

SUMMIT ASCENT
凱升控股有限公司  Holdings Limited

Summit Ascent Holdings Limited

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



2023
INTERIM REPORT

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HIGHLIGHTS

- The Group's total revenue was HK\$182.0 million in the 1H 2023, up 2.3% compared to HK\$177.9 million in the 1H 2022, predominantly attributable to a strong domestic market in the Russian Federation.
- The Group recorded an Adjusted EBITDA of HK\$57.0 million in the 1H 2023, compared to HK\$60.0 million in the 1H 2022.
- The Group recorded a loss attributable to owners of the Company of HK\$16.1 million in the 1H 2023, compared to a profit attributable to the owners of the Company of HK\$85.2 million in the 1H 2022. The loss in the 1H 2023 was mainly due to the recognition of exchange losses of approximately HK\$35.2 million caused by the fluctuation of the Russian Ruble exchange rate, whereas exchange gains of approximately HK\$157.1 million were recognised in the 1H 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The gaming and hotel operations of Summit Ascent Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) are conducted through its 77.5% equity interest in Oriental Regent Limited (“Oriental Regent”). The Group also receives a management fee income calculated at 3% of the total net gaming revenue generated by G1 Entertainment Limited Liability Company (“G1 Entertainment”), a wholly-owned subsidiary of Oriental Regent.

G1 Entertainment holds a gaming license granted by the Russian government and governed by, among others, the Russian Federal Law No. 244-FZ of 29 December 2006 “On the State Regulation of Activities Associated with the Organisation of and Carrying on Gambling and on Amending Individual Legislative Acts of the Russian Federation” for an indefinite period and the development rights on three adjacent parcels of land, namely Lot 8, Lot 9 and Lot 10 with site areas of approximately 73,000 square metres, 90,000 square metres and 154,000 square metres respectively, in the Integrated Entertainment Zone of the Primorye Region (the “IEZ Primorye”) of the Russian Far East, which is one of four designated zones in the Russian Federation where gaming and casino activities are legally permitted. The first gaming and hotel property, known as Tigre de Cristal, is built on Lot 9 and opened for business in the fourth quarter of 2015. Lot 8 is partly erected with dormitories, a gas-powered station and a storage area, called the utility zone. The remaining portion of Lot 8 and the entire Lot 10 are vacant land currently, held for the phased development of Tigre de Cristal in the future.

The features of Tigre de Cristal are as follows:

- Approximately 36,000 square metres of gaming and hotel space, offering a broad range of gaming options 24 hours a day, 7 days a week, 365 days a year;
- The finest luxury 5-Star hotel in the Russian Far East with 121 rooms and suites, which was named “Russia’s Best Casino Hotel 2021” by World Casino Awards;
- Fine dining in 2 restaurants, the international cuisine “CASCADE” and the Pan-Asian cuisine “88”, and 3 casual bars;
- A Tigre de Cristal branded shop, virtual golf zone, and a private club with karaoke rooms.

MANAGEMENT DISCUSSION AND ANALYSIS

The Russia-Ukraine Conflict

The ongoing Russia-Ukraine conflict continues to pose substantial economic risk and uncertainty for the region and globally, and the Russian tourism industry is severely hit in particular. When international tourism is well on its way to returning to pre-pandemic levels, the number of foreign tourists visiting the Russian Federation has collapsed since the early 2022 due to the airspace closures and financial sanctions passed by Ukraine's Western allies, in response to the Russian "special military operation".

In light of these unprecedented circumstances, the Group has adjusted its business priorities and optimized its business strategy and operations to focus on the Russian local market, such as changing the supply chain, logistics, and customer support processes for offering tailored customer services to meet the local demand and position its business for long-term success in the domestic market. Large-scale capital expenditure, especially the Phase II development of Tigre de Cristal ("TdC Phase II"), is also put on hold until conditions are more favorable and the business outlook improves. The Board has been closely monitoring the market conditions and the impact of the Russia-Ukraine conflict and will continue to assess the effects on the financial position and operations of the Group.

Acquisition of Land Parcels in Japan

On 18 May 2023, the Company entered into the sale and purchase agreements (the "Sale and Purchase Agreements") with (i) LET Group Holdings Limited ("LET") to acquire the entire issued share capital of Modest Achieve Limited ("Modest Achieve"), a company incorporated in the British Virgin Islands (the "BVI") and a wholly-owned subsidiary of LET, together with its shareholder's loans, at a consideration of totally Hong Kong dollars ("HK\$")142.8 million; and (ii) Solid Impact Limited ("Solid Impact"), a company incorporated in the BVI and an independent third party, to acquire the entire issued share capital of Joyful Award Limited ("Joyful Award"), a company incorporated in the BVI and a wholly-owned subsidiary of Solid Impact, together with its shareholder's loans, at a consideration of totally HK\$137.2 million. Modest Achieve directly and Joyful Award indirectly hold 51% and 49% interests in MSRDC Corporation Limited respectively, a company incorporated in Japan and whose principal asset is a property comprising 28 adjoining land parcels with a total site area of approximately 108,799 square meters located in Nishihara, Aza Nikadori, Hirara, Miyakojima City, Okinawa Prefecture of Japan (the "Land Parcels"). The Sale and Purchase Agreements are inter-conditional upon each other, and the considerations were determined after arm's length negotiation among LET, Solid Impact and the Company by reference to the market value of the Land Parcels according to an independent valuation report.

LET is the controlling shareholder of the Company, interested in, directly and indirectly, an aggregate of approximately 69.66% of the Company's shares in issue, and therefore a connected person of the Company. Accordingly, the Sale and Purchase Agreements and the transactions contemplated thereunder constitute as connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which were approved at the special general meeting of the Company held on 14 July 2023. Upon completion of the Sale and Purchase Agreements, the Company owns 100% interest in the Land Parcels, which will be developed into a luxury hotel with seaside cabins. Details of these transactions are disclosed in the announcements of the Company dated 18 May 2023 and 14 July 2023 and the circular dated 28 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of Proceeds

The Company raised net proceeds of approximately (1) HK\$297 million from the placing of shares of the Company (the "Shares") on 19 August 2019 (the "2019 Placing") and (2) HK\$1,618.4 million from the rights issue on 15 October 2020 (the "Rights Issue"). The detailed breakdown and description of the proceeds and the expected timeline of the unutilised amounts up to 30 June 2023 are set out as follows:

	Unutilised amount as at 1 January 2022	Actual amount utilised for the year ended 31 December 2022	Unutilised amount as at 31 December 2022 and 1 January 2023	Actual amount utilised for the period end 30 June 2023	Unutilised amount as at 30 June 2023	Change in use of proceeds approved on 14 July 2023	Expected timeline of application of the unutilised amount
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	(Note 3)
(1) The 2019 Placing:							
TdC Phase II, including but not limited to,							
Design	60.5	(2.5)	58.0	-	58.0	(58.0)	
Site surveying and preparation	85.8	(0.9)	84.9	-	84.9	(84.9)	
Tendering of consultants and subcontractors	150.0	-	150.0	-	150.0	(150.0)	
Sub-Total	296.3	(3.4)	292.9	-	292.9	(292.9)	
			(Note 1)				
(2) The Rights Issue:							
TdC Phase II, including but not limited to,							
Procurement of construction materials	186.4	-	186.4	-	186.4	(186.4)	
For general working capital of the Group, including but not limited to,							
Capital expenditures	8.9	(8.9)	-	-	-	-	
Repairs and maintenance	16.2	(9.0)	7.2	(3.6)	3.6	-	By 31 December 2023
Return of the refunded value-added tax ("VAT")	8.7	(8.7)	-	-	-	-	
	33.8	(26.6)	7.2	(3.6)	3.6	-	
Sub-Total	220.2	(26.6)	193.6	(3.6)	190.0	(186.4)	
			(Note 2)	(Note 2)			
Total	516.5	(30.0)	486.5	(3.6)	482.9	(479.3)	

