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IMPERIAL PACIFIC

INTERNATIONAL HOLDINGS

博華太平洋國際控股有限公司

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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the “**Board**”) of directors (the “**Directors**”) of Imperial Pacific International Holdings Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2017, which have been agreed by the auditor of the Company and together with comparative figures for the corresponding year of 2016 as follows:

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

Year ended 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
CONTINUING OPERATIONS			
Gross revenue	4	13,155,608	7,488,979
Less: Commissions		(4,997,103)	(3,416,342)
Net revenue		8,158,505	4,072,637
Cost of sales		(1,215,613)	(855,940)
Gross profit		6,942,892	3,216,697
Other income, gains and losses, net		(45,388)	51,428
Selling and marketing expenses		(64,126)	(81,107)
Operating and administrative expenses		(5,775,571)	(2,022,004)
Share-based payments		(21,635)	(10,347)
Finance costs	6	(165,212)	(57,864)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	5	870,960	1,096,803
Income tax expenses	8	(233,487)	(160,910)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		637,473	935,893
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	7	–	(318)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		637,473	935,575

	<i>Note</i>	2017 HK\$'000	2016 <i>HK\$'000</i>
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		(19,253)	(32,107)
Reclassification adjustments for losses included in profit or loss			
— loss on disposal		266	53,302
— impairment loss		33,589	—
		14,602	21,195
Exchange differences on translation of foreign operations		36,675	8,255
OTHER COMPREHENSIVE INCOME FOR THE YEAR		51,277	29,450
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		688,750	965,025
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
	9		
Basic			
— For profit for the year		HK0.45 cent	HK0.66 cent
— For profit from continuing operations		HK0.45 cent	HK0.66 cent
— For loss from a discontinued operation		N/A	HK(0.0002) cents
Diluted			
— For profit for the year		HK0.24 cent	HK0.34 cent
— For profit from continuing operations		HK0.24 cent	HK0.34 cent
— For loss from a discontinued operation		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	5,468,239	3,058,388
Prepaid land lease payments	<i>11</i>	181,967	212,791
Prepayments, deposits and other receivables	<i>12</i>	352,963	593,326
Available-for-sale investments	<i>13</i>	82,464	103,085
Deferred tax assets		504,784	24,363
Total non-current assets		6,590,417	3,991,953
CURRENT ASSETS			
Prepaid land lease payments	<i>11</i>	4,526	4,115
Inventories		25,768	6,786
Trade receivables	<i>14</i>	8,531,023	5,333,904
Prepayments, deposits and other receivables	<i>12</i>	204,030	170,776
Derivative financial asset	<i>19</i>	1,010	–
Restricted bank deposit		–	11,624
Cash and cash equivalents		284,520	93,945
Total current assets		9,050,877	5,621,150
CURRENT LIABILITIES			
Trade payables	<i>15</i>	78,623	22,061
Accruals, other payables and deposits received	<i>16</i>	6,931,685	4,293,560
Derivative financial liabilities	<i>19</i>	1,033	215
Other borrowings	<i>17</i>	1,189,492	644,917
Loans from related parties	<i>18</i>	197,593	1,037,241
Convertible notes	<i>19</i>	–	590,018
Tax payable		664,775	164,194
Total current liabilities		9,063,201	6,752,206
NET CURRENT LIABILITIES		(12,324)	(1,131,056)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,578,093	2,860,897
NON-CURRENT LIABILITIES			
Other borrowings	<i>17</i>	773,350	–
Loan from a related party	<i>18</i>	151,764	–
Convertible bonds	<i>19</i>	46,713	–
Unsecured bonds and notes	<i>20</i>	1,753,301	–
		2,725,128	–
NET ASSETS		3,852,965	2,860,897
CAPITAL AND RESERVES			
Share capital	<i>21</i>	71,492	70,826
Reserves		3,781,473	2,790,071
Total equity		3,852,965	2,860,897

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to owners of the Company							
	Note	Share capital	Convertible notes reserves	Share premium account	Share option reserve	Exchange reserve	Investment reserve	Accumulated losses	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016		70,326	1,480,332	1,847,279	41,811	(10,562)	(35,797)	(1,645,864)	1,747,525
Profit for the year		-	-	-	-	-	-	935,575	935,575
Other comprehensive income for the year:									
Changes in fair value of available-for-sale investments, net		-	-	-	-	-	21,195	-	21,195
Exchange differences on translation of foreign operations		-	-	-	-	8,255	-	-	8,255
Total comprehensive income for the year		-	-	-	-	8,255	21,195	935,575	965,025
Issue of new shares	21	500	-	137,500	-	-	-	-	138,000
Equity-settled share option arrangements		-	-	-	10,347	-	-	-	10,347
Transfer of reserve upon the lapse of share options		-	-	-	(1,444)	-	-	1,444	-
At 31 December 2016		<u>70,826</u>	<u>1,480,332*</u>	<u>1,984,779*</u>	<u>50,714*</u>	<u>(2,307)*</u>	<u>(14,602)*</u>	<u>(708,845)*</u>	<u>2,860,897</u>
At 1 January 2017		70,826	1,480,332	1,984,779	50,714	(2,307)	(14,602)	(708,845)	2,860,897
Profit for the year		-	-	-	-	-	-	637,473	637,473
Other comprehensive income for the year:									
Changes in fair value of available-for-sale investments, net		-	-	-	-	-	14,602	-	14,602
Exchange differences on translation of foreign operations		-	-	-	-	36,675	-	-	36,675
Total comprehensive income for the year		-	-	-	-	36,675	14,602	637,473	688,750
Issue of shares upon conversion of convertible notes	21	666	-	281,017	-	-	-	-	281,683
Equity-settled share option arrangements		-	-	-	21,635	-	-	-	21,635
Transfer of reserve upon the lapse of share options		-	-	-	(1,557)	-	-	1,557	-
At 31 December 2017		<u>71,492</u>	<u>1,480,332*</u>	<u>2,265,796*</u>	<u>70,792*</u>	<u>34,368*</u>	<u>-*</u>	<u>(69,815)*</u>	<u>3,852,965</u>

* These reserve accounts comprise the consolidated reserves of HK\$3,781,473,000 (2016: HK\$2,790,071,000) in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. CORPORATE AND GROUP 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 year, 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**”).

