii
Directors	2,882,000	–	(522,000)	–	–	–	2,360,000	26 August 2011	0.375	iv
Employees	6,892,000	–	–	920,000	(7,812,000)	–	–	9 December 2014	4.218	–
Employees	–	–	–	–	7,812,000	(920,000)	6,892,000	1 September 2016	1.99	iii, vii
Consultants	4,500,000	–	–	–	–	–	4,500,000	10 July 2013	1.73	ii
Consultants	2,512,000	–	–	(920,000)	(1,592,000)	–	–	9 December 2014	4.218	–
Consultants	–	–	–	–	1,592,000	920,000	2,512,000	1 September 2016	1.99	iii, vii
Total	36,786,000	–	(522,000)	–	–	–	36,264,000			
Exercisable at the end of the year							31,562,000			
Weighted average exercise price	2.260	–	0.375	–	–	–	1.709			

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) The share options granted on 10 July 2013 are divided into 4 tranches exercisable from 31 October 2013, 31 October 2014, 31 October 2015 and 31 October 2016 respectively to 9 July 2018.

(iii) 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.

(iv) The share options granted on 26 August 2011 are divided into 2 tranches exercisable from 26 August 2011 and 26 August 2012 respectively to 25 August 2021.

(v) Mr. Ho, who holds 20,000,000 share options, resigned as Non-executive Director on 28 December 2017 but still remained a consultant of the Company at 31 December 2017 and Mr. Eric Daniel Landheer, who was an employee of the Group and holds 2,300,000 share options, has been appointed as a Director on 4 September 2017. Also, an employee of the Group holding 3,300,000 share options became a consultant of the Group during the year.

30. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

Notes: (continued)

(vi) On 14 April 2016, a consultant of the Group, who was an employee of G1 Entertainment, had become an employee of the Group after G1 Entertainment becoming a subsidiary of the Company. Subsequently, the employee became a consultant on 1 November 2016.

(vii) 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.

Details of the cancellation and grant of share options are set out in the announcement of the Company dated 1 September 2016.

(viii) During the year, no share options were cancelled or lapsed under the Scheme. In respect of the share options exercised during the year, the weighted average closing price of the shares of the Company immediately before and on the date on which the options were exercised were HK$1.09 (2016: HK$2.44) and HK$1.11 (2016: HK$2.49) respectively.

The fair value was calculated using the Binomial model with inputs into the model as follows:

	Share options grant date		
	1 September 2016	**10 July 2013**	**26 August 2011**
Share price at date of grant	HK$1.99	HK$3.46	HK$1.60
Exercise price	HK$1.99	HK$3.46	HK$1.77
Expected volatility	65%	60%	55%
Expected life	5 years	5 years	10 years
Risk-free rate	0.642%	1.37%	1.76%
Expected dividend yield	0%	0%	0%

The expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

For the year ended 31 December 2016, the Group recognised a total expense of HK$14,786,000 in relation to share options granted by the Company, including the Replacement Share Options granted during that year. The estimated fair values of the Previously Granted Options were HK$18,558,000 and HK$4,354,000 at the date of grant and date of cancellation, respectively. The estimated fair value of the Replacement Share Options was HK$9,410,000 and the incremental fair value at date of grant of HK$5,056,000 has been expensing over the vesting period of 2 years from 1 September 2016.

30. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

For the year ended 31 December 2017, the Group recognised a total expense of HK$3,149,000 in respect of share options granted by the Company. No share option was forfeited by the option holders during the year.

31. 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 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 27 and obligations under financial leases) 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 or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

32a. Categories of financial instruments

	2017 **HK$'000**	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**431,509**	355,181
Financial liabilities		
Amortised cost	**301,246**	337,115
Obligations under finance leases	**1,029**	2,316
	302,275	339,431

32b. Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, trade and other receivables, loan to a joint venture, other payables, amount due to a related party and a non-controlling shareholder of a subsidiary, obligations under finance leases 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.