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. The actual amounts utilised in respect of the 2019 Placing had been applied as intended, which are set out in the paragraph headed “Reasons for the placing and use of proceeds” in the Company’s announcement dated 25 July 2019.
2. The actual amounts utilised in respect of the Rights Issue had been applied as intended, which are set out in the paragraphs headed “Use of proceeds” in the Company’s circular dated 14 August 2020, “Reasons for and benefits of the loan” in the Company’s circular dated 26 March 2021 and “Further change in use of part of the net proceeds from the rights issue” in the Company’s circular dated 26 October 2021.
3. On 27 January 2023, the Company entered into a revolving loan agreement with LET, pursuant to which the Company conditional agreed to grant a revolving loan facility up to HK\$500 million to LET at an interest rate of 6% per annum for 3 years (the “Revolving Loan”). The Company proposed to deploy part of the net proceeds from the 2019 Placing and the Rights Issue to the extent of approximately HK\$292.9 million and HK\$186.4 million respectively, totally HK\$479.3 million, originally intended for use in TdC Phase II as the Revolving Loan to generate interest income since TdC Phase II has been suspended. On 10 May 2023, the Company and LET mutually agreed to terminate the Revolving Loan and entered into a deed of termination to release and discharge the respective obligations and liabilities with immediate effect. Therefore, the proposed change in use of proceeds with respect to the Revolving Loan will no longer be required by the Company.

On 18 May 2023, upon entering into the Sale and Purchase Agreements, the Company proposed to utilise the aforementioned net proceeds of approximately HK\$479.3 million as to (i) HK\$280.0 million for the settlement of the acquisitions of Modest Achieve and Joyful Award; (ii) HK\$125.0 million for designing, planning and funding in part the future development of the Land Parcels; and (iii) the remaining approximately HK\$74.3 million for general working capital or potential investment opportunities of the Group. The proposed change in use of proceeds with respect to the Sale and Purchase Agreement was approved at the special general meeting of the Company held on 14 July 2023, details of which are disclosed in the Company’s announcements dated 18 May 2023 and 14 July 2023, and the circular dated 28 June 2023.

Provision of Financial Assistance to a Fellow Subsidiary

Suntrust Resort Holdings, Inc. (“Suntrust”), an indirect 51% non-wholly owned subsidiary of LET and a fellow subsidiary of the Company, has obtained a term loan in principal amount of up to Philippine pesos (“PHP”) 25.0 billion (equivalent to approximately HK\$3.6 billion) (the “Loan Facility”) from China Banking Corporation (the “Lender”) to partially finance the construction and development of a 5-Star hotel and casino complex located at Manila Bayshore Integrated City in Paranaque City, the Philippines (the “Main Hotel Casino”) by entering into a loan agreement dated 8 June 2023 as amended by an amendment agreement dated 26 July 2023 (collectively the “Loan Agreement”) for 8 years from the date of the first drawdown of PHP2.0 billion on 31 July 2023. Suntrust, Mr. Lo Kai Bong (Chairman and Executive Director of the Company) and LET have provided surety and securities to the Lender as securities for the Loan Facility. It is one of the requirements of the Lender that Summit Ascent Investments Limited (“SA Investments”), a wholly-owned subsidiary of the Company, shall provide certain securities to the Lender for the Loan Facility, as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

(1) *Subscription of New Convertible Bonds*

On 1 June 2020, SA Investments, entered into a subscription agreement with Suntrust, pursuant to which Suntrust conditionally agreed to issue and SA Investments conditionally agreed to subscribe for the convertible bonds in the aggregate principal amount of PHP5.6 billion at an initial conversion price of PHP1.80 per share of Suntrust for an initial term of 5 years from the date of their issue extendable for a further term of 5 years (the "2020 CB"). The 2020 CB was issued by Suntrust to SA Investments on 30 December 2020. On 20 September 2021, SA Investments entered into another subscription agreement with Suntrust, pursuant to which Suntrust conditionally agreed to issue and SA Investments conditionally agreed to subscribe for the convertible bonds in the aggregate principal amount of PHP6.4 billion at an initial conversion price of PHP1.65 per share of Suntrust for an initial term of 3 years from the date of their issue extendable for a further term of 3 years (the "2022 CB"). The 2022 CB was issued by Suntrust to SA Investments on 10 June 2022.

The 2020 CB bears an interest rate of 6.0% per annum on the aggregate principal amount of the 2020 CB from time to time outstanding, payable yearly in arrears accruing from the issue date of the 2020 CB (i.e. 30 December 2020) on the basis of a 365-day year. The 2022 CB bears an interest rate of 6.0% per annum on the aggregate principal amount of the 2022 CB from time to time outstanding, payable yearly in arrears accruing from the issue date of the 2022 CB (i.e. 10 June 2022) on the basis of a 365-day year. Taking into account the financial situation, cash flow and capital expenditure needs, Suntrust has not paid to SA Investments (i) the second interest payment of PHP336.0 million due under the 2020 CB on 30 December 2022; and (ii) the first interest payment of PHP382.9 million due under the 2022 CB on 10 June 2023 (collectively the "Payment Obligations"). SA Investments has agreed in principle to restructure the Payment Obligations.

On 26 July 2023, SA Investments entered into a subscription agreement with Suntrust, pursuant to which Suntrust conditionally agreed to issue and SA Investments conditionally agreed to subscribe for the zero-coupon convertible bonds in the principal amount of up to PHP13.5 billion (equivalent to approximately HK\$1.93 billion) at an initial conversion price of PHP1.10 per share of Suntrust for an initial term of 8 years from the date of their issue extendable for a further term of 2 years (the "New CB"). SA Investments and Suntrust will enter into a set-off deed (the "Set-Off Deed") and the subscription price of the New CB will be applied by Suntrust to redeem the 2020 CB and the 2022 CB by setting off against the outstanding principal amounts of the 2020 CB and the 2022 CB together with accrued interest thereon up to the completion date of the subscription of the New CB (the "Indebted Amount"), either (a) (if the subscription price is equal to or more than the Indebted Amount) in full; or (b) (if the subscription price is less than the Indebted Amount) in part to an amount equal to the subscription price with the amount of shortfall to be paid by Suntrust in cash.

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Interest Waiver

Pursuant to the terms of the 2020 CB and the 2022 CB, the 2020 CB and the 2022 CB are subject to an overdue interest rate of 8.0% per annum from their respective interest due dates of 30 December 2022 and 10 June 2023 until settlement of the Payment Obligations. Based on arm's length negotiations between Suntrust and SA Investments, SA Investments agreed to calculate the accrued interest based on the non-overdue interest rate of 6.0% per annum, thereby waiving the extra 2.0% interest per annum under the overdue interest rate of the 2020 CB and the 2022 CB already accrued and to be accrued until the completion of the subscription of the New CB (the "Interest Waiver").

Conversion Condition and Redemption Condition of the New CB

Until repayment of at least 75% of the Loan Facility has been made, SA Investments shall not exercise any New CB conversion rights or agree to any amendment to the terms and conditions of the New CB.

All amounts due and payable under the New CB shall be subordinated to and shall rank junior in payment to the Loan Facility until full payment of the Loan Facility (the "Redemption Condition"). Either Suntrust or SA Investments is entitled to request for early redemption at any time after the first anniversary of the issue date of the New CB and expiring on the maturity date, subject to the Redemption Condition, at the outstanding principal amount and an amount that would make up an annual return on the New CB to be redeemed at 6% calculated from the issue date of the New CB up to the date of redemption. Unless previously redeemed, converted, purchased or cancelled, Suntrust shall redeem the New CB on its maturity date, subject to the Redemption Condition, at the outstanding principal amount up to the maturity date and an amount that would make up an annual return on the New CB to be redeemed at 6% calculated from the issue date of the New CB up to the maturity date.

