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IMPERIAL PACIFIC

博華太平洋

IMPERIAL PACIFIC INTERNATIONAL HOLDINGS LIMITED

博華太平洋國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1076)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of directors (the “**Directors**”) (the “**Board**”) of Imperial Pacific International Holdings Limited (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2016 together with comparative figures for the corresponding period of 2015 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
			(Restated)
CONTINUING OPERATIONS			
Revenue	5	3,986,542	6
Cost of sales		<u>(1,842,772)</u>	<u>–</u>
Gross profit		2,143,770	6
Other income, gains and losses		3,404	868
Selling and marketing expenses		(227,572)	(332)
Operating and administrative expenses		(949,140)	(143,246)
Share-based payments		(6,022)	(477)
Finance costs		(49,123)	(729)
Profit/(loss) before tax from continuing operations	6	915,317	(143,910)
Income tax expenses	7	(77,669)	–
Profit/(loss) for the period from continuing operations		837,648	(143,910)
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	8	(318)	(24,939)
Profit/(loss) for the period attributable to owners of the company		<u>837,330</u>	<u>(168,849)</u>

	Six months ended 30 June	
	2016	2015
<i>Note</i>	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(44,621)	–
Reclassification adjustments for loss on disposal of available-for-sale investments included in the profit or loss	41,860	–
	(2,761)	–
Exchange differences on translation of foreign operations	10,088	(730)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	7,327	(730)
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY	844,657	(169,579)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
	<i>10</i>	
Basic		
— For profit/(loss) for the period	0.60 cents	(0.12 cents)
— For profit/(loss) from continuing operations	0.60 cents	(0.11 cents)
— For loss from discontinued operations	(0.0002 cents)	(0.02 cents)
Diluted		
— For profit for the period	0.31 cents	N/A
— For profit from continuing operations	0.31 cents	N/A
— For loss from discontinued operations	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	<i>Notes</i>	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited) (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	1,504,454	782,832
Prepaid land lease payments	<i>12</i>	241,937	108,451
Intangible assets		129,517	187,517
Prepayments, deposits and other receivables		53,523	46,840
Available-for-sale investments	<i>13</i>	127,879	268,882
		2,057,310	1,394,522
CURRENT ASSETS			
Prepaid land lease payments	<i>12</i>	5,263	3,004
Inventories		5,830	3,658
Trade receivables	<i>14</i>	3,663,036	1,052,922
Prepayments, deposits and other receivables		223,998	253,566
Restricted bank deposit		11,624	11,624
Cash and cash equivalents		196,627	599,964
		4,106,378	1,924,738
CURRENT LIABILITIES			
Trade payables	<i>15</i>	167,690	271,690
Accruals, other payables and deposits received	<i>16</i>	1,613,778	406,594
Derivative financial instruments		27,017	69,809
Other borrowings	<i>17</i>	530,000	–
Loans from related parties	<i>18</i>	588,000	290,000
Current taxation		78,030	–
		3,004,515	1,038,093
NET CURRENT ASSETS		1,101,863	886,645
TOTAL ASSETS LESS CURRENT LIABILITIES		3,159,173	2,281,167

		30 June 2016	31 December 2015
	<i>Note</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited) (Restated)
NON-CURRENT LIABILITIES			
Convertible notes		<u>560,969</u>	<u>533,642</u>
NET ASSETS		<u>2,598,204</u>	<u>1,747,525</u>
Capital and reserves			
Issued capital	<i>19</i>	70,326	70,326
Reserves		<u>2,527,878</u>	<u>1,677,199</u>
TOTAL EQUITY		<u>2,598,204</u>	<u>1,747,525</u>

NOTES TO INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

1. CORPORATE INFORMATION

Imperial Pacific International Holdings Limited (the “Company”) was incorporated in Bermuda as an investment holding company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business is Suites 7001, 7002 and 7014–7016, 70/F., Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the period, the Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the gaming and resort business, including the development of an integrated resort on the Island of Saipan, Commonwealth of the Northern Mariana Islands (“CNMI”). On 26 May 2016, upon the completion of disposal of the companies engaged in the food processing and trading business, the Group ceased to engage in the food processing and trading business.

In the opinion of the directors of the Company (the “Directors”), Inventive Star Limited, a company incorporated in the British Virgin Islands, is the ultimate holding company of the Company and Ms. Cui Li Jie is the ultimate controlling party.

2.1 BASIS OF PRESENTATION

Despite that the Group had capital commitments of approximately HK\$2,994,332,000 as at 30 June 2016 as detailed in note 22 to the Group interim announcement, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group’s profit forecast and cash flow projection which, inter alia, take into account the past actual operating performance of the Group and the following:

- (a) the Group is in the process of arranging bank loans and other debt financing;
- (b) the related companies have the intention to provide continual financial support to the Group if necessary;
- (c) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group beyond the next 12 months from 30 June 2016 with reference to the terms of the respective construction contracts and the current status of the underlying construction works; and
- (d) the Company will consider equity financing when necessary.

Accordingly, these financial statements have been prepared on the going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business.

2.2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial information are consistent with those of the Group as set out in the Group’s annual financial statements for the year ended 31 December 2015, except for the following new and revised Hong Kong Financial Reporting Standards (the “HKFRSs”) that have been adopted by the Group for the first time in 2016 for the current period’s interim financial information.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012–2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of these new and revised HKFRSs has had no significant financial effect on the interim financial information.