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 net current liabilities of HK\$12,324,000 and capital commitments of approximately HK\$553,535,000 as at 31 December 2017 as detailed in note 23 to the annual results 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) subsequent to the end of the reporting period, the Company has raised new unsecured loans for an aggregate amount of approximately HK\$870,537,000 from independent third parties, of which HK\$410,000,000, HK\$214,500,000 and HK\$246,037,000 are repayable in 2018, 2019 and 2020, respectively;
- (b) subsequent to the end of the reporting period, the Company has agreed with its lenders to renew certain loan agreements for borrowings of approximately HK\$842,958,000 is outstanding as at 31 December 2017 and which were originally due for repayment in 2018, and extend the repayment tenure to 2019 and 2020 for HK\$398,000,000 and HK\$444,958,000, respectively;
- (c) subsequent to the end of the reporting period, in addition to its existing available credit facility from an independent third party, the Company has obtained an additional unsecured credit facility of approximately HK\$781,000,000 from another independent third party for its working capital needs;
- (d) the ultimate holding company and other related parties have agreed to provide continuous financial support to the Group by not demanding repayment of any amounts due to them until the Group is in a financial position to repay without impairing its liquidity position; and
- (e) the management is in discussion with certain potential investors with a view to secure long term financing principally to be used on the construction of the integrated gaming resort. As at the date of approval of this result announcement, Memorandums of Understanding have been signed with these investors which are subject to terms and conditions to be completed and fulfilled.

Further details are set out in note 26 for events after the reporting period.

Imperial Pacific International (CNMI), LLC (“IPI”), a wholly-owned subsidiary of the Company, is principally engaged in the development and operation of an integrated gaming resort facility in Saipan. Pursuant to the Casino License Agreement Amendment No.5 entered between IPI and the relevant CNMI government authorities dated 31 July 2017, IPI is required to complete the construction of, inter alia, a minimum number of hotel rooms, gaming area, food and beverages outlets, retail and meeting space, villa hotel etc. (the “Initial Gaming Facility”) by no later than 31 August 2018.

Due to the termination of construction services by certain companies and drastic reduction and non-availability of sufficient construction labours locally in Saipan, as at the date of approval of these financial statements, the Directors are of the opinion that the construction of the Initial Gaming Facility will not be completed by 31 August 2018.

Given the importance of the Casino License Agreement to the operation of the Group’s only principal activity, the Directors have confirmed and are already in the process of preparing for the application to be made to the relevant CNMI government authorities for an extension of completion deadline, in accordance with the process as provided under the Casino License Agreement. As at the date of this result announcement, the Company has notified the Commonwealth Casino Commission of its intended application to extend the deadline to complete the Initial Gaming Facility. The Directors are of the opinion that the necessary approval will be granted for the deadline extension application.

Accordingly, this annual results announcement has 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

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instruments which have been measured at fair value. These financial statements presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements to HKFRSs 2014–2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

None of the above amendments to HKFRSs has had a material impact on the financial performance and financial positions for the periods presented in these financial statements. While the amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, these amendments have no impact to the disclosure in these financial statements as the Group has no changes in liabilities arising from financing activities.

The Group has not adopted any new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

3. 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. Information about reportable segment revenue and results, assets and liabilities and other segment information is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Segment revenue		
Revenue from external customers	<u>13,155,608</u>	<u>7,488,979</u>
Segment results	1,624,293	1,471,422
<i>Unallocated:</i>		
Headquarters and corporate expenses	(579,181)	(381,929)
Bank interest income	1	71
Fair value gain on derivative financial instruments	549	69,594
Gain on extinguishment of other borrowings	–	12,000
Net exchange losses	(5,209)	(13,566)
Finance costs	(165,212)	(57,864)
Depreciation and amortisation	<u>(4,281)</u>	<u>(2,925)</u>
Profit before tax from continuing operations	<u>870,960</u>	<u>1,096,803</u>
Segment assets		
Gaming and resort	15,428,741	9,401,285
<i>Unallocated:</i>		
Unallocated cash and cash equivalents	49,692	44,560
Available-for-sale investments	82,464	103,085
Derivative financial asset	1,010	–
Other unallocated assets	<u>79,387</u>	<u>64,173</u>
Total assets	<u>15,641,294</u>	<u>9,613,103</u>
Segment liabilities		
Gaming and resort	7,214,742	4,391,096
<i>Unallocated:</i>		
Derivative financial liabilities	1,033	215
Other borrowings	1,962,842	644,917
Loans from related parties	349,357	1,037,241
Convertible bonds and notes	46,713	590,018
Unsecured bonds and notes	1,753,301	–
Other unallocated liabilities	<u>460,341</u>	<u>88,719</u>
Total liabilities	<u>11,788,329</u>	<u>6,752,206</u>

Geographical information

(a) Revenue from external customers

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Island of Saipan	13,155,608	7,488,979

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Island of Saipan	5,976,805	3,832,104
Others	26,364	32,401
	6,003,169	3,864,505

The non-current asset information of continuing operations above is based on the locations of the assets and excludes available-for-sale investments and deferred tax assets.

Information about major customers

Revenue from gaming operations of approximately HK\$2,181,863,000 was derived from a single external customer.

During the year ended 31 December 2016, no revenue generated from a single external customer amounted to 10% or more of the Group's total revenue.

4. GROSS REVENUE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
VIP gaming operations	12,728,872	7,130,167
Mass gaming operations	302,665	261,880
Slot machines and Electronic Table Game gaming operations	66,861	57,294
Food and beverages	57,210	39,638
	13,155,608	7,488,979

5. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	<i>Notes</i>	2017 HK\$'000	2016 <i>HK\$'000</i>
Cost of inventories sold*		27,685	18,521
Business gross revenue tax ("BGRT")*		637,473	372,784
Depreciation		139,741	105,476
Amortisation of prepaid land lease payments		7,946	6,833
Casino licence fees*		116,909	116,438
Auditor's remuneration		12,000	8,700
Minimum lease payments under operating leases		133,466	123,050
Employee benefits expenses (including directors' remuneration)			
Wages and salaries***		641,669	521,528
Pension scheme contributions		2,441	3,062
		644,110	524,590
Foreign exchange differences, net		4,155	18,672
Loss/(gain) on disposal of property, plant and equipment**		25,876	(39)
Impairment losses recognised for trade receivables, net		4,185,431	847,114
Impairment of available-for-sale investments**	<i>13</i>	33,589	–
Fair value loss on available-for-sale investments (transfer from equity on disposal)**	<i>13</i>	266	53,302
Fair value gain on derivative financial instruments, net**	<i>19</i>	(549)	(69,594)
Dividend income from available-for-sale investments**		(14)	(172)
Bank interest income**		(2)	(99)
Gain on disposal of subsidiaries**		(11,966)	(19,970)
Gain on extinguishment of other borrowings**		–	(12,000)

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

** Included in "Other income, gains and losses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

*** Staff costs of HK\$121,975,000 (2016: HK\$147,997,000) included in the above were capitalised under property, plant and equipment.