(2) *SA Loan Agreement*

In pursuance of the Loan Agreement, Suntrust is required to maintain a credit balance of not less than United States dollars ("US\$")20 million (equivalent to approximately HK\$155 million) in a construction reserve account to be maintained in the name of a security trustee to the Lender to cover any cost overruns of the construction of the Main Hotel Casino on or before 30 September 2023 (the "CRA Reserve Requirement"). On 26 July 2023, SA Investments as lender entered into a loan agreement with Suntrust (the "SA Loan Agreement"), pursuant to which, SA Investments will provide a loan facility of up to US\$20 million (equivalent to approximately HK\$155 million) to Suntrust at an interest rate of 6.0% per annum, available for 10 years from the date of drawdown, for the sole purpose of Suntrust to fulfill the CRA Reserve Requirement.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) *Finance Documents*

Security Agreement

Under the security agreement executed by SA Investments (the "Security Agreement"), which was incorporated as part of the Loan Agreement, SA Investments (a) created a first charge and an assignment by way of security of (i) all present and future convertible bonds issued by Suntrust (the "CBs", including without limitation, the 2020 CB, the 2022 CB, and the New CB); and (ii) all present and future agreements, contracts, documents or instruments entered into or to be entered into between Suntrust and SA Investments evidencing or relating to loans or advances by SA Investments to Suntrust (including without limitation, the SA Loan Agreement); (b) created a first charge over all shares of Suntrust owned or held or that in the future may be owned or held by SA Investments; and (c) undertook to provide additional funding to Suntrust to ensure timely completion of the Main Hotel Casino and timely fund the cost over-runs of the Main Hotel Casino project (the "SA Project Support Undertaking").

Subordination Agreement

Under a subordination agreement dated 26 July 2023 executed by SA Investments (the "Subordination Agreement"), SA Investments has irrevocably subordinated any and all present and future indebtedness, liabilities or obligations of Suntrust, direct or indirect, contingent or non-contingent, owing to SA Investments under all advances and loans to Suntrust (including without limitation, the CBs and the SA Loan Agreement) to and ranking junior in payment to the Loan Facility.

Under and pursuant to the Subordination Agreement, SA Investments shall not demand, collect, accept and/or receive from Suntrust, whether directly or indirectly, any principal, interest, default interest, penalties or other amounts payable by the Suntrust to SA Investments under the SA Loan Agreement.

Supplemental Deed Polls

On 26 July 2023, the supplemental deed polls were executed by Suntrust and SA Investments (the "Supplemental Deed Polls"), pursuant to which the 2020 CB and the 2022 CB shall be revised by adding the following:

- (a) SA Investments agreed and undertook with the Lender (i) for as long as the Loan Facility remains outstanding, there shall be no conversion or amendment of the 2020 CB and the 2022 CB without the prior written consent of the Lender, provided that no such consent shall be needed if at least 75% of the Loan Facility has been repaid; (ii) the payment of principal, interest, and other amounts payable under any of the 2020 CB and the 2022 CB shall be subordinated to the Loan Facility, and any such payment shall only be made if it will not contravene the terms of the Loan Agreement; and (iii) any conversion, amendment, or payment in violation of any of the foregoing conditions shall be deemed void (collectively the "Required CB Conditions").
- (b) In relation to each of the 2020 CB and the 2022 CB, SA Investments agreed to waive the right to declare an event of default under it on or before its maturity date to comply with the subordination under the Required CB Conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

Undertaking

On 26 July 2023, SA Investments executed an undertaking (the "Undertaking") in favour of the Lender agreeing, committing and undertaking in favor of the Lender that (a) for so long as more than 25% of the Loan Facility remains outstanding, SA Investments shall seek and obtain the written consent of the Lender prior to exercising any conversion right that it may have under any or all of the 2020 CB and/or the 2022 CB; (b) for so long as any Loan Facility remains outstanding, SA Investments shall seek and obtain the written consent of the Lender prior to: (i) selling, assigning, transferring or otherwise disposing of any or all of the 2020 CB and/or the 2022 CB; (ii) creating or agreeing to create any lien on any or all of the 2020 CB and/or the 2022 CB; (iii) collecting, demanding and/or receiving from Suntrust, whether directly or indirectly, any principal, interest, default interest, penalties or other amounts payable under any or all of the 2020 CB and/or the 2022 CB; and/or (iv) declaring any event of default under any of the 2020 CB and/or the 2022 CB.

In any of the instances provided in (a) and (b) above, the Lender may grant, withhold or deny any consent sought by SA Investments at the sole and absolute discretion of the Lender without prejudice to the rights, interests, and liens of the Lender under the Loan Agreement, including those with respect to the 2020 CB and 2022 CB.

The Undertaking became effective upon initial drawdown by Suntrust under the Loan Agreement and will remain in force and effect until the Loan Facility is fully and indefeasibly paid or upon full redemption of the 2020 CB and the 2022 CB. Non-compliance by SA Investments with the Undertaking will constitute an event of default under the Loan Agreement.

(4) Indemnity by LET

By a deed of counter-indemnity dated 8 June 2023 executed by LET in favour of SA Investments, LET agrees to indemnify and keep SA Investments fully indemnified from and against all direct, indirect and consequential liabilities and losses, payments, damages, demands, claims, costs (including legal fees on a full indemnity basis), expenses of any kind, proceedings, actions and other consequences which SA Investments may incur, suffer or sustain when (a) the Lender makes any request or demand upon SA Investments for payment of any sum of money under or pursuant to any or all of the Security Agreement, the Subordination Agreement and the Supplemental Deed Polls (collectively the "Finance Documents") and/or the Undertaking and/or the Loan Agreement; or (b) the Lender enforces any or all of its rights and remedies against SA Investments under any or all the Finance Documents and/or the Undertaking and/or the Loan Agreement; or (c) the Lender enforces any or all securities created under any or all the Finance Documents; or (d) SA Investments becomes liable to pay any sum of money under or pursuant to any or all the Finance Documents and/or the Undertaking and/or the Loan Agreement to the Lender; or (e) they are arising from or as a consequence of any or all the Finance Documents and/or the Undertaking and/or the Loan Agreement.

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The Main Hotel Casino is still under construction and not yet in operation. Up to 30 June 2023, approximately US\$461.1 million has been paid for the Main Hotel Casino project by Suntrust, representing approximately 42% of the estimated total construction and development costs. The structural topping-off on Level 12 of the Main Hotel Casino was achieved and façade works were in progress. Podium is now in a water-tight condition for the commencement of interior fit-out works in the coming months. Suntrust is also starting the employee recruitment process for the Main Hotel Casino's operations team. If SA Investments does not restructure the Payment Obligations with Suntrust, the Loan Facility would be adversely affected and Suntrust may not be able to secure adequate funding for the Main Hotel Casino. The New CB, the Interest Waiver, the Set Off Deed, and the SA Loan Agreement coupled with the Finance Documents will help substantially to secure the Loan Facility and resolve Suntrust's financing needs allowing Suntrust to focus on completing construction of the Main Hotel Casino and preparing for its opening. Given the positive prospect of the gaming industry in the Philippines, facilitating the completion and opening of the Main Hotel Casino is essential to the Group to secure a return on its investment in Suntrust.

The Loan Agreement, the New CB, the Interest Waiver, the Set-Off Deed, the SA Loan Agreement, SA Project Support Undertaking, and the Finance Documents constitute major and connected transactions for the Company and the provision of financial assistance under the Listing Rules, which are, among others, subject to the Company's independent shareholders' approval requirements at a special general meeting. Details of these are disclosed in the Company's announcements dated 9 June 2023 and 26 July 2023.