2.3 NEW AND REVISED IFRSs NOT YET ADOPTED

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. PRIOR YEAR ADJUSTMENTS

During the current period, following a reassessment of the terms of agreements relating to the convertible notes issued on 21 August 2015 (“CN 2015”), the Group considers that the embedded conversion rights of CN 2015 should have been recognised as financial derivatives rather than equity instruments as previously accounted for in the prior years’ consolidated financial statements.

Accordingly, certain prior year adjustments have been made and certain comparative amounts as at 31 December 2015 have been restated to reflect the full recognition of the embedded conversion rights of CN 2015 as financial derivatives.

The effects of these prior year adjustments are summarised below:

Consolidated statement of financial position at 31 December 2015

	(Dr)/Cr HK\$'000
Increase in derivative financial instruments	69,809
Decrease in net current assets and decrease in total assets less current liabilities	<u>69,809</u>
Decrease in share premium	(34,443)
Decrease in equity components of convertible notes	(101,695)
Decrease in accumulated losses	<u>66,329</u>
Decrease in reserves and total equity	<u>(69,809)</u>

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the gaming and resort business, including the development of an integrated resort on the Island of Saipan. For the purpose of resources allocation and performance assessments, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

5. REVENUE

The Group's revenue from continuing operations is as follows:

	For the six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited) (Restated)
VIP gaming operations	3,821,783	–
Mass gaming operations	121,222	–
Slot machines and Electronic Table Game (“ETG”) gaming operations	26,786	–
Food and beverage	16,751	–
Revenue from sharing of profit stream	–	6
	<u>3,986,542</u>	<u>6</u>

6. PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS

The Group's profit/(loss) before tax from continuing operations is arrived at after charging/(crediting):

	<i>Notes</i>	Six months ended 30 June	
		2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited) (Restated)
(a) Finance costs			
Interest expenses on other borrowings		10,374	729
Interest expenses on loans from related parties		11,422	–
Interest expenses on convertible notes		27,327	–
		<u>49,123</u>	<u>729</u>
(b) Staff costs (Including directors' remuneration)			
Salaries, bonus and allowances		240,689	25,679
Retirement benefits scheme contributions		1,196	149
		<u>241,885</u>	<u>25,828</u>
(c) Other items			
Depreciation		37,976	981
Amortization of prepaid casino resort developer license payments		58,252*	58,151
Amortization of prepaid land lease payments		8,819	912
Foreign exchange differences, net		15,005	62
Operating lease charges on land and buildings		43,823	13,168
Impairment of trade receivables	14	290,930	–
Fair value gain on derivative financial instruments		(42,792)	–
Bank interest income		(72)	–
Commission		1,452,148*	–
Business gross revenue tax		198,638*	–
Gain on disposal of subsidiaries	20	<u>(960)</u>	<u>–</u>

* Included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss and other comprehensive income.

7. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2016 and 2015. Income tax provision for the six months ended 30 June 2016 represents income tax on casino operations for the subsidiaries operating in the Commonwealth of the Northern Mariana Islands (the "CNMI"), which is calculated at the applicable tax rates on the taxable profits for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil)

8. DISCONTINUED OPERATION

On 29 March 2016, the Company entered into an agreement with an independent third party to dispose of Supreme Wit Limited and its subsidiary ("Disposal"). The discontinued operation is engaged in the processing and trading of food products which mainly include frozen and functional food products. The Group has decided to cease its food processing and trading business because it plans to focus its resources on its gaming and resort business. The disposal of the discontinued operation was completed on 26 May 2016. With the Disposal being classified as a discontinued operation, the food processing and trading business is no longer included in the note for operating segment information.

The results of the discontinued operation up to the date of its disposal during the current period are presented below:

	From 1 January 2016 to 26 May 2016 HK\$'000 (Unaudited)	For the six months ended 30 June 2015 HK\$'000 (Unaudited)
Revenue	–	138,219
Cost of sales	–	(135,171)
Other income	–	2,656
Expenses	(318)	(30,643)
Loss for the period from the discontinued operation	<u>(318)</u>	<u>(24,939)</u>

9. INTERIM DIVIDENDS

No dividend was paid or proposed by the Company during the six months ended 30 June 2016 and 2015.

10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amounts for the period is based on the profit for the period attributable to owners of the Company, and the weighted average number of ordinary shares of 140,651,474,000 (six months ended 30 June 2015: 136,238,808,000) in issue during the period.

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2016 is based on the profit for the period attributable to owners of the Company, adjusted to reflect the interest on the convertible notes and fair value gain on the derivative component of the convertible notes. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment had been made to the basic loss from discontinued operation per share amounts presented for the six months ended 30 June 2016 in respect of a dilution as the impact of the outstanding share options and convertible notes had an anti-dilutive effect on the basic loss per share amounts presented.

No adjustment had been made to the basic loss per share amounts presented for the six months ended 30 June 2015 in respect of a dilution as the impact of the outstanding share options and convertible notes had an anti-dilutive effect on the basic loss per share amounts presented.