32. FINANCIAL INSTRUMENTS (continued)

32b. Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

As set out in note 36, Oriental Regent has become a subsidiary of the Group on 14 April 2016. Upon this, 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 29% (2016: 28%) of the Group's gross revenue before rebate are denominated in currencies other than the functional currency of the group entity making the revenue. 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:

	2017 **HK$'000**	2016 HK$'000
Assets		
United States dollars ("US$")	**193,043**	164,301
Russian Rubles ("RUB")	**73,794**	36,110
Liabilities		
US$	**284,137**	310,898
RUB	**15,687**	21,913

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.

32. FINANCIAL INSTRUMENTS (continued)

32b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

The following table details the Group's sensitivity to a 30% (2016: 30%) increase and decrease in the exchange rate of HK$ against the relevant foreign currency. 30% (2016: 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% (2016: 30%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss for the year where RUB strengthen 30% (2016: 30%) against HK$. For a 30% (2016: 30%) weakening of RUB against HK$, there would be an equal and opposite impact on the loss and equity and balances below would be negative.

	2017 **HK$'000**	2016 HK$'000
Loss for the year	**13,946**	3,407

(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

As at 31 December 2017, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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.

32. FINANCIAL INSTRUMENTS (continued)

32b. Financial risk management objectives and policies (continued)

Credit risk (continued)

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017						
Other payables	–	18,409	–	–	18,409	18,409
Amount due to a non-controlling shareholder of a subsidiary	–	1,302	–	–	1,302	1,302
Loans from non-controlling shareholders of a subsidiary	11.28	–	–	375,590	375,590	281,535
		19,711	–	375,590	395,301	301,246
Obligations under finance leases	33.00	1,029	–	–	1,029	1,029
		20,740	–	375,590	396,330	302,275
At 31 December 2016						
Other payables	–	46,719	–	–	46,719	46,719
Amount due to a related party	–	4,156	–	–	4,156	4,156
Loans from non-controlling shareholders of a subsidiary	11.28	–	–	428,494	428,494	286,240
		50,875	–	428,494	479,369	337,115
Obligations under finance leases	33.00	1,921	1,063	–	2,984	2,316
		52,796	1,063	428,494	482,353	339,431

32. FINANCIAL INSTRUMENTS (continued)

32c. 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 financial statements approximate their fair values.

33. 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.

	Other payable in respect of transfer of connection right HK$'000	**Amount due to a related party** HK$'000	**Obligations under finance leases** HK$'000	**Loans from non-controlling shareholders of a subsidiary** HK$'000	**Total** HK$'000
	(Note 25)	*(Note 26)*		*(Note 27)*	
At 1 January 2017	12,127	4,156	2,316	286,240	304,839
Financing cash flows	–	(4,156)	(2,048)	(52,905)	(59,109)
Foreign exchange translation	1,626	–	(122)	–	1,504
Interest expenses	–	–	883	31,095	31,978
Deemed distribution to non-controlling shareholders *(Note 27)*	–	–	–	17,105	17,105
At 31 December 2017	13,753	–	1,029	281,535	296,317

34. 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.

34. RETIREMENT BENEFIT PLAN (continued)

Defined contribution plan (continued)

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$27,751,000 (2016: HK$17,635,000) represents contributions paid or payable to the plans by the Group at rates specified in the rules of the plans.

At 31 December 2017 and 2016, 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.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2017 **HK$'000**	2016 HK$'000
Land plots and office	**2,672**	1,893

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**2,759**	2,588
In the second to fifth years inclusive	**2,812**	4,522
Over five years	**1,728**	2,284
	7,299	9,394

Operating lease payments represent rental paid or payable by the Group for the land plots and its office premises. The leases are negotiated for 14 years for the land plots and 2 years for office space. In addition, the rentals are fixed for the leases.