OUTLOOK

Tigre de Cristal, the Group's integrated resort nestled near Vladivostok in the Russian Far East, has admirably sustained a robust domestic business operation and was still the key revenue generator of the Group in the first half of 2023. Tigre de Cristal superbly solidified its acumen in the industry as a well-loved Russians' integrated resort amid present economic ambiguity. With local business swinging towards an upward trajectory, the near-term outlook coming from its Russian locals for the resort appears steady.

Nonetheless, the drastic drop in the number of inbound tourist arrivals in the Russian Federation due to geopolitical tensions has been unprecedented and we have taken every action to mitigate the impact on the Group. From a risk management perspective, given uncertainties associated with the ongoing Russia-Ukraine conflict, compounded by Western countries' sanctions and the ban on Russian airspace, have impeded the free flow of funds. Thus it may not serve our shareholders' interests to continue deploying capital in building the TdC Phase II. During these challenging times, the Group has been pursuing all available options, as well as potentially looking for strategic local partners who might be able to bring value in operating the integrated resort.

MANAGEMENT DISCUSSION AND ANALYSIS

Despite the political complications that have hindered our expansion plans for Tigre de Cristal, we remain committed to identifying and investing in flourishing markets within the hospitality and gaming industry. The Group has decided to diversify since 2020 and subscribed to the convertible bonds of Suntrust prudently by leveraging the investments made by our parent company, LET. Our engrained knowledge of the gaming sector naturally inclined our attention to seek one of the best and one of the most rapidly growing emerging gaming markets in Asia – the Philippines. More notably, the Philippines also serves as an international tourism market, attracting customers from diverse demographics such as South Koreans and Japanese, indicating its extensive market appeal. This is echoed by the Philippines gaming regulator PAGCOR which announced in July 2023 that it had booked a 35.6% increase in total income from fees and taxes charged in the first six months of 2023 to PHP36.2 billion (approximately HK\$5.1 billion), boosted by a 48.7% increase in industry-wide gross gaming revenues to PHP136.4 billion (approximately HK\$19.4 billion). The recent announcement of the Group’s restructuring of its financial assistance to Suntrust is a step towards that direction. It is aligned with our goal of eventually achieving higher potential ownership of Suntrust for capital appreciation while ensuring the significant amount of the convertible bonds already invested in the project is preserved as construction of the new integrated resort in Manila is building in progress and expected to commence operations in 2024.

Besides, the Group has just completed the acquisition of the land parcels in Miyakojima City, Okinawa Prefecture of Japan in July 2023 for developing into a luxury hotel with seaside cabins. As the Group has rich experience in building and operating five-star hotels such as Tigre de Cristal, there is strong potential synergy and cross selling opportunities for its integrated resort business. The acquisition is consistent with the Group’s strategy to diversify its geographical presence in Asia and allocate the surplus capital towards investments that have the potential to generate the highest returns.

FINANCIAL REVIEW

Adjusted EBITDA of Tigre de Cristal

Adjusted EBITDA generated by Tigre de Cristal is used by management as the primary measure of operating performance of our gaming and hotel operations, which is not a financial measure under International Financial Reporting Standards (“IFRSs”) and defined by the Company as Earnings Before Interest, Income Tax, Depreciation and Amortisation, and excluding Company corporate expenses and the non-cash items such as unrealised exchange differences and fair value losses on financial instruments.

In the first half of 2023 (“1H 2023”), the Group recorded a positive Adjusted EBITDA of HK\$57.0 million, compared to HK\$60.0 million in the first half of 2022 (“1H 2022”). The decrease was mainly due to the increase in gaming tax, employee benefits expenses and general and administrative expenses.

The following table sets forth a reconciliation of Adjusted EBITDA to the reported loss for the six-month period attributable to owners of the Company as per the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the 1H 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Reconciliation of Adjusted EBITDA to the loss for the 1H 2023 attributable to owners of the Company:

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Revenue from rolling chip business	(63)	–
Revenue from mass table business	77,453	84,613
Revenue from electronic gaming business	89,885	83,010
Net revenue from gaming operations	167,275	167,623
Revenue from hotel operations	14,699	10,269
Total revenue from gaming and hotel operations	181,974	177,892
Add: Other income	757	552
Other gains and losses	329	(306)
Less: Gaming tax	(2,964)	(1,549)
Inventories consumed	(7,757)	(6,896)
Marketing and promotion expenses	(4,275)	(4,693)
Employee benefits expenses	(58,494)	(56,137)
Other expenses	(52,599)	(48,898)
Total operating expenses	(126,089)	(118,173)
Adjusted EBITDA of Tigre de Cristal	56,971	59,965
Add: Management fee payable to the Company	5,054	5,053
Less: Company corporate expenses	(11,474)	(11,761)
	50,551	53,257

MANAGEMENT DISCUSSION AND ANALYSIS

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Add: Interest income from derivative financial instruments	51,176	28,229
Bank interest income	10,902	14,934
Interest income from short term loan to a fellow subsidiary	–	24,856
Less: Interest on lease liabilities	(395)	(331)
Income tax (expense)/credit	(98)	1,267
	112,136	122,212
<i>Non-cash items:</i>		
Less: Fair value losses on derivative financial instruments	(53,057)	(74,579)
Depreciation and amortisation	(39,826)	(39,136)
Net exchange (losses)/gains	(35,152)	157,138
Imputed interest expenses	(5,200)	(6,041)
Loss on derecognition of financial asset	–	(35,747)
Share-based compensation benefits	–	(38)
(Loss)/profit for the period of the Group	(21,099)	123,809
Less: Loss/(profit) for the period attributable to non-controlling interests	5,042	(38,620)
(Loss)/profit for the period attributable to owners of the Company	(16,057)	85,189

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and Segment Reporting

The Group operates only in one operating and reportable segment, i.e. the gaming and hotel operations in the IEZ Primorye of the Russian Far East. Almost all non-current assets of the Group other than derivative financial instruments are located in the Russian Federation. Accordingly, the Group does not present separate segment information other than entity-wide disclosures.

The Group's total revenue was HK\$182.0 million in the 1H 2023, up 2.3% compared to HK\$177.9 million in the 1H 2022, predominantly attributable to a strong domestic market in the Russian Federation. The Group's income is denominated in the Russian ruble ("RUB") and a weak RUB during 2023 had a negative impact on the Group's revenue reported in HK\$. If the Group had presented its condensed consolidated financial statements for 1H 2022 and 1H 2023 in RUB, the Group's revenue would be RUB1,628.7 million and RUB1,786.0 million respectively, representing an increase of 9.7% year-over-year.

Gaming Operations

Our Gross Gaming Revenue ("GGR"), represented the amount of money players wagered minus the winning payouts to them, before commissions rebated, discounted or complimentary products and services provided and redeemable points earned under the loyalty programs, consisted of the following:

	1H 2023 HK\$'000	Share of GGR %	1H 2022 HK\$'000	Share of GGR %
Rolling chip business	(170)	0.0%	–	0.0%
Mass table business	101,371	51.4%	110,953	56.0%
Electronic gaming business	95,826	48.6%	87,246	44.0%
Total GGR	197,027	100.0%	198,199	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Rolling chip business

Our rolling chip business primarily targets foreign players. Due to the ban on Russian air space, rolling chip business resumed modestly in the second quarter of 2023. The table below sets forth the key performance indicators of our rolling chip business in the 1H 2023 on a quarterly basis.