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on other borrowings and loan from related parties	137,114	79,084
Interest on convertible bonds and notes (<i>note 19</i>)	22,643	56,376
Interest on unsecured bonds and notes	120,270	–
	<u>280,027</u>	<u>135,460</u>
Less: Interest capitalised*	(114,815)	(77,596)
	<u><u>165,212</u></u>	<u><u>57,864</u></u>

* The borrowing costs have been capitalised at the weighted average rate of 8.77% for the year ended 31 December 2017 (2016: 9.32%).

7. 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 (the “Disposal”) for a consideration of HK\$2,000,000. The discontinued operation was 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 the 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 was no longer included in the note for operating segment information.

The results of the discontinued operation for the year ended 31 December 2016 are presented below:

	2016 <i>HK\$'000</i>
Revenue	–
Cost of sales	–
Other income and losses, net	–
Expenses	<u>(318)</u>
Loss for the year from the discontinued operation	<u><u>(318)</u></u>

8. 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 year (2016: Nil). Income tax provision for the current year represents income tax on casino operations for the subsidiaries operating in the CNMI, which is calculated at the applicable tax rates on the taxable profits for the years ended 31 December 2017 and 2016.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax expenses	712,485	185,300
Deferred tax credit	(478,998)	(24,390)
Total tax charge for the year	<u>233,487</u>	<u>160,910</u>

The Covenant of the CNMI provides for the imposition of the Internal Revenue Code of the United States as the local income tax. CNMI legislation provides for income tax rebates with descending graduated percentages ranging from 90% to 50% on local income tax on CNMI source income. The CNMI also imposes graduated (1.5% to 5%) BGRT. For casino gaming revenue, the rebate offset amount shall be 100% of the income tax imposed on net gaming revenue taxable income up to United States Dollars (“US\$”) 15 million. For casino net gaming taxable income in excess of US\$15 million, the rebate offset amount ranges from 90% to 50% of the income tax imposed.

The legislation requires the payment of corporate income tax on CNMI source income only to the extent the pre-rebate income tax exceeds BGRT. The Company records its income tax expense net of the aforementioned BGRT credit, gaming rebate and income tax rebate.

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

The calculation of the basic earnings/(loss) per share amounts is based on the profit for the year attributable to owners of the Company of HK\$637,473,000 (2016: HK\$935,575,000), and the weighted average number of ordinary shares of 142,977,501,742 (2016: 140,864,589,099) in issue during the year.

The calculation of the diluted earnings per share amount for the year ended 31 December 2017 is based on the profit for the year attributable to owners of the Company, adjusted to reflect the effect of the deemed exercise of or conversion of all dilutive potential shares into ordinary shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, 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 has been made to the basic loss from a discontinued operation per share amounts presented for the year ended 31 December 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.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Earnings		
Profit/(loss) attributable to owners of the Company, used in the basic earnings per share calculation:		
From continuing operations	637,473	935,893
From a discontinued operation	–	(318)
	<u>637,473</u>	<u>935,575</u>
	Number of shares	
	2017 <i>'000</i>	2016 <i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	142,977,502	140,864,589
Effect of dilution — weighted average number of ordinary shares:		
Share options	208,451	293,627
Convertible notes (<i>Note</i>)	128,000,000	128,000,000
	<u>271,185,953</u>	<u>269,158,216</u>

Note: The impact of the convertible notes issued on 19 March 2014 had a dilutive effect on the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016. CN 2015 (as defined in note 19) and CB 2017 (as defined in note 19) had no dilutive effect on the basic earnings per share amounts presented as the exercise prices of CN 2015 and CB 2017 were higher than the average market price of the ordinary shares of the Company during the year ended 31 December 2017. CN 2015 had no dilutive effect on the basic earnings per share amounts presented as the exercise price of CN 2015 was higher than the average market price of the ordinary shares of the Company during the year ended 31 December 2016.

10. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2017, the Group acquired property, plant and equipment of HK\$2,562,398,000 (2016: HK\$2,381,377,000).

11. PREPAID LAND LEASE PAYMENTS

During the year ended 31 December 2017, the Group acquired prepaid land lease payments of HK\$73,923,000 (2016: HK\$133,080,000).

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Rental and other deposits	165,018	158,369
Prepaid casino licence fees	185,583	187,597
Prepayment for acquisition of non-current assets	129,558	282,188
Prepayments and other receivables	76,834	135,948
	556,993	764,102
Less: Current portion	(204,030)	(170,776)
Non-current portion	352,963	593,326

13. AVAILABLE-FOR-SALE INVESTMENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Listed equity investments, at fair value	82,464	103,085

During the year, a gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK\$19,253,000 (2016: HK\$32,107,000), of which HK\$266,000 (2016: HK\$53,302,000) was reclassified from other comprehensive income to profit or loss for the year upon disposal.

The above investments consist of investments in listed equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

There was a significant decline in the market value of a listed equity investment during the year. The Directors consider that such a decline indicates that the listed equity investment has been impaired and an impairment loss of HK\$33,589,000 (2016: Nil), which previously recognised in other comprehensive income are reclassified to profit or loss in this year.

14. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit term is generally 30 days for gaming operations (2016: 30 days). Each customer has a maximum credit limit. For new customers, payment in advance or certain form of guarantee is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. At the end of the reporting period, the Group has certain concentration of credit risk as 8% (2016: 12%) and 23% (2016: 33%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. Trade receivables are non-interest-bearing.

An ageing analysis of trade receivables as at the end of the reporting period, based on the program end dates, is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 1 month	1,528,190	1,470,801
More than 1 month but within 3 months	1,785,687	1,108,291
More than 3 months but within 6 months	2,343,635	1,034,406
More than 6 months but within 1 year	5,213,536	2,168,800
More than 1 year	2,407,012	98,790
	13,278,060	5,881,088
Impairment	(4,747,037)	(547,184)
	8,531,023	5,333,904

As at 31 December 2017, the Group had received guarantee deposits of HK\$1,881,315,000 (note 16(a)) from certain players/guarantors which can be used to offset against certain of the above trade receivables in an aggregate amount of approximately HK\$1,649,411,000 due from certain casino players 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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
At beginning of year	547,184	–
Impairment losses recognised	4,460,738	847,114
Reversal of provision	(275,307)	–
Exchange differences	14,422	–
Uncollectible amounts written off	–	(299,930)
At end of year	4,747,037	547,184

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$4,747,037,000 (2016: HK\$547,184,000) with a carrying amount before provision of HK\$10,982,381,000 (2016: HK\$2,024,552,000).