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

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Earnings/(loss) for the purposes of basic earnings per share, being profit/(loss) for the period attributable to owners of the Company	837,330	(168,849)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	27,327	–
Fair value gain on the derivative component of the convertible notes	(42,792)	–
Earnings/(loss) for the purposes of diluted earnings per share	821,865	(168,849)
Attributable to:		
Continuing operation	822,183	(143,910)
Discontinued operation	(318)	(24,939)
	821,865	(168,849)
	Six months ended 30 June	
	2016	2015
	<i>'000</i>	<i>'000</i>
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	140,651,474	136,238,808
Effect of dilutive potential ordinary shares:		
Convertible notes	128,000,000	–
Share options	351,012	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	269,002,486	136,238,808

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property, plant and equipment of HK\$762,552,000 (six months ended 30 June 2015: HK\$66,222,000).

12. PREPAID LAND LEASE PAYMENTS

During the six months ended 30 June 2016, the Group acquired prepaid land lease payments of HK\$144,514,000 (six months ended 30 June 2015: HK\$33,210,000).

13. AVAILABLE-FOR-SALE INVESTMENTS

The amount represented equity shares listed in Hong Kong that are carried at fair value which is the quoted price in an active market at the end of the reporting period.

14. TRADE RECEIVABLES

The Group's trading terms with customers mainly comprise credit. The credit terms generally range from 30 to 180 days for gaming operations. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

An aged analysis of trade receivables as at the end of the reporting period, based on the marker issue dates, is as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within 1 month	564,225	798,212
More than 1 month but within 3 months	2,027,273	241,922
More than 3 months but within 6 months	1,144,367	12,788
More than 6 months but within 1 year	<u>218,101</u>	–
	3,953,966	1,052,922
Impairment	<u>(290,930)</u>	–
	<u>3,663,036</u>	<u>1,052,922</u>

As at 30 June 2016, the Group had received guarantee deposits of HK\$1,127,480,000 (note 16) from certain players/guarantors which can be used to offset against certain of the above trade receivables in an aggregate amount of approximately HK\$1,127,480,000 due from certain casino players (including HK\$294,722,000 due for more than 1 month but within 3 months, HK\$728,142,000 due for more than 3 months but within 6 months, and HK\$104,616,000 due for more than 6 months but within 1 year) in the event that the Group cannot recover the trade receivable amounts from these players in the normal course of its business.

The movements in provision for impairment of trade receivables are as follows:

	For the six months ended 30 June 2016 HK\$'000 (Unaudited)	For the year ended 31 December 2015 HK\$'000 (Audited)
At beginning of period/year	–	–
Impairment losses recognised (note 6)	<u>290,930</u>	–
At end of period/year	<u>290,930</u>	–

15. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (Audited) (Restated)
Within 1 month	143,538	80,283
More than 1 month but within 3 months	19,665	191,407
More than 3 months but within 6 months	4,484	–
More than 6 months but within 1 year	3	–
	<u>167,690</u>	<u>271,690</u>

16. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited) (Restated)
Deposits received (<i>note</i>)	1,157,552	45,765
Outstanding chips liabilities	24,529	145,890
Accrued commission	222,094	48,746
Accruals and other payables	209,603	166,193
	<u>1,613,778</u>	<u>406,594</u>

Note:

As at 30 June 2016, included in the Group's deposits received were deposits of HK\$1,127,480,000 from certain players/guarantors who have guaranteed the repayment of the trade receivables due from certain of the Group's casino players (the "Guarantee"). In the opinion of the directors, the Group has the enforceable right to set off these deposits against any irrecoverable trade receivables due from these casino players under the Guarantee.

17. OTHER BORROWINGS

The other borrowings are denominated in HK\$, unsecured and interest-bearing at 8%–10% per annum and repayable on demand or within 1 year.

18. LOANS FROM RELATED PARTIES

The loans from related parties are denominated in HK\$. Except for a loan of HK\$183,000,000 as at 30 June 2016 (31 December 2015: HK\$190,000,000) that is interest-free, all loans from related parties are unsecured, interest-bearing at 8% per annum and have no fixed terms of repayment.

19. ISSUED CAPITAL

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Authorised: 300,000,000,000 ordinary shares of HK\$0.0005 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid: 140,651,474,345 ordinary shares of HK\$0.0005 each	<u>70,326</u>	<u>70,326</u>

There were no transactions involving the Company's issued ordinary share capital during the current period.

20. DISPOSAL OF SUBSIDIARIES

Additional information regarding the disposal of the discontinued operation as detailed in note 8 is as follows:

	<i>Note</i>	<i>HK\$'000</i>
Net assets disposed of:		
Cash and bank balances		1,199
Accruals and other payables		<u>(159)</u>
		1,040
Gain on disposal of subsidiaries	6	<u>960</u>
		<u><u>2,000</u></u>
Satisfied by:		
Cash		<u><u>2,000</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2016 HK\$'000
Cash consideration	2,000
Cash and bank balances disposed of	<u>(1,199)</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>801</u>

21. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had total future minimum lease payments under non cancellable operating leases falling due as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within one year	101,578	84,821
In the second to fifth years, inclusive	57,150	54,834
After five years	28,416	29,356
	<u>187,144</u>	<u>169,011</u>

Except for an operating lease of leasehold land on the Island of Saipan, the leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