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36. ACQUISITION OF SUBSIDIARIES

On 14 April 2016, the Group, Oriental Regent and the other shareholders of Oriental Regent entered into an amendment agreement ("Amendment Agreement") to the investment and shareholders' agreements of Oriental Regent dated 23 August 2013 ("Investment Agreement"), as amended, pursuant to which the shareholders of Oriental Regent had agreed to amend the Investment Agreement as follows:

(a) The number of directors on the board of Oriental Regent has been increased from 5 to 7.

(b) The Group has been entitled to increase board seats by appointing 4 out of 7 directors on the board of Oriental Regent, while the rights for the other two shareholders to appoint 1 director and 2 directors, respectively, remained unchanged.

(c) Certain reserved matters relating to relevant activities of Oriental Regent affecting the Group's variable return from Oriental Regent for which the unanimous written approval of all the members of the board of Oriental Regent or the unanimous consent of the shareholders of Oriental Regent was required, have been deleted or amended.

The Amendment Agreement was entered into as the shareholders of Oriental Regent believed that the board composition of Oriental Regent should accurately reflect the respective shareholdings and economic interests of the shareholders in Oriental Regent and having seen the Company has successfully managed the gaming and hotel operations, the other shareholders of Oriental Regent considered that it would be beneficial to all Oriental Regent shareholders, and would improve operational efficiency, for the Company to have the control and flexibility to manage the project.

As a result of the above changes effected under the Amendment Agreement and following the appointment of two additional directors by the Group to the board of Oriental Regent which is the body delegated with the power to make decisions on the relevant activities affecting variable returns, the Group obtained control over Oriental Regent which has become a subsidiary of the Group. This acquisition has been accounted for as a business combination using acquisition accounting.

As the business combination was achieved without transfer of consideration from the Group, the consideration transferred for the purpose of purchase price allocation was deemed as the acquisition-date fair value of the Group's previously held equity interest in Oriental Regent.

Further, the carrying value of the loan made to Oriental Regent of HK$369,242,000 at the date of business combination of Oriental Regent on 14 April 2016 was eliminated at consolidation. The loan is discounted at an effective interest rate calculated at 11.28% per annum at inception.

36. ACQUISITION OF SUBSIDIARIES (continued)

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	HK$'000
Inventories	4,840
Trade and other receivables	55,626
Amounts due from related parties	15,782
Intangible assets	198
Bank balances and cash	82,470
Property, operating right and equipment	1,737,000
Long-term prepayments	13,222
Other payables	(113,286)
Amount due to a related party	(640)
Obligations under finance leases	(2,699)
Loans from shareholders	(264,161)
Long-term payables	(4,732)
Provision for VAT arrangements	(21,432)
	1,502,188

Goodwill arising on acquisition

	HK$'000
Interest in a joint venture	
– Previously held interest before the acquisition *(Note i)*	1,069,955
Non-controlling interests *(Note ii)*	440,758
Less: fair value of identifiable net assets acquired (100%)	(1,502,188)
Goodwill arising on acquisition *(Note iii)*	8,525

Notes:

(i) As the business combination was achieved without the transfer of consideration, the Group used the acquisition-date fair value of its interest in Oriental Regent as the acquisition-date fair value of the consideration transferred for purchase price allocation and determination of goodwill. The net difference between the fair value and the Group's carrying amount of its equity interest in Oriental Regent before the business combination of HK$362,464,000 together with the translation reserve of HK$342,284,000 that was previously recognised in other comprehensive expenses were recognised in the profit or loss as a gain on deemed disposal of the previously held interest in Oriental Regent as a joint venture of HK$20,180,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. ACQUISITION OF SUBSIDIARIES (continued)

Goodwill arising on acquisition (continued)

Notes: (continued)

(ii) The non-controlling interests (40%) in Oriental Regent recognised at the acquisition date was measured at the non-controlling interests' proportion of the recognised amounts of net assets of Oriental Regent amounting to HK$440,758,000.