The individually impaired trade receivables relate to customers which management considered that either none or only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Neither past due nor impaired	839,872	1,431,227
Less than 1 month past due	–	415,476
1 to 3 months past due	33,991	591,487
4 to 6 months past due	138,928	372,949
7 months to 1 year past due	458,100	1,045,397
More than 1 year past due	824,788	–
	2,295,679	3,856,536

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers who have either a good track record with the Group or the outstanding amounts are secured with guarantee deposits. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

15. TRADE PAYABLES

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 1 month	13,993	7,774
More than 1 month but within 3 months	22,866	4,665
More than 3 months but within 6 months	24,424	3,986
More than 6 months but within 1 year	14,355	2,208
More than 1 year	2,985	3,428
	<u>78,623</u>	<u>22,061</u>

16. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Deposits received (<i>note (a)</i>)	4,136,214	2,884,837
Outstanding chips liabilities	259,276	183,254
Accrued commission	244,901	144,644
BGRT payable	201,557	33,456
Construction related payables	1,075,010	664,961
CN 2015 payable (<i>note 19</i>)	123,400	–
Others payables and accruals (<i>note (b)</i>)	891,327	382,408
	<u>6,931,685</u>	<u>4,293,560</u>

Notes:

- (a) As at 31 December 2017, included in the Group's deposits received were deposits of HK\$1,881,315,000 (2016: HK\$2,050,338,000) 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, based on independent legal advice, the Group has the enforceable right to set off the deposits against any irrecoverable trade receivables due from these casino players under the Guarantee.
- (b) As at 31 December 2017, included in the amount was interest payable of HK\$105,973,000 (2016: HK\$35,247,000) due to related parties.

17. OTHER BORROWINGS

At 31 December, the Group's other borrowings were repayable as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 1 year or on demand	1,189,492	644,917
After 1 year but within 2 years	773,350	–
	<u>1,962,842</u>	<u>644,917</u>

The other borrowings are unsecured, interest-bearing at 8%–13% (2016: 8%–10%) per annum.

Included in the amount was a borrowing of HK\$130,000,000 (2016: HK\$130,000,000) due to Youth Force Asia Limited, a company in which Ms. Wu Pei Tzu, who is a related party of the Company's controlling shareholder, has a 28% equity interest.

18. LOANS FROM RELATED PARTIES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 1 year or on demand	197,593	1,037,241
After 1 year but within 2 years	151,764	–
	<u>349,357</u>	<u>1,037,241</u>

Except for certain loan amount of HK\$169,006,000 (2016: HK\$40,241,000) that is interest-free, all loans from related parties are unsecured, interest-bearing at 7.5%–8% (2016: 8%–9.5%) per annum.

19. CONVERTIBLE BONDS AND NOTES

CN 2014

On 19 March 2014 (the “**Completion Date**”), the Company completed the acquisition (the “**Acquisition**”) of the entire issued share capital of and a shareholder's loan to Excel Earth Limited (“**Excel Earth**”) and obtained a profit guarantee given by the vendor. The principal asset of Excel Earth was its interests under, and entitlements to, the transfer of five percent (5%) of the distributable profit of Hang Seng Sociedade Unipessoal Limitada, for each twelve-month period, which had commenced on 1 January 2014 and terminated on 28 October 2015.

The Acquisition was satisfied by issuing zero coupon convertible notes (“**CN 2014**”) at the conversion price of HK\$0.05 per conversion share (as adjusted from HK\$1.00 per conversion share by the effect of the share subdivision) in the aggregate principal amount of HK\$400,000,000 due on the sixteenth anniversary of the Completion Date to the vendor in accordance with the terms and conditions of the acquisition agreement. The conversion price has been subsequently adjusted to HK\$0.003125 per conversion share after the bonus issue on 3 July 2015. On the Completion Date, the fair value of CN 2014 was approximately HK\$1,480,000,000, based on a valuation report issued by an independent valuer, Roma Appraisals Limited, dated 29 August 2014. Details of the Acquisition had been disclosed in the circular of the Company dated 8 January 2014. CN 2014 are recognised as equity in the entirety without a liability portion in accordance with the Group's accounting policy for mandatorily convertible notes.

CN 2015

On 21 August 2015, the Company issued zero coupon convertible notes in the aggregate principal amount of HK\$841,900,000 (“CN 2015”). CN 2015 matured after 24 months from the date of issuance and were convertible into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date. CN 2015 were convertible at the conversion price of HK\$0.225 per share.

The interest amortised for the year was calculated by applying an effective interest rate of 10.06% to the liability component for the 24-month period from the notes’ issue date.

CN 2015 matured on 20 August 2017. An aggregate principal of HK\$205,500,000 has been redeemed during the year. As at 31 December 2017, the Company was in the process to redeem the remaining CN 2015 of an aggregate principal of HK\$123,400,000 of which HK\$100,000,000 has been redeemed subsequent to the end of the reporting period.

CB 2017

On 27 June 2017, the Company issued convertible bonds in the aggregate principal amount of HK\$50,000,000 which bear interest at 4% per annum (“CB 2017”). CB 2017 mature after 24 months from the date of issuance and are convertible into ordinary shares of the Company at any time between the date of issue of the bonds and their settlement date. CB 2017 are convertible at conversion price of HK\$0.176 per share.

The interest amortised for the year was calculated by applying an effective interest rate of 8.82% to the liability component for the 24-month period from the bonds’ issue date.

The net proceeds received from the issuance of CN 2015 and CB 2017 have been split into the liability and derivative components and their movements are as follows:

	Liability component <i>HK\$'000</i>	Derivative financial asset <i>HK\$'000</i>	Derivative financial liabilities <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016	533,642	–	69,809	603,451
Interest expense (<i>note 6</i>)	56,376	–	–	56,376
Fair value gain (<i>note 5</i>)	–	–	(69,594)	(69,594)
At 31 December 2016 and 1 January 2017	590,018	–	215	590,233
Interest expense (<i>note 6</i>)	22,643	–	–	22,643
Coupon interest paid	(1,033)	–	–	(1,033)
Conversion of CN 2015	(281,683)	–	–	(281,683)
Issuance of CB 2017	45,668	(4,316)	4,673	46,025
Fair value (gain)/loss (<i>note 5</i>)	–	3,306	(3,855)	(549)
Maturity of CN 2015	(328,900)	–	–	(328,900)
At 31 December 2017	<u>46,713</u>	<u>(1,010)</u>	<u>1,033</u>	<u>46,736</u>

20. UNSECURED BONDS AND NOTES

31 December 2017			
	Effective interest rate (%)	Maturity	<i>HK\$'000</i>
Non-current — repayable in the second year			
— 2017 Notes — 7.8%	7.8	2019	1,164,000
Non-current — repayable in the third to fifth years, inclusive			
— 2017 Notes — 8.5%	8.65	2020	541,306
— 2017 Bonds AI — 5.25%	9.53	2020	12,091
— 2017 Bonds AII — 6.0%	9.56	2022	<u>13,126</u>
			<u>566,523</u>
Non-current — beyond five years			
— 2017 Bonds B — 6.0%	9.56	2025	<u>22,778</u>
			<u><u>1,753,301</u></u>

On 22 February 2017 and 21 March 2017, the Company issued the 2017 Notes — 7.8% with principal amounts of US\$100,000,000 (approximately HK\$776,000,000) and US\$50,000,000 (approximately HK\$388,000,000), respectively to Inventive Star Limited, which are interest bearing at 7.8% per annum and repayable on 21 February 2019 and 20 March 2019, respectively.