22. COMMITMENTS

In addition to the operating lease commitments detailed in note 21 above, the Group had the following commitments at the end of the reporting period:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Capital commitments		
Contracted, but not provided for:		
Property, plant and equipment	<u>2,994,332</u>	<u>2,791,898</u>
Other commitments		
Casino Resort Developer License fee:		
Within one year	116,378	116,260
In the second to fifth years, inclusive	349,133	348,782
After five years	2,094,795	2,092,689
	<u>2,560,306</u>	<u>2,557,731</u>

23. CONTINGENT LIABILITIES

Unasserted claims and assessments

The Group may be exposed to payment of damages assessed by the United States Equal Employment Opportunity Commission (EEOC). As at 30 June 2016, several former employees of a subsidiary had filed discrimination claims against that subsidiary for alleged violation of EEOC regulations. Violations of EEOC regulations may expose the subsidiary to payment of damages, court costs and fees in excess of US\$1,500,000 (equivalent to HK\$11,670,000).

As the aforementioned matters are possible unasserted claims and assessments, the Group has not made any provision for loss in these financial statements.

Regulatory oversight

The Group is subject to the jurisdiction of various state, local and federal regulatory agencies (the “Regulatory Authorities”) in the conduct of its casino operations. Specifically, the Group is required to comply with the rules and regulations of the Saipan Casino Control Commission in the conduct of its gaming operations. The Group is also under the jurisdiction of the Financial Crimes Enforcement Network in terms of its compliance with the anti-money laundering provisions of the Bank Secrecy Act. Should the Group violate the requirements of the Regulatory Authorities, it could be subject to various sanctions and disciplinary actions including monetary fines and penalties, restrictions and conditions on the scope of its operations, and the potential revocation of its gaming license.

Other litigation matters

As at 30 June 2016 and up to the date of approval of these financial statements, apart from expressly stated, the Group is a party to a number of litigation as a plaintiff or defendant. In the opinion of the directors, after taking into account of the respective legal advices, these cases are either premature and/or the Group has a very high likelihood of success in its action and, there will not have any adverse impact to the Group’s results or financial position. Accordingly, no provision has been made in these financial statements. The directors have decided to use the materiality threshold of US\$1,000,000 (equivalent to HK\$7,770,000) or above or with contentions matters of serious criminal nature.

24. EVENT AFTER THE REPORTING PERIOD

On 16 August 2016, the Company received a loan of HK\$492,000,000 from its ultimate holding company, which is unsecured, interest-bearing at 9.5% per annum and repayable on demand.

25. COMPARATIVE AMOUNTS

As a result of the prior year adjustments arising from the correction of prior year's error as further explained in note 3, certain comparative amounts have also been restated under discontinued operation as referenced in note 8 to the interim financial information. In addition, certain comparative amounts have been reclassified to conform to the current year's presentation and disclosures.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is an investment holding company, and the Group is principally engaged in the (i) gaming and resort business, including the development and operation of integrated resort on the Island of Saipan; and (ii) processing and trading of food products which mainly include frozen and functional food products (which ceased and was discontinued on 26 May 2016).

Gaming and Resort Business

Integrated Resort Development in Saipan

On 12 August 2014, Imperial Pacific International (CNMI), LLC (the “**Licensee**”), an indirect wholly-owned subsidiary of the Company, and the Commonwealth of the Northern Mariana Islands (“**CNMI**”) entered into a casino license agreement in respect of the exclusive casino resort developer license for the Island of Saipan (as amended on 19 November 2014 and 4 March 2015, the “**Casino License Agreement**”) pursuant to which the Casino Resort Developer License was granted to the Licensee subject to the terms and conditions as stipulated therein. Details of the Casino Resort Developer License have been disclosed in the circular of the Company dated 22 November 2014.

Temporary Casino

On 4 March 2015, the parties to the Casino License Agreement finalized and entered into a written amendment to the Casino License Agreement pursuant to which the Licensee may establish and operate a “Temporary Casino” in Garapan, Island of Saipan (the “**Temporary Casino**”). Details of the amendment have been disclosed in the announcement of the Company dated 4 March 2015.

On 29 April 2015, the Licensee was permitted by the local government to launch and operate the Temporary Casino at certain premises located on the Island of Saipan.

On 26 July 2015, the Licensee launched a soft opening of the Temporary Casino.

On 7 November 2015, the Licensee launched the VIP gaming operations.

On 27 November 2015, the Licensee launched the grand opening of the Temporary Casino. The grand opening of the Temporary Casino supports the Group’s continuous evolution of Saipan into a diversified and world-leading entertainment and tourism destination.

Following the launch of VIP gaming operations of the Temporary Casino in November 2015, the Board has taken into account the unaudited VIP table games rolling amount, the actual operational scale and service reception capability of the Temporary Casino as well as the number of hotels situated in Saipan and considered that the Temporary Casino has received significant VIP patron visits which would be favourable to the Group’s continued development of the Imperial Pacific Resort (“**Imperial Pacific Resort**”) (formerly known as Grand Mariana Casino and Hotel Resort).