<i>(HK\$ million)</i>	Q1 2023	Q2 2023	1H 2023	1H 2022
Rolling chip volume	–	7.3	7.3	–
Gross loss	–	(0.2)	(0.2)	–
Add: Rebate	–	0.1	0.1	–
Net loss after rebate	–	(0.1)	(0.1)	–
Gross loss rate %	–	(2.33)%	(2.33)%	–
Daily average number of tables opened	–	1	1	–

Rolling chip volume (measured as the sum of all non-negotiable chips wagered and lost by players) at Tigre de Cristal was HK\$7.3 million in the 1H 2023. Net loss after all commission rebated directly or indirectly to customers from rolling chip business was HK\$0.1 million in the 1H 2023. Gross loss percentage (represented the ratio of gross loss to rolling chip volume) was 2.33% in the 1H 2023.

Mass table business

Our mass table business primarily targets the local Russian market. The table below sets forth the key performance indicators of our mass table business in the 1H 2023 on a quarterly basis.

<i>(HK\$ million)</i>	Q1 2023	Q2 2023	1H 2023	1H 2022
Mass table drop	178	207	385	354
Net win	39	38	77	85
Net win rate %	21.9%	18.4%	20.0%	24.0%
Daily average number of tables opened	27	28	27	24

Mass table drop (measured as the sum of gaming chips purchased or exchanged at the cages) increased by 9% to HK\$385 million in the 1H 2023, compared to HK\$354 million in the 1H 2022. Net win from mass table business decreased by 9% to HK\$77 million in the 1H 2023, compared to HK\$85 million in the 1H 2022. Net win rate percentage (represented net win as a percent of mass table drop) decreased to 20.0% in the 1H 2023 from 24.0% in the 1H 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Electronic gaming business

Our electronic gaming business primarily targets the local Russian market. The table below sets forth the key performance indicators in the 1H 2023 on a quarterly basis.

<i>(HK\$ million)</i>	Q1 2023	Q2 2023	1H 2023	1H 2022
Electronic gaming volume	1,250	1,168	2,418	2,181
Net win	45	45	90	83
Net win rate %	3.6%	3.9%	3.7%	3.8%
Daily average number of electronic gaming machines deployed	307	307	307	309

Electronic gaming volume (measured as the total value of electronic gaming credits wagered by players) was HK\$2,418 million in the 1H 2023, an increase of 11% compared to HK\$2,181 million in the 1H 2022. The electronic gaming business recorded net win of HK\$90 million in the 1H 2023, up 8% compared to HK\$83 million in the 1H 2022. The net win rate percentage slightly decreased to 3.7% in the 1H 2023 from 3.8% in the 1H 2022. The average number of electronic gaming machines deployed decreased to 307 in the 1H 2023, compared to 309 in the 1H 2022.

Hotel Operations

Revenue from hotel operations, including food and beverage income, increased to HK\$14.7 million in the 1H 2023 or up 43% compared to the 1H 2022, as a result of an improvement in the domestic demand. Average hotel occupancy rates, representing the total number of room nights sold divided by the total number of room nights available at Tigre de Cristal, increased to 63% (1H 2022: 57%) during weekends and 30% (1H 2022: 28%) during weekdays in the 1H 2023.

Operating Expenses

Against the backdrop of economic uncertainty since late February 2022 due to the Russia-Ukraine conflict, the Group continued to maintain stringent cost controls during the period. Total operating expenses incurred by Tigre de Cristal were HK\$126.1 million in the 1H 2023, increased by 7% compared to HK\$118.2 million in the 1H 2022. Besides the inflation, the general increase in operating expenses was justifiable to cope with the recovery of the local business after the relaxation of the social distancing measures related to the COVID-19 pandemic.

The management fee payable to the Company represented management fee calculated at 3% of the total net gaming revenue generated by Tigre de Cristal, which will be eliminated in the condensed consolidated financial statements of the Group.

Company corporate expenses mainly consisted of staff costs, audit fees, legal and professional fees and general administrative expenses incurred by the Hong Kong headquarters of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest Income

The Group recognised interest income from derivative financial instruments of HK\$51.2 million, being two convertible bonds issued by Suntrust in the 1H 2023 (1H 2022: HK\$28.2 million), both of which generating interest at 6% per annum.

Bank interest income decreased to HK\$10.9 million in the 1H 2023, compared to HK\$14.9 million in the 1H 2022. In response to the economy sanctions caused by the Russia-Ukraine conflict, the Bank of Russia had hiked its key interest rate to 20% per annum in the 1H 2022, which was gradually reversed back to 7.5% per annum in the 1H 2023.

Fair Value Losses on Derivative Financial Instruments

According to the applicable accounting standards, the derivative financial instruments are recognised at fair value, which is a market-based measurement using assumptions that market participants would use, reflecting market conditions at the measurement date. Accordingly, a quoted price in an active market provides the most reliable evidence of fair value and it has to be used to measure fair value whenever available. Fluctuations in the stock market, however, may adversely affect the market price of the derivative financial investments. The economic uncertainty arising from the Russia-Ukraine conflict has also increased volatility in the capital markets and there can be no assurance that the price of the derivative financial investments will remain at current levels. Besides, the securities markets have experienced significant price and volume fluctuations from time to time that may have been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the fair values of the Company's derivative financial investments.

The fair values of the Company's derivative financial instruments have been determined by independent and professional qualified valuers. As the share price of Suntrust quoted on The Philippine Stock Exchange, Inc. has decreased since the beginning of the year, which is the key input parameter for determining the fair values of the convertible bonds issued by Suntrust, the Company recorded a net fair value loss of HK\$53.1 million for the 1H 2023 (1H 2022: HK\$74.6 million).

Loss on Derecognition of Financial Asset

The completion of the subscription of the 2022 CB took place on 10 June 2022, and the loan to Suntrust together with the accrued and unpaid interest to the extent of approximately US\$120.9 million was set-off against the subscription amount. A fair value loss of HK\$35.7 million was recognised in the 1H 2022 by the Company upon derecognition of the loan to Suntrust as financial asset based on a fair value reassessment by an independent and professional valuer.

Depreciation and Amortisation

Depreciation and amortisation expenses consisted of depreciation charges on property, operating right and equipment, right-of-use assets, and amortisation of intangible assets. Depreciation and amortisation of the Group increased by 2% to HK\$39.8 million in the 1H 2023, compared to HK\$39.1 million in the 1H 2022, mainly due to the capital expenditures for renovation of the restaurant CASCADE and the computer equipment upgrades in Tigre de Cristal.

MANAGEMENT DISCUSSION AND ANALYSIS

Exchange Difference

Since late February 2022, RUB had plunged nearly 90% after Western nations announced unprecedented moves to block some Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and to restrict the Russian Federation from deploying its foreign currency reserves. But then the Russian government pulled out all the stops to save RUB, including the Bank of Russia more than doubling the key interest rate to 20% per annum and imposing strict capital controls to avoid cash from leaving the country. Also, the Russian government demanded that all “unfriendly” countries, those that imposed sanctions, pay for Russian oil and natural gas in RUB. As the energy prices were at multiyear highs in 1H 2022, the Russian Federation had its highest current account surplus. RUB had ever jumped more than 30% against US\$ compared with that at the end of 2021 and has bounced back to where it was before the Russia-Ukraine conflict. As a result, the Group recorded exchange gains of approximately HK\$157.1 million for the 1H 2022 when monetary items denominated in RUB were retranslated into HK\$.

However, sanctions and restrictions imposed by various governments in response to the Russia-Ukraine conflict continue to have a significant impact on the Russian economy in 2023. RUB has been under pressure and lost more than 20% against US\$ during the period, mainly due to Russia’s shrinking balance of trade. Accordingly, the Group recorded exchange losses of approximately HK\$35.2 million in the 1H 2023 when the Group’s condensed consolidated financial statements are presented in HK\$.

Finance Costs

The Group had no outstanding bank borrowing throughout 1H 2023 and 1H 2022. Finance costs of the Group primarily comprised non-cash imputed interest on the loans from non-controlling shareholders of Oriental Regent by applying the effective interest method at recognition, although the loans are non-interest bearing. The decrease in finance costs was mainly due to the repayments to non-controlling shareholders of approximately US\$7.5 million in the 1H 2023.