On 25 January 2017, 27 January 2017 and 7 February 2017, the Company issued the 2017 Notes — 8.5% with an aggregate principal amount of US\$70,000,000 (approximately HK\$543,000,000) to independent third parties, which are interest bearing at 8.5% per annum and repayable on 24 January 2020, 26 January 2020 and 6 February 2020.

On 15 September 2017, 20 September 2017, 13 October 2017, 3 November 2017 and 17 November 2017, the Company issued the 2017 Bonds AI — 5.25% with an aggregate principal amount of HK\$13,500,000 to independent third parties, which are interest bearing at 5.25% per annum and repayable in 2020.

On 15 September 2017, 3 November 2017 and 9 November 2017, the Company issued the 2017 Bonds AII — 6.0% with an aggregate principal amount of HK\$15,000,000 to independent third parties, which are interest bearing at 6% per annum and repayable in 2022.

On 12 September 2017, 6 November 2017 and 20 November 2017, the Company issued the 2017 Bonds B — 6.0% with an aggregate principal amount of HK\$28,000,000 to independent third parties, which are interest bearing at 6% per annum and repayable in 2025.

The unsecured notes issued by the Group are denominated in US\$. The unsecured bonds issued by the Group are denominated in HK\$.

21. SHARE CAPITAL

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Authorised:		
300,000,000,000 ordinary shares of HK\$0.0005 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:		
142,984,807,678 (2016: 141,651,474,345) ordinary shares of HK\$0.0005 each	<u>71,492</u>	<u>70,826</u>

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue '000	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016	140,651,474	70,326	1,847,279	1,917,605
Issue of new shares (<i>note</i>)	<u>1,000,000</u>	<u>500</u>	<u>137,500</u>	<u>138,000</u>
At 31 December 2016 and 1 January 2017	141,651,474	70,826	1,984,779	2,055,605
Issue of shares upon conversion of convertible notes	<u>1,333,333</u>	<u>666</u>	<u>281,017</u>	<u>281,683</u>
At 31 December 2017	<u><u>142,984,807</u></u>	<u><u>71,492</u></u>	<u><u>2,265,796</u></u>	<u><u>2,337,288</u></u>

Note: On 14 October 2016, 1,000,000,000 shares were issued to an independent third party at HK\$0.15 per share, for the settlement of other borrowings with an outstanding principal of HK\$150,000,000. The fair value of the shares on 14 October 2016 was HK\$0.138 per share and resulted in a gain on extinguishment of other borrowings of HK\$12,000,000 credited to profit or loss for the year ended 31 December 2016.

22. 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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within one year	78,521	104,370
In the second to fifth years, inclusive	81,724	66,234
After five years	<u>34,575</u>	<u>28,399</u>
	<u><u>194,820</u></u>	<u><u>199,003</u></u>

Except for operating leases of leasehold land on the Island of Saipan which have a period of 25 and 55 years, the leases typically run for an initial period of one to five years. None of the leases includes contingent rentals.

23. COMMITMENTS

In addition to the operating lease commitments detailed in note 22 above, the Group had the following commitments at the end of the reporting period:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Capital commitments		
Contracted, but not provided for:		
Property, plant and equipment	474,368	2,180,636
Prepaid land lease payments	79,167	223,461
	<u>553,535</u>	<u>2,404,097</u>
Other commitments		
Casino licence fee:		
Within one year	–	116,310
In the second to fifth years, inclusive	468,840	348,930
After five years	1,875,360	1,977,270
	<u>2,344,200</u>	<u>2,442,510</u>
Community development fund fees:		
Within one year	156,280	155,080
	<u>2,500,480</u>	<u>2,597,590</u>

24. 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 31 December 2017, 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, civil and administrative fines or penalties, court costs and fees in excess of US\$200,000 (approximately HK\$1,563,000).

In the opinion of the Directors, after taking into account of the respective legal advices, as the aforementioned matters are possible un-asserted claims and assessments and the likelihood of the Group making any significant amount of payments in respect of claims for damages is remote, 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 Commonwealth Casino Commission in the conduct of its gaming operations. The Group is also under the jurisdiction of the Financial Crimes Enforcement Network (“**FinCEN**”) in terms of its compliance with the anti-money laundering provisions of the Bank Secrecy Act (the “**BSA Compliance**”). 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 licence.

Other litigation matters

As at the end of the reporting period and up to the date of approval of these financial statements, apart from expressly stated above, the Group is a party to a number of civil litigations cases, as either 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, therefore will not have any adverse impact to the Group’s results or financial position. In the opinion of the Directors, adequate provision has been made in these consolidated financial statements.

In March 2017, an accident occurred at the Company’s hotel construction site that resulted in the death of a worker employed by a contractor. The accident resulted to investigations performed by various government agencies, and determined that the contractors and sub-contractors employed workers who did not possess appropriate work visas. Management of the Company denies any knowledge of illegal hiring practices of the contractors and sub-contractors. Furthermore, management asserts that there will not be any material adverse impact to the Company’s results and financial position as a result of this matter. Accordingly, no provision for loss, if any, has been included in the 2017 financial statements.

25. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2017 (2016: Nil).

26. EVENTS AFTER THE REPORTING PERIOD

- (a) from January 2018 and up to the date of approval of these financial statements, the Company has obtained unsecured loans which are interest-bearing at 6%-13% per annum in an aggregate amount of HK\$870,537,000 from independent third parties, of which HK\$410,000,000, HK\$214,500,000 and HK\$246,037,000 are repayable in 2018, 2019 and 2020, respectively;
- (b) from January to March 2018, the Company has renewed and extended the repayment tenures of certain unsecured borrowings of approximately HK\$842,958,000 outstanding at the end of the reporting period to 2019 and 2020 for amounts of HK\$398,000,000 and HK\$444,958,000, respectively; and
- (c) on 21 March 2018, the Company has obtained an additional unsecured credit facility of approximately HK\$781,000,000 from an independent third party, which bears interest at 12% per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is an investment holding company, and the Group is principally engaged in the gaming and resort business including the development and operation of integrated resort on the Island of Saipan.

Gaming and Resort Business

In August 2014, Imperial Pacific International (CNMI), LLC (the “**Licencee**”), an indirect wholly-owned subsidiary of the Company, and the Commonwealth of the Northern Mariana Islands (“**CNMI**”) entered into a casino licence agreement in respect of the exclusive casino resort developer licence on the Island of Saipan (the “**Casino Licence Agreement**”).