Garapan Integrated Resort

On 29 April 2015, the Licensee as lessee, entered into a lease agreement (the “**Lease Agreement**”) with the Department of Public Lands in CNMI as lessor (the “**Lessor**”), pursuant to which the Lessor agreed to lease to the Licensee the land (the “**Land**”) with a total area of approximately 20,000 square meters in Garapan, Island of Saipan, CNMI, for an initial term of 25 years which may be extended for up to another 15 years in accordance with the terms of the Lease Agreement. The Land, together with the adjacent land with an aggregate area of approximately 39,000 square meters in Garapan, Island of Saipan, CNMI, occupying a total area of approximately 59,000 square meters, will form the location at which the town hotel(s), villa suites, casino and associated facilities, will be constructed. Details of the Lease Agreement have been disclosed in the announcement of the Company dated 25 May 2015 and 17 June 2015.

On 15 July 2015, the Licensee obtained a “Notice to Proceed” from the Division of Coastal Resources Management of the CNMI. The Notice to Proceed, together with other relevant permits obtained, fulfil the regulatory and statutory requirements for the Licensee to commence site construction of the town hotel, in Garapan, Saipan.

Major global construction companies, consulting firms, design and engineering firms as well as local sub-contractors are engaged. As at 30 June 2016, approximately United States Dollars (“**US\$**”) 143,000,000 (equivalent to approximately HK\$1,111,110,000) has been invested in design, consulting, engineering, construction material and labour.

During the six months ended 30 June 2016, revenue of approximately HK\$3,986,542,000 (2015: Nil) was generated from the integrated resort development business.

Discontinued operation

Similar to 2015, the recovery of the PRC and the global economy was slow and the food market sector had remained sluggish. As such, steps were taken to reduce the loss from this business segment, and the Group continued to explore opportunities to downsize its food processing and trading business with eventual view to completely dispose the segment in order to concentrate its resources on the development and operation of the integrated resort business on the Island of Saipan.

On 29 March 2016, the Company as vendor and Paramount Century Investment Limited (an independent third party) as purchaser entered into a disposal agreement for sale of the entire issued share capital of Supreme Wit Limited (“**Supreme Wit**”) at the consideration of HK\$2,000,000 (the “**Disposal**”). Following completion of the Disposal on 26 May 2016, the disposed companies have ceased to be subsidiaries of the Company and the financial results of the disposed companies have been deconsolidated from the Group’s financial statements. Accordingly, the Group has ceased to engage in the processing and trading of food products. Upon completion of the Disposal, the Group recorded a gain on disposal of subsidiaries approximately HK\$960,000. Details of the Disposal have been disclosed in the announcement of the Company dated 29 March 2016.

During the six months ended 30 June 2016, the Group did not generate any revenue from food processing and trade business (2015: HK\$138,219,000). Loss for the period from discontinued operation of approximately HK\$318,000 (2015: HK\$24,939,000) was resulted during the six months ended 30 June 2016.

BUSINESS OUTLOOK

Integrated Resort Development

Construction of the town hotel, the Imperial Pacific Resort in Garapan, Saipan, has been progressing smoothly. An additional US\$83,000,000 (equivalent to HK\$644,910,000) has been invested in design and construction of this super luxurious resort which has brought the total investment to US\$143,000,000 (equivalent to HK\$1,111,110,000) by the end of first half of 2016. Topping out of the four storey podium that will eventually encase the casino was finished by end of July 2016 and it is estimated that the same would be accomplished for the fourteen storey hotel tower by the end of October 2016. The Board aims to commence opening of the Imperial Pacific Resort by 2017 Chinese New Year with the opening of the hotel tower by the end of March 2017.

The Imperial Pacific Resort, perched on the water front of downtown Garapan, Saipan with approximately 350 suites is designed by Steelman Partners, a renowned leader known for incorporating dining and entertainment components with casino designs. By the time it is finished, the hotel resort will boast nine restaurants with a total of seventeen Michelin Stars in addition to the 200 to 300 gaming tables and 300 to 400 slot machines which will substantially increase the Group's gaming capacity from its current level of 48 gaming tables and 144 slot machines at the temporary facility.

In addition to the Imperial Pacific Resort, the Group has already witnessed the opening of the Kensington Hotel Saipan ("**Kensington**"), one of the three hotels on the Island of Saipan owned by South Korea's E-Land Group in July 2016. With 313 rooms, the Kensington is the only five star hotel in Saipan which certainly will become a game changer to Saipan where the supply of hotel room has been a serious bottle-neck for the growth of tourist arrivals. It is estimated that by the time the Imperial Pacific Resort opens, new supply of rated hotel rooms will increase by 32%.

With the significant increase of hotel rooms, airlines are also expanding to Saipan in an unprecedented fashion. Commenced on 6 July 2016, Hong Kong Airlines, an internationally-acclaimed full-service airline, operates twice-weekly direct flights between Hong Kong and Saipan International Airport. Airbus A333 aircraft with 292 seats, including 32 business class seats have been deployed on the route. The MVA, Mariana's Visitors Authority expects that tourist arrivals will double from the current level of 500,000 to over a million in the 2020's.