(iii) Goodwill arose on the acquisition of Oriental Regent because the acquisition included the assembled workforce of Oriental Regent and some potential arrangements which were still under negotiation with prospective agents in respect to its rolling chip business as at the date of acquisition. These assets could not be separately recognised from goodwill because they were not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

For the year ended 31 December 2017, the Group recognised an impairment loss of HK8,525,000, as disclosed in note 20.

Cash inflow on acquisition of Oriental Regent

	HK$'000
Cash and cash equivalent balances acquired	82,470

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was HK$14,788,000 attributable to the additional business generated by Oriental Regent. Revenue for the year ended 31 December 2016 included HK$323,286,000 generated from Oriental Regent.

Had the acquisition of Oriental Regent been completed on 1 January 2016, the total revenue of the Group from continuing operations for the year ended 31 December 2016 would have been HK$414,348,000, and the amount of the loss for the year from continuing operations would have been HK$26,315,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and loss of the Group had Oriental Regent been acquired on 1 January 2016, the Directors calculated depreciation and amortisation of property, operating right and equipment based on the recognised amounts of property, operating right and equipment at the date of the acquisition.

37. RELATED PARTY TRANSACTIONS

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

	2017 HK$'000	2016 HK$'000
Continuing operations		
Transactions with related parties:		
Service fees expense *(Note)*	**238**	240
Marketing fee expenses	**171**	370
Purchase of gaming materials	**365**	–
Transactions with a joint venture:		
Imputed interest income on loan	**187**	12,765
Management fee income	**–**	2,578
Service fees income	**120**	85
Transactions with non-controlling shareholders of a subsidiary:		
Imputed interest expense on loan	**31,095**	22,079
Management fee expenses	**1,302**	–

Note: The service fees expense for the year ended 31 December 2017 and 2016 were paid to a related company controlled by Mr. Ho, who was a Director until 28 December 2017.

Details of the balances with the related parties have been disclosed in the consolidated statement of financial position on pages 52 and 53 and notes 21, 26 and 27.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year, which is included in "Total employee benefits expenses (including Directors' emoluments)" in note 12, were as follows:

	2017 HK$'000	2016 HK$'000
Short-term benefits	**5,665**	4,616
Post-employment benefits	**37**	37
Share-based payments	**2,280**	13,982
	7,982	18,635

Certain shares of the Company were issued to key management upon exercise of shares options granted to them under the Scheme as disclosed in note 30. The estimated fair value of such share options are recognised as share-based payment expense for both years based on the accounting policy described in note 3.

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

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Group's subsidiaries at 31 December 2017 and 2016 are as follows:

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
					Directly		Indirectly		
			2017	2016	**2017**	2016	**2017**	2016	
Colour Castle Limited	BVI	Hong Kong	**1 ordinary share of US$1**	1 ordinary share of US$1	**100%**	100%	**–**	–	Investment holding
Summit Ascent Russia Limited	BVI	Hong Kong	**1 ordinary share of US$1**	1 ordinary share of US$1	**100%**	100%	**–**	–	Investment holding
Worth Apex Limited	Hong Kong	Hong Kong	**1 ordinary share**	1 ordinary share	**–**	–	**100%**	100%	Inactive
Summit Ascent Services Limited	Hong Kong	Hong Kong	**10,000 ordinary shares**	10,000 ordinary shares	**100%**	100%	**–**	–	Provision of administrative services
Oriental Regent *(Note i)*	Hong Kong	Hong Kong	**140,000 ordinary shares**	140,000 ordinary shares	**–**	–	**60%**	60%	Investment holding
G1 Entertainment	Russian Federation	Russian Federation	**Charter capital of RUB 1,190,795,312**	Charter capital of RUB 1,190,795,312	**–**	–	**60%**	60%	Operation of hotel and gaming business in Integrated Entertainment Zone in the Russian Federation
EZ Transport Limited Liability Company *(Note ii)*	Russian Federation	Russian Federation	**Charter capital of RUB20,000**	Charter capital of RUB20,000	**–**	–	**30.6%**	30.6%	Provision of bus services in the Russian Federation

Notes:

(i) On 14 April 2016, the Investment Agreement of Oriental Regent, a then joint venture of the Group, was amended. As a result of the amendments to the Investment Agreement and the additional rights to appoint two extra directors to the board of Oriental Regent by the Group, the Group has obtained control of Oriental Regent which has become a subsidiary of the Group. The Group's voting power of Oriental Regent is 57% in accordance with the Amendment Agreement. Please refer to note 36 for details.