Gaming Tax

Unlike most other jurisdictions in Asia, gaming tax in the Russian Federation is not levied on a percentage of gaming revenue. The Russian Federation has established a gaming tax regime which is based on a fixed levy on each gaming table and gaming machine deployed in a particular calendar month in the casino. Gaming taxes are payable to the local governments, who can set their own tax rate based on a range stipulated by the Tax Code of the Russian Federation. In the 1H 2023 and 2022, the monthly rates per gaming table and per gaming machine applicable to the Group were RUB125,000 and RUB7,500 respectively.

In response to the COVID-19 outbreak and Russia-Ukraine conflict, the local government of the Primorye Region has introduced various relief measures and granted gaming tax reduction to lower the gaming tax rates provisionally to RUB50,000 per gaming table and RUB3,000 per electronic gaming machine from June 2021 to December 2022, and slightly increased to RUB85,000 per gaming table and RUB5,500 per electronic gaming machine from January 2023 to June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax

No provision for taxation in Hong Kong has been made as the Group has no assessable profit in the 1H 2023 and the 1H 2022. As at 30 June 2023, the Group had unused tax losses of HK\$34.4 million (31 December 2022: HK\$35.1 million) available under Hong Kong Profits Tax for offset against future profits.

G1 Entertainment has an exemption from the Russian corporate tax on profit generated from gaming operations. As for non-gaming revenues, the Group's subsidiaries in the Russian Federation are subject to the Russian corporate tax rate which currently stands at 20%. As at 30 June 2023, the Group had unused tax losses of approximately HK\$511.3 million (31 December 2022: approximately HK\$603.4 million) available under Russian corporate tax and all losses may be carried forward indefinitely. The Group believes that these unrecognised tax losses are adequate to offset any adjustments related to uncertain tax matters that might be proposed by the Russian tax authorities.

(Loss)/Profit Attributable to Owners of the Company

Loss attributable to owners of the Company was HK\$16.1 million in the 1H 2023, compared to a profit of HK\$85.2 million in the 1H 2022.

Liquidity, Financial Resources and Capital Structure

The Group continued to maintain a strong financial position and the equity attributable to owners of the Company was HK\$3,164.3 million as at 30 June 2023 (31 December 2022: HK\$3,180.4 million). Our business is capital intensive, and we rely heavily on the ability of our property to generate operating cash flows to maintain operations. When necessary and available, we supplement the cash flows generated by our operations with funds provided by equity financing activities.

The Group had no outstanding bank borrowing throughout the 1H 2023 and the 1H 2022. Thus, the gearing ratio, expressed as a percentage of total borrowings divided by total assets, was zero percent as at 30 June 2023 and 31 December 2022.

The Group had unsecured, unguaranteed and non-interest bearing loans from non-controlling shareholders of Oriental Regent with an outstanding principal amount of US\$14.8 million (approximately HK\$116.3 million) as at 30 June 2023 (31 December 2022: US\$22.4 million (approximately HK\$174.3 million)).

On 16 November 2020, the Company issued the US\$3,000,000, 5-year zero-coupon convertible bonds to settle the acquisition of 2.5% equity interest in Oriental Regent together with the US\$1,892,275 shareholder's loan due and owing by Oriental Regent from Sharp Way Group Limited, which is convertible to the Shares at the initial conversion price of HK\$3.5 per Share (subject to adjustment in the event of consolidation, reclassification or subdivision of the Shares).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group remains conservative in its working capital management. As at 30 June 2023, net current assets of the Group were HK\$906.2 million (31 December 2022: HK\$901.7 million) and the current ratio (represented a comparison of current assets to current liabilities) was 21.3, compared to 17.3 as at 31 December 2022. Cash and cash equivalents were HK\$762.3 million at 30 June 2023 (31 December 2022: HK\$831.9 million), comprised 28.3% in HK\$, 19.7% in RUB, 42.7% in US\$ and 9.3% in renminbi (RMB). The majority of our cash equivalents at 30 June 2023 was in fixed deposits with a maturity of three months or less generally.

The following table sets forth a summary of the Group's cash flows in the 1H 2023 and the 1H 2022:

	1H 2023 HK\$'000	1H 2022 HK\$'000
Net cash generated from operating activities	35,065	27,216
Net cash generated from investing activities	565	136,950
Net cash used in financing activities	(62,566)	(3,484)
Net (decrease)/increase in cash and cash equivalents	(26,936)	160,682
Cash and cash equivalents at the beginning of the period	831,861	606,575
Effect of foreign exchange rate changes	(42,613)	172,078
Cash and cash equivalents at the end of the period	762,312	939,335

Net cash generated from operating activities of HK\$35.1 million in the 1H 2023 and HK\$27.2 million in the 1H 2022 represented the positive cash inflows generated from the operations of Tigre de Cristal.

Net cash generated from investing activities of HK\$137.0 million in the 1H 2022 was mainly attributable to the final repayment of the short term loan of approximately HK\$53.3 million paid by Suntrust upon the subscription of the 2022 CB and the interest income received from the convertible bonds issued by Suntrust of approximately HK\$51.2 million. Suntrust has not settled the Payment Obligations in 1H 2023, details of which are stated in the paragraph headed "Subscription of New Convertible Bonds" of the business review. Net cash generated from investing activities of HK\$0.6 million in the 1H 2023 mainly represented the interest income received from banks.

Net cash used in financing activities of HK\$62.6 million in the 1H 2023 mainly represented the repayment of loans from non-controlling shareholders of Oriental Regent of approximately US\$7.5 million (equivalent to approximately HK\$58.8 million) and the repayments of lease liabilities of approximately HK\$3.7 million. Net cash used in financing activities of HK\$3.5 million in the 1H 2022 primarily represented the repayments of lease liabilities.

Management believes that the Group has the capital resources and liquidity necessary to meet its commitments, support its operations, finance capital expenditures, and support growth strategies, because the Group has adequate cash and cash equivalents, and the ability to generate cash from operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Charge on Assets

None of the Group's assets were pledged or otherwise encumbered as at 30 June 2023 and 31 December 2022.

Exposure to Fluctuations in Exchange Rates

The functional currency of the Company is HK\$ and the condensed consolidated financial statements of the Group are presented in HK\$.

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

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

Capital Commitment

The Group's capital commitment as at 30 June 2023 amounted to approximately HK\$796,000 for maintenance, improvement and refurbishment works of Tigre de Cristal (31 December 2022: approximately HK\$12,637,000).

Contingent Liabilities

There were no contingent liabilities as at 30 June 2023 and 31 December 2022.

Employees

As at 30 June 2023, total number of employees employed by the Group was 950 (31 December 2022: 996). Currently, more than 97% of our full-time employees are local Russian citizens (31 December 2022: 97%). The Group continues to provide remuneration packages and training programs to employees in line with prevailing market practices. In addition to the contributions to employees' provident fund and medical insurance programs, the Company has a share option program in place and occasionally may grant shares options to directors, employees and consultants of the Group as incentives.

MANAGEMENT DISCUSSION AND ANALYSIS

Anti-Money Laundering Policy

The Russian gaming industry is one of the most heavily regulated and controlled business sectors in the country, and governed by the Russian Federal Law No. 115-FZ of 7 August 2001 “On Countering the Legalisation (Laundering) of Proceeds from Crime and Financing of Terrorism” in relation to the anti-money laundering and counter-terrorist financing measures (the “AML/CFT”). According to the AML/CFT Mutual Evaluations Report on the Russian Federation published by the Financial Action Task Force (FATF), the Eurasian Group and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism of the Council of Europe (MONEYVAL) in December 2019, Russian authorities have an in-depth understanding of the country’s money laundering and terrorist financing risks and a robust legal framework for combating terrorist financing, which is largely in line with international standards. Also, the Russian Federation has improved its legal framework and operational approach to enhance transparency of legal persons, which makes it more difficult to misuse a legal person established in the country.