The Group has adopted comprehensive anti-money laundering (“**AML**”) and counter-terrorism financing control and measures in its operation of the Temporary Casino (the “**Program**”). In order to ensure compliance with the requirements governing AML as provided by the USA Bank Secrecy Act (“**BSA**”) and regulations, as promulgated by the Financial Crimes Enforcement Network (“**FINCen**”), which regulates the operation of casino by the Group in Saipan, the Group has engaged an internationally reputed accounting firm with extensive experience in advising casino operations and on AML, to review and provide professional observations and recommendations on the AML manuals, policy, procedures, systems and controls applied by the management and operation teams at the Temporary Casino. It was observed that the Program requires further enhancement both from policies and procedures perspectives in order to address the continuous expansion of its operations, to appropriately identify, manage and mitigate the inherent money laundering risks that are associated with a gaming business. In particular, while the Group has a policy to conduct training for compliance with BSA and FINCen to particularly staff working at the casino, and those who are involved in the Program, additional training sessions should be arranged for recently joined senior management and members who had not managed to receive training when they came on board. Further, the Group has adopted and will continue to enhance a policy to provide such training within 30 days of effective date of employment, and with plan to use web-based training programs to meet with the expected exponential growth in staff size. The Group shall review the Program from time to time to monitor and ensure that the casino operations of the Group shall at all times comply with applicable laws in the CNMI and do not contravene the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong).

The Group shall continue to allocate most of its resources for development of the integrated resort on the Island of Saipan. In addition, the Group is also actively looking for other investment opportunities around the world to develop tourist resort facilities (including gaming facilities). The Company will, as and when appropriate, comply with all relevant requirements, and where necessary, make further announcement(s) in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”).

Debt/Equity Fund Raising

The Company and Huarong International Securities Limited (formerly known as United Simsen Securities Limited) (the “**CN Placing Agent**”) entered into a convertible notes placing agreement (the “**CN Placing Agreement**”) on 27 July 2015 and supplemental agreements to CN Placing Agreement on 29 July 2015 and 17 August 2015 pursuant to which the CN Placing Agent conditionally agreed to procure placee(s), on a best effort basis, to subscribe for the unsecured convertible notes with an aggregate principal amount from HK\$780,000,000 to HK\$1,560,000,000 with initial conversion price of HK\$0.225 per conversion share (the “**CN 2015**”). The placing of CN 2015 was completed on 21 August 2015 and an aggregate principal amount of HK\$841,900,000 convertible notes were issued, which are convertible into 3,741,777,777 conversion shares. Up to 30 June 2016, CN 2015 in aggregate principal amount of approximately HK\$213,000,000 had been converted into approximately 946,667,000 ordinary shares of the Company.

The Company also entered into a share placing agreement (the “**Share Placing Agreement**”) with Huarong International Securities Limited (formerly known as United Simsen Securities Limited) and Kingston Securities Limited (the “**Share Placing Agents**”) on 28 July 2015 and supplemental agreements to the Share Placing Agreement on 29 July 2015 and 17 August 2015 pursuant to which the Share Placing Agents have conditionally agreed to place, on a best-effort basis, from 1,733,000,000 to 3,466,000,000 new shares of the Company (the “**Share(s)**”) to not less than six independent share placees at a price of HK\$0.225 per placing share. The placing of new Shares was completed on 21 August 2015 and number of 3,466,000,000 placing shares were issued. The gross proceeds from the share placing were approximately HK\$779,850,000.

Details of the CN Placing Agreement and the Share Placing Agreement have been disclosed in the announcements of the Company dated 28 July 2015, 29 July 2015 and 17 August 2015.

The Board does not rule out the possibility that the Company may carry out debt and/or equity fund raising plan(s) to further strengthen the financial position of the Group in the event that suitable fund raising opportunities arise in support of the development of the casino and the integrated resort on the Island of Saipan. As at the date of this announcement, the Company has not yet identified any concrete fund raising opportunities.

FINANCIAL REVIEW

Continuing Operations

For the six months ended 30 June 2016, the Group achieved revenue of HK\$3,986,542,000, representing an increase by HK\$3,986,536,000 which is principally contributed by the casino gaming operations. Profit attributable to equity holders of the Company for the six months ended 30 June 2016 of HK\$837,648,000, as compared with the loss attributable to equity holders of HK\$143,910,000 in the corresponding period of last year. The turnaround from loss to profit is mainly attributable to the gaming profit generated by the Temporary Casino which launched its grand opening on 27 November 2015. Basic and diluted earnings per share were HK0.60 cents and HK0.31 cents respectively, as compared with basic loss per share of HK0.11 cents in the corresponding period of last year.

Temporary Casino

The following table set forth the results of the gaming operations at the Temporary Casino in Saipan for the six months ended 30 June 2016 and 2015:

	For the six months ended	
	30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(in thousands, except for number of gaming tables and slot machines and ETG and percentage)		
Number of VIP gaming tables (as at 30 June 2016)	16	–
VIP table games rolling	104,652,700	–
VIP gross table games win	3,821,783	–
VIP table games win percentage	3.65%	–
Number of Mass Gaming tables (as at 30 June 2016)	32	–
Mass games drop	410,670	–
Mass games gross table games win	121,222	–
Mass games win percentage	29.52%	–
Number of slot machines and ETG (as at 30 June 2016)	144	–
Slot machines and ETG handle	310,688	–
Slot machines and ETG gross win	26,786	–
Slot machines and ETG hold percentage	8.62%	–
Commissions	1,452,148	–

Operating Revenue

The following table sets forth the operating revenue for the six months ended 30 June 2016 and 2015.