Best Sunshine Live

On 27 November 2015, the Licencee launched the grand opening of the “Temporary Casino” in Garapan, Island of Saipan (“**Best Sunshine Live**”). The grand opening of Best Sunshine Live had supported the Group’s continuous evolution of Saipan into a diversified and world-leading entertainment and tourism destination.

On 6 July 2017, the Licencee successfully transferred operations of Best Sunshine Live to the casino portion of the Initial Gaming Facility (“**Imperial Pacific Resort Hotel • Saipan**) and commenced operation on the same day. The operations of Best Sunshine Live was closed simultaneously. After the transfer, the Company’s gaming capacity was increased from 48 tables and 141 slot machines at Best Sunshine Live to 77 tables and 243 slot machines at present with maximum capacity of up to 193 tables and 365 slot machines upon completion of all casino floor area in Imperial Pacific Resort Hotel • Saipan.

Imperial Pacific Resort Hotel • Saipan

The casino portion of the Imperial Pacific Resort Hotel • Saipan has opened on 6 July 2017, with operations of Best Sunshine Live transferred in, Imperial Pacific Resort Hotel • Saipan was opened for operations.

On 29 June 2017, the parties to the Casino Licence Agreement entered into a written amendment to the Casino Licence Agreement pursuant to which, among other things, the licencee, upon issuance of all required CNMI government permits and consent from the Casino Commission, may transfer the operations of Best Sunshine Live to Imperial Pacific Resort Hotel • Saipan at any time prior to the completion of the 250 rooms of the hotel portion of the Imperial Pacific Resort Hotel • Saipan.

On 31 July 2017, the parties to the Casino Licence Agreement entered into a written amendment to the Casino Licence Agreement (the “**Amendment Agreement**”) pursuant to which, among other things, the implementation schedules under the Casino Licence Agreement have been amended and the proposal requirements thereunder have been set out in more details. Details of the Amendment Agreement have been disclosed in the announcement of the Company dated 31 July 2017.

On 31 July 2017, as amended in the Amendment Agreement, the required date of completion and initiation of operations of the Imperial Pacific Resort Hotel • Saipan has been amended to no later than 31 August 2018, with a minimum of a 329-room four or five star luxury hotel, 14,140 square meters of gaming area and other elements and associated support components. As at the date of this result announcement, due to delay in construction progress of Imperial Pacific Resort Hotel • Saipan, the Group has notified the relevant CNMI government authorities of its intended application to extend the deadline to complete the Initial Gaming Facility.

Major global construction companies, consulting firms, design and engineering firms as well as local sub-contractors are engaged. As of 31 December 2017, approximately US\$650 million (equivalent to approximately HK\$5,064 million) (31 December 2016: US\$343 million (equivalent to HK\$2,662 million) has been invested in the design, consulting, engineering, construction materials and labour costs.

For the full year of 2017, the seamless transfer between business locations has ensured that gaming operations continued to record strong growth. During the year ended 31 December 2017, unaudited VIP table games rolling of US\$49,507 million (equivalent to approximately HK\$385,856 million) and revenue of approximately HK\$13,156 million (2016: HK\$7,489 million) was generated from the casino gaming operations.

BUSINESS OUTLOOK

Integrated Resort Development

The Imperial Pacific Resort Hotel • Saipan, perched on the water front of downtown Garapan, will boast restaurants with Michelin Stars, in addition to the 193 gaming tables and 365 slot machines, and 329 hotel rooms and 15 villas upon completion of construction.

An additional US\$307 million has been invested in design and construction of this super luxurious casino resort which has brought the total investment to US\$650 million as at 31 December 2017. The Board does see certain delay in construction mainly due to labor issue caused by the main contractor and several subcontractors and to a lesser extent unfavourable weather conditions; however, with the construction work already back on track, the Board believes that the issue will soon be resolved and cease hindering the progress of the project.

The results at Best Sunshine Live has given great satisfaction to the Board. With the transfer to the new casino completed on 6 July 2017, we believe that new customers will continue to be attracted to Saipan and hence broaden our customer base. With the gaming capacity to be further enhanced, we expect to commence collaboration with gaming promoters after they are granted junket operator licences to operate on the Island of Saipan. Due to CNMI’s lower tax regime, we believe we will be able to offer very competitive commission rates to our gaming promoters.

Supply of hotel rooms continued to be the crucial bottle-neck for the growth of tourist arrivals to the Island of Saipan. According to the Hotel Association of the Northern Mariana Islands (the “**HANMI**”), for the calendar year of 2017, average hotel rate reached a new high of US\$145.93 per night with average hotel occupancy rate of 90.89%, representing growth of US\$5.81 (or 4.15%) and 3.36% respectively compared to 2016. We currently have 3 villas and 5 yachts in place as well as hotel rooms secured from local high quality hotels to provide better accommodations to our VIP customers. We also expect the successional opening of villas and hotels rooms of the Imperial Pacific Resort Hotel • Saipan will be to a great extent enhance our capacity to better accommodate patrons.

Despite the supply shortage of quality hotel rooms on the Island of Saipan, visitor arrivals to CNMI still recorded a new high in last year. According to the Mariana’s Visitors Authority (the “**MVA**”), for the calendar year of 2017, total visitor arrival to CNMI grew by 24.3% to 659,741. Korean visitation has become the dominating force with market share of 50.48% and strong growth of 65.81% for the year. Though market share slid to the second place, visitor arrivals from Mainland China still grew steadily by 11.06%, Beijing-based carrier Capital Airlines officially introduced the Hangzhou-Saipan direct flight service twice weekly starting from 6 July 2017. Notably, arrivals from Hong Kong almost trebled with a growth of 177.54%. Benefiting from Saipan’s favorable weather, stunning attractions, proximity location and flexible visa policies, with more hotels room to be built and opened, we believe visitation to the Island of Saipan still has great potential.

Debt/Equity Fund Raising and Refinancing

During the year, the Company had convertible notes which matured on 20 August 2017 (“**CN 2015**”). An aggregate principal amount of HK\$205,500,000 had been redeemed during the year. As at 31 December 2017, the Company was in the process of redeeming the remaining CN 2015 of an aggregate principal amount of HK\$123,400,000 of which HK\$100,000,000 has been redeemed subsequent to the end of the reporting period.

The Company (as issuer) completed the issuance of the 8.5% per annum unsecured notes due 2020 in the aggregate principal amount of US\$70 million (equivalent to HK\$543 million) on 8 February 2017 to certain independent investors.

In addition, the Company completed the issuance of the 7.8% per annum unsecured notes due 2019 in the aggregate principal amount of HK\$100 million (equivalent to HK\$776 million) to Inventive Star Limited (“**Inventive Star**”), the controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) of the Company, on 22 February 2017.