The Federal Tax Service of Russia is responsible for the AML/CFT supervision of casinos. Tigre de Cristal must undertake certain anti-money laundering procedures, including mandatory review of pay-outs of more than RUB600,000 (equivalent to approximately HK\$54,000) in value and the filing of reports with the Federal Financial Monitoring Services of the Russian Federation, also known as Rosfinmonitoring, which is directly under the authority of the President of the Russian Federation and aimed to collect and analyze information about financial transactions in order to combat domestic and international money laundering, terrorist financing, and other financial crimes. Furthermore, Tigre de Cristal has adopted its own anti-money laundering and combating the financing of terrorism policies in accordance with the provisions of the Russian AML/CFT laws and the key components include: internal control systems; a special officer to oversee the daily compliance; client identification and screening; and reporting unusual transactions subject to mandatory requirements.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



國富浩華（香港）會計師事務所有限公司

Crowe (HK) CPA Limited

香港 銅鑼灣 禮頓道77號 禮頓中心9樓

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77 Leighton Road,

Causeway Bay, Hong Kong

TO THE BOARD OF DIRECTORS OF SUMMIT ASCENT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial information of Summit Ascent Holdings Limited (the "Company") and its subsidiaries set out on pages 25 to 45, which comprise the condensed consolidated statements of financial position as of 30 June 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Crowe (HK) CPA Limited

Certified Public Accountants

Hong Kong, 22 August 2023

Alvin Yeung Sik Hung

Practising Certificate Number P05206

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

	Notes	Six-month period ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue from gaming and hotel operations	4	181,974	177,892
Other income	5	62,835	68,762
Other gains and losses	6	(34,767)	121,085
Gaming tax		(2,964)	(1,549)
Inventories consumed		(7,757)	(6,896)
Marketing and promotion expenses		(4,439)	(4,693)
Employee benefits expenses		(65,501)	(63,335)
Depreciation and amortisation		(39,826)	(39,136)
Other expenses	7	(51,904)	(48,637)
Fair value losses on derivative financial instruments	15, 19	(53,057)	(74,579)
Finance costs	8	(5,595)	(6,372)
(Loss)/profit before taxation		(21,001)	122,542
Income tax (expense)/credit	9	(98)	1,267
(Loss)/profit and total other comprehensive (expense)/ income for the period	10	(21,099)	123,809
(Loss)/profit and total other comprehensive (expense)/ income for the period attributable to:			
Owners of the Company		(16,057)	85,189
Non-controlling interests		(5,042)	38,620
		(21,099)	123,809
		HK cents	HK cents
		(Unaudited)	(Unaudited)
(Loss)/earnings per share	12		
Basic		(0.356)	1.889
Diluted		(0.356)	1.889

The notes on pages 30 to 45 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	<i>Notes</i>	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Non-current assets			
Property, operating right and equipment	13	1,103,615	1,115,134
Right-of-use assets	13	7,108	13,042
Long-term prepayments and other non-current assets	14	15,310	38,114
Derivative financial instruments	15	1,557,922	1,610,994
Intangible assets		254	259
		<u>2,684,209</u>	<u>2,777,543</u>
Current assets			
Inventories		3,150	4,414
Other receivables	16	47,060	34,236
Amount due from a fellow subsidiary	17	138,260	86,441
Bank balances and cash		762,312	831,861
		<u>950,782</u>	<u>956,952</u>
Current liabilities			
Contract liabilities, trade and other payables	18	41,320	48,801
Tax payables		3	–
Derivative financial instrument	19	152	167
Lease liabilities		3,150	6,294
		<u>44,625</u>	<u>55,262</u>
Net current assets		<u>906,157</u>	<u>901,690</u>
Total assets less current liabilities		<u>3,590,366</u>	<u>3,679,233</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

		As at 30 June 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
Non-current liabilities			
Convertible bonds	19	19,863	19,073
Loans from non-controlling shareholders of a subsidiary	20	99,697	138,748
Liabilities for value-added tax ("VAT") arrangements	21	9,525	20,318
Lease liabilities		<u>3,392</u>	<u>6,885</u>
		<u>132,477</u>	<u>185,024</u>
Net assets		<u>3,457,889</u>	<u>3,494,209</u>
Capital and reserves			
Share capital	23	112,736	112,736
Reserves		<u>3,051,566</u>	<u>3,067,623</u>
Equity attributable to owners of the Company		3,164,302	3,180,359
Non-controlling interests		<u>293,587</u>	<u>313,850</u>
Total equity		<u>3,457,889</u>	<u>3,494,209</u>

The notes on pages 30 to 45 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

	Attributable to owners of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2022 (Audited)	112,736	3,148,184	5,572	(98,043)	3,168,449	294,816	3,463,265
Profit and total comprehensive income for the period	-	-	-	85,189	85,189	38,620	123,809
Recognition of equity-settled share-based payment	-	-	38	-	38	-	38
At 30 June 2022 (Unaudited)	112,736	3,148,184	5,610	(12,854)	3,253,676	333,436	3,587,112
At 1 January 2023 (Audited)	112,736	3,148,184	5,635	(86,196)	3,180,359	313,850	3,494,209
Loss and total comprehensive expense for the period	-	-	-	(16,057)	(16,057)	(5,042)	(21,099)
Deemed distribution to non-controlling shareholders (Note 20)	-	-	-	-	-	(15,221)	(15,221)
At 30 June 2023 (Unaudited)	112,736	3,148,184	5,635	(102,253)	3,164,302	293,587	3,457,889

The notes on pages 30 to 45 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	35,065	27,216
INVESTING ACTIVITIES		
Interest received	10,902	14,934
Proceeds from disposal/written-off of property, operating right and equipment	358	144
Return of VAT refunded under VAT arrangements	(8,623)	(9,225)
Deposits paid for purchase of property, operating right and equipment	(1,673)	(903)
Payments for property, operating right and equipment	(399)	(2,529)
Short term loan repaid by a fellow subsidiary	–	53,319
Interest income received from derivative financial instruments	–	51,210
Decrease in amount due from a fellow subsidiary	–	30,000
	565	136,950
NET CASH GENERATED FROM INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Repayment of loans from non-controlling shareholders of a subsidiary	(58,824)	–
Repayment of lease liabilities	(3,347)	(3,153)
Interest paid for lease liabilities	(395)	(331)
	(62,566)	(3,484)
NET CASH USED IN FINANCING ACTIVITIES		
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(26,936)	160,682
CASH AND CASH EQUIVALENTS AT 1 JANUARY	831,861	606,575
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(42,613)	172,078
CASH AND CASH EQUIVALENTS AT 30 JUNE, REPRESENTED BY BANK BALANCES AND CASH	762,312	939,335

The notes on pages 30 to 45 form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

1. BASIS OF PREPARATION

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

The condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”) which is also the functional currency of the Company. The functional currency of G1 Entertainment Limited Liability Company (“G1 Entertainment”), a principal subsidiary of the Group, which engages in the gaming and hotel operations in the Russia Federation, is HK\$, the currency of the primary economic environment in which the entity operates.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments which are stated at their fair values.

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2023 are the same as those used in the annual consolidated financial statements for the year ended 31 December 2022.