	For the six months ended	
	30 June	
	2016	2015
	HK\$'000	HK\$'000
		(Restated)
Casino revenue		
VIP gaming operations	3,821,783	–
Mass gaming operations	121,222	–
Slot machines and ETG gaming operations	26,786	–
Food and beverage	16,751	–
Revenue from sharing of profit stream	–	6
	<u>3,986,542</u>	<u>6</u>

The Group's Temporary Casino on the Island of Saipan commenced soft opening and subsequent official opening in July and November 2015 respectively.

VIP Gaming Operations

As casino operations on the Island of Saipan is relatively new, an extensive portion of our VIP casino customers is sourced through the Company's own marketing avenues. Such high-spending VIP players generally receive commission and allowances based on a percentage of the rolling chip turnover. The allowances can be utilized for expenses incurred on hotel rooms, food and beverages and other discretionary customers-related expenses.

In addition, the Company's VIP players are also brought to us via intensive marketing campaigns.

VIP gaming operations also include premium mass gaming operations that do not receive commissions from the Company.

VIP rolling chip volume reached approximately HK\$104,652,700,000 (2015: Nil) for the first six months of 2016. VIP revenue was HK\$3,821,783,000 (2015: Nil) with a win percentage of 3.65% (2015: Nil). Our VIP customers primarily consist of cash players and credit players. Geographically, most of our direct VIP patrons are from China, Hong Kong, Macau, Korea and Saipan.

We continue to strive to improve our VIP business volume by maximising productivity from our Temporary Casino. Our efforts to grow the VIP business will continue to center around enhancing the gaming experience of our customers.

Mass Gaming Operations

For the six months ended 30 June 2016, revenue from mass gaming operations amounted to HK\$121,222,000 (2015: Nil) and mass gaming drop reached HK\$410,670,000 (2015: Nil). Customers from the mass gaming operations do not receive commissions from the Group.

Going forward, we will continue to re-examine our mass gaming areas to maximize table utilization, to expand or refurbish our gaming areas, to innovate our gaming products and to invest in technologies and analytical capability to enhance table productivity and customer retention.

Slot Machines and ETG Gaming Operations

Revenue from the slot machines and ETG amounted to HK\$26,786,000 and hold percentage reached 8.62% for the six months ended 30 June 2016.

Going forward, we will continue to re-examine the mix of our slot machines and ETG games in operation to maximize our casino profitability. We will also aim to develop technologies to enhance our analytical capability to help us deliver much more personal and precision marketing efforts.

Revenue from sharing of profit stream

In 2015, the Company has terminated the loan agreement and the profit transfer agreement with the Junket. Details of the Termination have been disclosed in the announcement of the Company dated 28 October 2015. Sharing of profit stream from gaming business in Macau amounted to HK\$6,000 for the six months ended 30 June 2015.

Cost of Sales

Cost of sales to the six months ended 30 June 2016 was HK\$1,842,772,000 which comprise principally the direct casino costs such as commissions of approximately HK\$1,452,148,000 (2015: Nil) and Saipan's business gross revenue tax of HK\$198,638,000 (2015: Nil).

Other income, gains and losses

Other gains and losses for the six months ended 30 June 2016 mainly represents fair value gain amounted to approximately HK\$42,792,000 on derivative financial instruments, net off by losses of approximately HK\$41,860,000 arising from the Company's disposal of available-for-sale investments.

Other income in 2015 mainly attributed from rental income during the period.

Operating expenses

Operating expenses increased by HK\$1,038,679,000. The increase is mainly attributable to the commencement of operation of the Temporary Casino since 27 November 2015. Operating expenses for the six months ended 30 June 2016 include impairment of trade receivables of HK\$290,930,000, staff cost of HK\$241,885,000, and depreciation and amortizations expenses of HK\$46,795,000.

Adjusted EBITDA

The following table reconciles Adjusted EBITDA to its most directly comparable HKFRS measurement, profit/(loss) attributable to owners of the Company, for the six months ended 30 June 2016 and 2015.

	For the six months ended	
	30 June	
	2016	2015
	HK\$'000	HK\$'000
Profit/(loss) from continuing operations attributable to the owners of the Company	837,648	(143,910)
Add/(less):		
Depreciation and amortization	105,047	60,044
Interest income	(72)	–
Fair value gain on derivative financial instruments	(42,792)	–
Finance costs	49,123	729
Taxation	276,307	–
Share-based payments	6,022	477
Net foreign currency differences	15,005	62
	<u>1,246,288</u>	<u>(82,598)</u>
Adjusted EBITDA (<i>Note</i>) (<i>unaudited</i>)	<u>1,246,288</u>	<u>(82,598)</u>

Note:

Adjusted EBITDA is used by management as the primary measure of the Group's operating performance with that of our competitors. Adjusted EBITDA should not be considered in isolation, construed as an alternative to profit or operating profit as reported under HKFRS or other combines operations or cash flow data, or interpreted as an alternative to cash flow as a measure of liquidity. Adjusted EBITDA presented in this report may not be comparable to other similarly titled measures of other companies operating in the gaming or other business industry sectors.

Discontinued Operation

The Group's food processing and trading business segment did not generate any revenue and reported loss attributable to owners of the Company of approximately HK\$318,000 for the first six months of 2016. The segment's revenue and loss attributable to owners of the Company of approximately were HK\$138,219,000 and HK\$24,939,000 respectively, during the six months ended 30 June 2015.