On 21 March 2017, the Company completed another issuance of the 7.8% per annum unsecured notes due 2019 in the aggregate principal amount of US\$50 million (equivalent to HK\$388 million) to Inventive Star. Details of the issuances of these unsecured notes have been disclosed in the announcements of the Company dated 11 January 2017, 8 February 2017, 22 February 2017 and 21 March 2017 respectively.

On 16 June 2017, the Company entered into a conditional placing agreement (the “**CB Placing Agreement**”) with CIS Securities Asset Management Limited (formly known as Convoy Investment Services Limited) (the “**Placing Agent**”), pursuant to which the Placing Agent agreed to procure, on a fully underwritten basis, to not less than six (6) Placees to subscribe in cash for the convertible bonds of an aggregate principal amount of HK\$50 million with initial conversion price of HK\$0.176 per conversion share (the “**CB 2017**”). The placing was completed on 27 June 2017 and CB 2017 with an aggregate principal amount of HK\$50 million were issued, which are convertible into 284,090,909 conversion shares.

On 9 August 2017, the Company entered into another placing agreements with the Placing Agent pursuant to which the Placing Agent agreed to act as a sole placing agent, on a best efforts basis, for the purposes of arranging placees to subscribe for (i) bonds A up to an aggregate principal amount of HK\$350,000,000 and (ii) bonds B up to an aggregate principal amount of HK\$50,000,000. As at the date of this announcement, bonds A with an aggregate principal amount of HK\$28,500,000 and bonds B with an aggregate principal amount of HK\$28,000,000 were issued under the aforementioned placing agreements. Details of the aforementioned placing agreements have been disclosed in the announcement of the Company dated 9 August 2017.

The Board does not rule out the possibility that the Company may carry out further 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 Group, including 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 other concrete fund raising opportunities.

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group achieved revenue of HK\$13,156 million, representing an increase by HK\$5,667 million which is principally contributed by the rapid growth of VIP gaming operations. Profit attributable to equity holders of the Company for the year ended 31 December 2017 was HK\$637 million, as compared with the profit attributable to equity holders of HK\$936 million in the corresponding period of last year. The drop of profit is mainly attributable to increase in impairment losses of trade receivables, operating and administrative expenses incurred during the year. Basic and diluted earnings per share were HK0.45 cents and HK0.24 cents respectively, as compared with basic and diluted earnings per share of HK0.66 cents and HK0.34 cents respectively in the corresponding period of last year.

Casino Gaming Operations

The following table sets forth the results of the casino gaming operations for the years ended 31 December 2017 and 2016:

	For the year ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(in thousands, except for number of gaming tables and slot machines and Electronic Table Game (“ETG”) and percentage)		
Average number of VIP gaming tables	23	16
VIP table games rolling	385,855,800	251,241,203
VIP gross table games win	12,728,872	7,130,167
VIP table games win percentage	3.30%	2.84%
<hr/>		
Average number of Mass Gaming tables	39	32
Mass games drop	926,906	918,019
Mass games gross table games win	302,665	261,880
Mass games win percentage	32.65%	28.53%
<hr/>		
Average number of slot machines and ETG	165	141
Slot machines and ETG handle	847,511	679,106
Slot machines and ETG gross win	66,861	57,294
Slot machines and ETG hold percentage	7.89%	8.44%
<hr/>		
Commissions	4,997,103	3,416,342
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Operating Revenue

The following table sets forth the operating revenue for the years ended 31 December 2017 and 2016.

	For the year ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
VIP gaming operations	12,728,872	7,130,167
Mass gaming operations	302,665	261,880
Slot machines and ETG gaming operations	66,861	57,294
Food and beverages	57,210	39,638
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	13,155,608	7,488,979
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VIP Gaming Operations

A significant portion of our VIP casino customers is sourced through the Group's own marketing channels. Such high-spending VIP customers 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 customer-related expenses.

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

In addition, a minor operation of the Group's VIP customers has been sourced via a new licenced junket operator since August 2016. The establishment of a new licenced junket incentive allowed the Group to bring in new customers which mitigated the Group's credit concerns for those VIP customers brought in by the junket operator.

VIP rolling chip volume for the year of 2017 reached approximately HK\$385,856 million (2016: HK\$251,241 million). VIP gaming revenue was HK\$12,729 million (2016: HK\$7,130 million) with a win percentage of 3.30% (2016: 2.84%). The growth in VIP gaming revenue is attributable to the Group's effective marketing campaigns and increasing tourist visitation to CNMI. Our VIP customers primarily consist of credit players. Geographically, most of our direct VIP customers are come from China, Hong Kong, Macau and Korea.

The Company shall announce aggregate unaudited VIP table games rolling in its interim and annual results announcements.

Impairment

The gross trade receivables increased to HK\$13,278 million (2016: HK\$5,881 million), in line with revenue growth from VIP gaming operations for year ended 31 December 2017. While the scale of VIP gaming operations had a significant growth during the year, the Group regularly reviews the recoverability of trade receivables to ensure that adequate impairments are made for irrecoverable amounts.

Impairment of the Group's trade receivables was made based on the management's individual and collective assessment on the recoverability of the customers' outstanding trade receivables. The Company's management has taken into consideration the collectability of individual customers, debts' ageing profile, security provided in the form of front money and guarantee deposits as well as experience with collection trends in the casino industry and current economic and business conditions and provided provision for impairment on certain customers' trade receivables as follows:

- (i) as at 31 December 2017, the provision for impairment of trade receivables due from the Group's largest and the ten largest debtors amounted to HK\$1,093 million and HK\$1,867 million (2016: HK\$Nil and HK\$83 million) respectively. The aforementioned provisions were made based on a review of individual customer's facts and circumstances (such as financial position and ongoing dialogue on settlement arrangements, etc), aging of the outstanding amounts, securities provided and any subsequent repayments;

- (ii) as at 31 December 2017, the provision for impairment of trade receivables due from the remaining customers of the Group amounted to HK\$2,880 million (2016: HK\$464 million) arising from regular review of the overdue balances by the management.

The Board considered that the customers' aging of the trade receivables are comparable and in line with global industry standards for customers sourced through own marketing channels instead of junket operators. The Board has also prudently benchmarked against its industry peers on provision of bad debt on trade receivables and considered that the impairment of trade receivables as estimated by the Company in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 and for the year ended 31 December 2016 to be comparable.

The Board also wishes to elaborate below measures taken by the Group to recover the trade receivables:

- (i) credit terms extended by the Group are generally 30 days for gaming operations. The Group's credit and collection department, along with representatives of the VIP marketing department, regularly meet on a monthly basis to identify customers whose debts are due and the VIP marketing department will make contact with customers for recovery of the outstanding debts; and
- (ii) once the receivables are overdue for repayment and if the customers still have not repaid the outstanding debts within six months of the programme end date, the Group's credit and collection department will then issue demand letters to the customers, along with its guarantors (if applicable), for demand of immediate payments. If no responses were received thereafter, the Group's management may consider bringing legal actions against the customers in order to collect the outstanding debts.