(ii) 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 Oriental Regent as Oriental Regent holds more than 50% of the equity interest of EZ Transport Limited Liability Company.

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (continued)

None of the subsidiaries had issued any debt securities at the end of the 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 allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017**	2016	**2017**	2016
				HK$'000	HK$'000	**HK$'000**	HK$'000
Oriental Regent and its subsidiaries	Hong Kong	**40%/43%**	40%/43%	**23,738**	5,915	**394,000**	434,843

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

	2017	2016
	HK$'000	HK$'000
Current assets	**244,441**	251,977
Non-current assets	**1,561,558**	1,680,492
Current liabilities	**59,345**	83,307
Non-current liabilities	**761,654**	753,529
Equity attributable to owners of Oriental Regent	**591,000**	660,790
Non-controlling interests	**394,000**	434,843

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (continued)

	For the year ended 31 December 2017 HK'000	From 14 April 2016 (date of acquisition) to 31 December 2016 HK'000
Revenue	**470,821**	323,286
Expenses	**(530,361)**	(359,608)
Loss for the year/period	**(50,767)**	(14,788)
Loss and total comprehensive expense for the year/period attributable to:		
– owners of the Company	**(27,029)**	(8,873)
– non-controlling interests	**(23,738)**	(5,915)
	(50,767)	(14,788)
Net cash inflow from operating activities	**174,761**	111,054
Net cash (outflow) inflow from investing activities	**(58,241)**	26,507
Net cash outflow from financing activities	**(134,307)**	(1,427)
Effect of foreign exchange rate changes	**1,599**	2,248
Net cash (outflow) inflow	**(16,188)**	138,382

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.

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current assets		
Equipment	–	33
Unlisted investments in subsidiaries *(Note i)*	**108,922**	114,321
Advance to subsidiaries	**907,641**	949,876
	1,016,563	1,064,230
Current assets		
Other receivables, deposits and prepayments	**376**	409
Amounts due from subsidiaries	**217**	43,431
Bank balances and cash	**185,542**	106,860
	186,135	150,700
Current liabilities		
Other payables	**3,337**	3,459
Amount due to a related company	–	20
	3,337	3,479
Net current assets	**182,798**	147,221
Net assets	**1,199,361**	1,211,451
Capital and reserves		
Share capital *(Note 29)*	**37,209**	37,150
Reserves *(Note ii)*	**1,162,152**	1,174,301
Total equity	**1,199,361**	1,211,451

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Note i: **Interests in subsidiaries**

	2017 HK$'000	2016 HK$'000
Unlisted interests, at cost *(Note a)*	–	–
Deemed capital contribution *(Note b)*	108,922	114,321
	108,922	114,321

Notes:

(a) The balances are presented as zero when rounded to the nearest thousand.

(b) Deemed capital contribution represented the imputed interest on the interest-free advances provided to subsidiaries.

Note ii: **Movement 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 2016	1,285,239	101,706	(204,486)	1,182,459
Loss and total comprehensive expense for the year	–	–	(23,127)	(23,127)
Exercise of share options	298	(115)	–	183
Recognition of equity-settled share-based payments	–	14,786	–	14,786
At 31 December 2016 and 1 January 2017	1,285,537	116,377	(227,613)	1,174,301
Loss and total comprehensive expense for the year	–	–	(16,123)	(16,123)
Exercise of share options	1,348	(523)	–	825
Recognition of equity-settled share-based payments	–	3,149	–	3,149
At 31 December 2017	1,286,885	119,003	(243,736)	1,162,152

40. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation as the Directors consider that the new presentation is more relevant and appropriate to the consolidated financial statements. The changes included the reclassification of certain income and expenditure items presented in the consolidated statement of profit or loss and other comprehensive income.