Significant Investment and Acquisition

Apart from the development of integrated resort on the Island of Saipan and the Disposal, the Company did not have any significant investment, acquisition or disposal during the six months period ended 30 June 2016 that should be notified to the shareholders of the Company.

Capital expenditure

The Group incurred capital expenditure of approximately HK\$907,066,000 (31 December 2015: approximately HK\$519,000,000) during six months ended 30 June 2016, mainly for construction of the integrate resort project in the Island of Saipan and acquisition of gaming related equipment.

Liquidity and Financial Resources

On 27 July 2015 (after trading hours), the Company entered into a convertible notes placing agreement (the “**CN Placing Agreement**”) (as amended) with Huarong International Securities Limited (formerly known as United Simsen Securities Limited) (the “**CN Placing Agent**”) pursuant to which the CN Placing Agent agreed to procure CN Placee(s) to subscribe for the convertible notes with an aggregate principal amount from HK\$780,000,000 to HK\$1,560,000,000 (the “**CN Placing**”). The market price of the shares of the Company was HK\$0.238 per Share as at the date of the CN Placing Agreement. Completion of the CN Placing took place on 21 August 2015, whereby CN 2015 with an aggregate principal amount of HK\$841,900,000 were successfully placed to note less than six independent placees.

On 28 July 2015, the Company entered into a placing agreement (the “**Share Placing Agreement**”) (as amended) with Huarong International Securities Limited (formerly known as United Simsen Securities Limited) and Kingston Securities Limited (the “**Share Placing Agents**”) pursuant to which the Share Placing Agents agreed to place to not less than six independent placees between 1,733,000,000 to 3,466,000,000 new Shares at a price of HK\$0.225 per share (the “**Share Placing**”). The market price of the shares of the Company was HK\$0.238 per Share as at the date of the Share Placing Agreement. Completion of the Share Placing took place on 21 August 2015, whereby a total of 3,466,000,000 shares had been successfully placed to not less than six independent placees at the placing price and net price of HK\$0.225 and HK\$0.219 respectively per placing share.

The Group’s bank and cash balances and restricted bank deposit as at 30 June 2016 were HK\$208,251,000. Working capital, operating expenses and capital expenditures were funded from equity, other borrowings, loans from related parties and cash generated from operations. As at 30 June 2016, the gearing ratio of the Group was 57.6% (31 December 2015: 16.1%). The gearing ratio is calculated as total debts divided by total equity. Debts comprised other borrowings, convertible notes, loans from related parties (offset by cash and bank balances and restricted bank deposit), and equity comprised all capital and reserves of the Group. The increase in the gearing ratio of the Group during the six months ended 30 June 2016 is mainly due to the inception of certain debts for the operation and development of the integrated resort business segment.

Capital structure

During six months ended 30 June 2016, there was no change to the authorised share capital of the Company. As at 30 June 2016, the total number of the issued ordinary shares with the par value of HK\$0.0005 each was 140,651,474,345 (31 December 2015: 140,651,474,345).

Risk of Foreign Exchange Fluctuation

The business transactions of the Group are mainly carried in HK\$ and US\$ meaning that it will be subject to reasonable exchange rate exposure. However, the Group will closely monitor this risk exposure and would take prudent measures as and when appropriate.

Capital Commitments

As at 30 June 2016, the Group had capital commitments of approximately HK\$2,994,332,000 (31 December 2015: approximately HK\$2,791,898,000).

Contingent Liabilities

Details of the Group's contingent liabilities are disclosed in note 23 of the Group interim announcement.

Pledge of Assets

As at 30 June 2016, the Group did not have any pledge of assets (31 December 2015: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. The Company had made specific enquiries of all Directors regarding any non-compliance with the Model Code during the period under review, and received confirmations from all Directors that they had fully complied with the standards as set out in the Model Code.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Group and the enhancement of shareholders' value.

During six months ended 30 June 2016, the Company was in full compliance with the Code Provisions set out in Appendix 14 of the Listing Rules (the “CG Code”), except for the following deviation:

— **Code Provision A.6.7**

This stipulates that independent non-executive directors and other non-executive directors should attend the general meetings. Due to their other important engagements, the independent non-executive Directors of the Company, Mr. Eugene Raymond Sullivan and Mr. Robert James Woolsey were unable to attend the annual general meeting and special general meeting of the Company held on 27 June 2016.

DIVIDEND

No dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil) is recommended by the Board.

AUDIT COMMITTEE REVIEW

An audit committee of the Company has been established for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive Directors. The Group’s consolidated financial statements for the six months ended 30 June 2016 have been reviewed and approved by the audit committee.

By order of the Board
Imperial Pacific International Holdings Limited
Cai Lingli
Executive Director

Hong Kong, 22 August 2016

As at the date of this announcement, the Board comprises Ms. Cai Lingli and Ms. Xia Yuki Yu as executive directors; and Mr. Eugene Raymond Sullivan, Mr. Robert James Woolsey, Mr. Ng Hoi Yue, Mr. Tso Hon Sai Bosco and Mr. Lee Kwok Leung as independent non-executive directors.

In case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.

In this announcement, save as otherwise stated, figures in US\$ are translated to HK\$ at the exchange rate of US\$1.00 = HK\$7.77 for illustration purpose only. No representation is made that any amount in US\$ or HK\$ would have been or can be converted at the above rate.