Mass Gaming Operations

For the year ended 31 December 2017, revenue from mass gaming operations amounted to HK\$303 million (2016: HK\$262 million) and mass gaming drop reached HK\$927 million (2016: HK\$918 million). Customers from the mass gaming operations do not receive commissions from the Group.

Going forward, we will continue to review our mass gaming areas to maximize table utilization, to expand 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\$67 million (2016: HK\$57 million) and hold percentage reached 7.89% (2016: 8.44%) for the year ended 31 December 2017.

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 more personal and precision marketing efforts.

Cost of Sales

Cost of sales for the year ended 31 December 2017 was HK\$1,216 million (2016: HK\$856 million) which comprise principally the direct casino costs such as casino licence fees of US\$15 million (equivalent to approximately HK\$117 million) and Saipan's business gross revenue tax of US\$82 million (equivalent to approximately HK\$637 million).

Other income, gains and losses, net

Other income, gains and losses, net for the year ended 31 December 2017 mainly represent gain on disposal of subsidiaries of approximately HK\$12 million, net off by losses of approximately HK\$34 million from the impairment of available-for-sale investments and loss on disposal of property, plant and equipment of approximately HK\$26 million.

Operating expenses

Operating expenses increased to HK\$5,861 million, which mainly result from the impairment losses on trade receivables increased to approximately HK\$4,185 million, staff cost increased to approximately of HK\$644 million, and depreciation and amortization expenses increased to approximately HK\$148 million during the year.

Adjusted EBITDA

The following table reconciles Adjusted EBITDA to its most directly comparable HKFRSs measurement, profit attributable to owners of the Company, for the years ended 31 December 2017 and 2016.

	For the year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Profit for the year from continuing operations	637,473	935,893
Add/(less):		
Depreciation and amortization	147,687	112,309
Casino licence fees	116,909	116,438
Interest income	(2)	(99)
Fair value loss on available-for-sale investments	33,855	53,302
Fair value gain on derivative financial instruments, net	(549)	(69,594)
Finance costs	165,212	57,864
Taxes	870,960	533,694
Share-based payments	21,635	10,347
Net foreign currency differences	4,155	18,672
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Adjusted EBITDA (<i>Note</i>) (unaudited)	1,997,335	1,768,826

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 HKFRSs or other combined operations or cash flow data, or interpreted as an alternative to cash flow as a measure of liquidity. Adjusted EBITDA presented in this announcement may not be comparable to other similarly titled measures of other companies operating in the gaming or other business industry sectors.

Significant Investment and Acquisition

Apart from the development of integrated resort on the Island of Saipan, the Company did not have any significant investment, acquisition or disposal during the year that should be notified to the shareholders of the Company.

Capital expenditure

The Group incurred capital expenditure of approximately HK\$2,636 million (2016: approximately HK\$2,514 million) during the year ended 31 December 2017, mainly for construction of the Imperial Pacific Resort Hotel • Saipan and acquisition of gaming related equipment.

Liquidity and Financial Resources

On 8 February 2017, the Company (as issuer) completed the issuance of the 8.5% per annum unsecured notes due 2020 in the aggregate principal amount of US\$70 million (equivalent to HK\$543 million) to certain independent investors.

In addition, on 22 February 2017, the Company completed the issuance of the 7.8% per annum unsecured notes due 2019 in the aggregate principal amount of US\$100 million (equivalent to HK\$776 million) to Inventive Star.

On 21 March 2017, the Company completed another issuance of the 7.8% per annum unsecured notes due 2019 in the aggregate principal amount of US\$50 million (equivalent to HK\$388 million) to Inventive Star.

CB 2017 with an aggregate principal amount of HK\$50 million were issued on 27 June 2017.

Bonds A with an aggregate principal amount of HK\$28.5 million and bonds B with an aggregate amount of HK\$28 million have been issued pursuant to the placings agreements with the Placing Agent entered into on 9 August 2017.

Capital structure

During the year, there was no change to the authorised share capital of the Company while 1,333,333,333 new shares of the Company (the “**Shares**”) were issued and allotted upon exercise of conversion rights attached to the CN 2015.

As at 31 December 2017, the total number of issued Shares was 142,984,807,678 (31 December 2016: 141,651,474,345).

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 limited exchange rate exposure given HK\$ and US\$ are pegged. However, the Group will closely monitor this risk exposure and would take prudent measures as and when appropriate.

Capital Commitments

As at 31 December 2017, the Group had capital commitments of approximately HK\$554 million (31 December 2016: HK\$2,404 million).

Contingent Liabilities

Save as disclosed in note 24 of the annual result announcement, the Group did not have any other significant contingent liabilities as at 31 December 2017 and 31 December 2016.

Pledge of Assets

As at 31 December 2017, the Group did not have any pledge of assets (31 December 2016: Nil).

EMPLOYEES AND REMUNERATION POLICIES

The total number of staff of the Group as at 31 December 2017 was 1,756 (31 December 2016: 1,560).

Remuneration packages are reviewed annually and determined with reference to market and individual performance. In addition to salary payments, the Group also provides other employment benefits such as mandatory provident fund.

SHARE OPTION SCHEME

At the beginning of the financial year ended 31 December 2017, 1,462,669,808 share options were outstanding pursuant to the share option scheme of the Company adopted on 27 June 2013 (the “**Share Option Scheme**”) (each share option shall entitle the holder of the option to subscribe for one new Share) and 13,623,880,768 Shares, being 9.53% of the Shares then in issue, were available for issue under the Share Option Scheme.

During the year under review, no grantee had exercised any share options, 532,479,220 share options were granted and 142,970,756 share options lapsed. As at 31 December 2017, there were 1,852,178,272 share options outstanding pursuant to the Share Option Scheme.

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 year.

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 the year ended 31 December 2017, 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 his other important engagements, the independent non-executive Director of the Company, Mr. Robert James Woolsey was unable to attend the annual general meeting of the Company held on 29 June 2017.

DIVIDEND

No dividend for the year ended 31 December 2017 (2016: Nil) is recommended by the Board.

AUDIT COMMITTEE REVIEW

An audit committee of the Company (the “**Audit Committee**”) 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 year ended 31 December 2017 have been reviewed and approved by the Audit Committee.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

Hong Kong, 28 March 2018

As at the date of this announcement, the Board comprises Ms. Cai Lingli, Ms. Xia Yuki Yu, Mr. Teng Sio I and Ms. Cui Li Jie as executive Directors and 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\$7.79 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.