FIVE-YEAR SUMMARY

	2013 HK$'000 (Restated)	2014 HK$'000 (Restated)	2015 HK$'000 (Restated)	2016 HK$'000	**2017** **HK$'000**
Results					
Turnover					
– Continuing operations	–	–	–	323,286	**470,821**
– Discontinued operations	7,913	21,926	18,832	29	**–**
	7,913	21,926	18,832	323,315	**470,821**
Profit/(loss) before income tax expense					
– Continuing operations	(77,098)	(74,916)	(83,206)	(7,963)	**(9,851)**
– Discontinued operations	(2,493)	(3,958)	(2,159)	2,607	**–**
	(79,591)	(78,874)	(85,365)	(5,356)	**(9,851)**
Income tax credit/(expense)					
– Continuing operations	–	–	–	–	**(109)**
– Discontinued operations	51	–	–	–	**–**
	51	–	–	–	**(109)**
Profit/(loss) for the year					
– Continuing operations	(77,098)	(74,916)	(83,206)	(7,963)	**(9,960)**
– Discontinued operations	(2,442)	(3,958)	(2,159)	2,607	**–**
	(79,540)	(78,874)	(85,365)	(5,356)	**(9,960)**
Profit/(loss) attributable to					
– Owners of the Company	(79,540)	(78,874)	(85,365)	559	**13,778**
– Non-controlling interests	–	–	–	(5,915)	**(23,738)**
	(79,540)	(78,874)	(85,365)	(5,356)	**(9,960)**
Assets and liabilities					
Total assets	655,271	1,026,437	843,710	2,050,393	**2,006,311**
Total liabilities	(38,462)	(24,106)	(5,467)	(419,482)	**(398,432)**
	616,809	1,002,331	838,243	1,630,911	**1,607,879**
Equity attributable to owners of the Company	616,809	1,002,331	838,243	1,196,068	**1,213,879**
Non-controlling interests	–	–	–	434,843	**394,000**
	616,809	1,002,331	838,243	1,630,911	**1,607,879**

Note: On 14 March 2016, the Company disposed of the entire equity interest in a subsidiary which carried out majority of the Group's trading of tiles and engineering operations products business and such business was discontinued thereafter. Accordingly, the figures for 2013 to 2015 have been restated to re-present the trading of tiles and engineering operations products business as discontinued operation.

CORPORATE INFORMATION

Board of Directors

Non-executive Chairman
Mr. Kuo Jen Hao
(appointed on 28 December 2017)
Mr. Ho, Lawrence Yau Lung
(resigned on 28 December 2017)

Executive Directors
Mr. Wang, John Peter Ben *(Deputy Chairman)*
Mr. Eric Daniel Landheer
(appointed on 4 September 2017)

Independent Non-executive Directors
Mr. Tsui Yiu Wa, Alec
Mr. Pang Hing Chung, Alfred
Dr. Tyen Kan Hee, Anthony

Audit Committee

Dr. Tyen Kan Hee, Anthony *(Chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Pang Hing Chung, Alfred

Remuneration Committee

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Dr. Tyen Kan Hee, Anthony

Nomination Committee

Dr. Tyen Kan Hee, Anthony *(Chairman)*
Mr. Tsui Yiu Wa, Alec

Corporate Governance Committee

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Dr. Tyen Kan Hee, Anthony

Company Secretary

Ms. Ho Siu Pik
(appointed on 28 December 2017)
Mr. Leung Hoi Wai, Vincent
(resigned on 28 December 2017)

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Principal Bankers

Dah Sing Bank, Limited
Bank of Communications Co., Ltd., Hong Kong Branch
Bank of China Limited, Macau 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
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Hong Kong Branch Share Registrar and Transfer Office

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