3. SEGMENT INFORMATION

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

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

During the current period, all revenue is derived from customers patronising in the Group’s property located in the Russian Federation. At 30 June 2023 and 31 December 2022, almost all non-current assets of the Group other than derivative financial instruments are located in the Russian Federation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

4. REVENUE FROM GAMING AND HOTEL OPERATIONS

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from gaming and hotel operations:		
– Gaming operations	167,275	167,623
– Hotel operations	14,699	10,269
	<u>181,974</u>	<u>177,892</u>

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

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

5. OTHER INCOME

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income from derivative financial instruments (Note 15)	51,176	28,229
Interest income from short term loan to a fellow subsidiary (Note 15)	–	24,856
Bank interest income	10,902	14,934
Rental income	357	340
Others	400	403
	<u>62,835</u>	<u>68,762</u>

6. OTHER GAINS AND LOSSES

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gain/(loss) on disposal/written-off of property, operating right and equipment	319	(308)
Gain on lease modification	56	–
Impairment losses reversed on other receivables, deposits and prepayments	10	2
Exchange (losses)/gains, net	(35,152)	157,138
Loss on derecognition of financial asset (Note 15)	–	(35,747)
	<u>(34,767)</u>	<u>121,085</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

7. OTHER EXPENSES

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Security expenses	6,286	6,292
Travel agency expenses	6,030	4,327
Bank charges	5,090	4,367
Utilities and fuel	4,385	3,655
Non-recoverable VAT	3,765	3,045
Repairs and maintenance expenses	3,633	3,757
Costs for employee relations	3,278	3,559
Legal and professional fees	2,725	2,946
Motor vehicle expenses	2,033	2,121
Oversea travel expenses	1,805	1,023
Hotel supplies	1,502	859
Insurance expenses	1,260	1,212
Gaming supplies	967	1,031
Communication and networking costs	804	959
Share-based compensation benefits to a consultant	–	38
Sundry	8,341	9,446
	51,904	48,637

8. FINANCE COSTS

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Imputed interest on loans from non-controlling shareholders of a subsidiary	3,852	4,282
Imputed interest on convertible bonds	694	646
Imputed interest on VAT arrangements	654	1,113
Interest on lease liabilities	395	331
	5,595	6,372

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

9. INCOME TAX (EXPENSE)/CREDIT

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current provision		
– Russian corporate tax	(98)	(87)
– Philippine withholding tax	–	(5,646)
	(98)	(5,733)
Over-provision		
– Philippine withholding tax	–	7,000
	(98)	1,267

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

For the six-month period ended 30 June 2023 and 2022, no provision for Hong Kong Profits Tax had been made in the condensed consolidated financial statements as the Group did not have assessable profits arising in Hong Kong.

Pursuant to the rules and regulations of the British Virgin Islands and Bermuda, the Group is not subject to any income tax in the respective jurisdictions.

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

10. (LOSS)/PROFIT FOR THE PERIOD

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period has been arrived at after charging:		
Depreciation of property, operating right and equipment	36,356	35,906
Depreciation of right-of-use assets	3,465	3,228
Amortisation of intangible assets	5	2
Total depreciation and amortisation	39,826	39,136

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

11. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the six-month period ended 30 June 2023, nor has any dividend been proposed since 30 June 2023 (six-month period ended 30 June 2022: Nil).

12. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately HK\$16,057,000 (six-month period ended 30 June 2022: profit of approximately HK\$85,189,000) and the weighted average 4,509,444,590 ordinary shares (six-month period ended 30 June 2022: 4,509,444,590).

The computation of the diluted (loss)/earnings per share for the six-month period ended 30 June 2023 and 2022 did not assume the exercise of the Company's outstanding share options and convertible bonds because the exercise prices of those share options exceed the average market price of the Company's shares of the period and the assumed exercise of those convertible bonds would result in a decrease in (loss)/an increase in earnings per share.

13. PROPERTY, OPERATING RIGHT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

The Group paid approximately HK\$399,000 (six-month period ended 30 June 2022: approximately HK\$2,529,000) during the six-month period ended 30 June 2023 mainly on furniture, fixtures and equipment. For the six-month period ended 30 June 2023, the Group also received proceeds of approximately HK\$358,000 (six-month period ended 30 June 2022: approximately HK\$144,000) mainly from disposal of motor vehicles.

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

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Long-term prepayments	<u>13,533</u>	<u>13,533</u>
Deposits for purchase of property, operating right and equipment	10,757	33,561
Less: Allowance	<u>(8,980)</u>	<u>(8,980)</u>
	<u>1,777</u>	<u>24,581</u>
	<u>15,310</u>	<u>38,114</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

15. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Derivative financial instruments- designated at fair value through profit or loss ("FVTPL")		
– 2020 Convertible Bonds ("2020 CB")	757,024	776,415
– 2022 Convertible Bonds ("2022 CB")	800,898	834,579
	1,557,922	1,610,994

Derivative financial instruments acquired are designated at FVTPL because the relevant financial assets constitute a group that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management and investment strategy, and information about that group is provided internally on that basis to the Group's key management personnel.

Derivative financial instruments represented the fair values of the investment in convertible bonds issued by Suntrust Resort Holdings, Inc. ("Suntrust", formerly known as Suntrust Home Developers, Inc.), a company incorporated in the Philippines, the shares of which are listed on The Philippine Stock Exchange, Inc. and is a fellow subsidiary of the Company.

2020 CB

The principal amount of the 2020 CB is Philippine pesos ("PHP") 5.6 billion, which can be converted into 3,111,111,111 ordinary shares of Suntrust at a conversion price of PHP1.8 per share from the inception date until the maturity date. The maturity date falling on the fifth anniversary of the issue date (i.e. year 2025) of the 2020 CB which may, subject to agreement by the holder of the 2020 CB upon request by Suntrust, be extended to the date falling on the tenth (10th) anniversary of the issue date of the 2020 CB.

The 2020 CB carried interest at 6.0% per annum on the aggregate principal amount of the 2020 CB from time to time outstanding, payable yearly in arrears accruing from the issue date of the 2020 CB on the basis of a 365-day year, with the last payment of interest to be made on the maturity date.

The 2020 CB may not be redeemed by Suntrust at any time prior to the maturity date or if extended, prior to the maturity date as extended. The holder of the 2020 CB may request for early redemption of the 2020 CB at any time during the period commencing from the day immediately after the first anniversary of the issue date of the 2020 CB and expiring on the maturity date or if extended, the maturity date as extended at their outstanding principal amount together with interest thereon up to the date of redemption.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

2022 CB

On 23 February 2021, Suntrust as borrower entered into a loan agreement (the "Loan Agreement") with the Group as lender, pursuant to which the Group shall provide a loan in the principal amount of United States dollars ("US\$") 120 million (equivalent to approximately HK\$931,230,000, the "Loan") to Suntrust. The Loan was unsecured, interest-bearing at 6% per annum and shall be matured after three months from the date of the disbursement of the Loan, and extendable not more than three months. On 18 May 2021, the Loan was advanced to Suntrust by cash of approximately HK\$924,813,000 and by transferring from amount due from a fellow subsidiary of approximately HK\$6,417,000.

The maturity date of the Loan was extended for three times on 17 August 2021, 17 September 2021 and 17 October 2021 for 1 month each time, to 18 November 2021. On 20 September 2021, the Group entered into a subscription agreement with Suntrust (the "Subscription Agreement") to subscribe the 2022 CB. The aggregate subscription amount payable by the Group shall be satisfied by setting off a pro tanto amount of the Loan together with interest accrued up to and including the completion date of the Subscription Agreement (the "Completion"). Considering the expected timeline for fulfilling the conditions precedent to the Subscription Agreement, the Group agreed to extend the maturity date of the Loan to 18 July 2022.

At the Completion which took place on 10 June 2022, (1) the 2022 CB in the aggregate principal amount of PHP6.4 billion were issued by Suntrust to the Group and (2) part of the indebted amount of approximately US\$127.7 million as at the Completion to the extent of US\$120.9 million was set-off against the subscription of the 2022 CB pursuant to the Subscription Agreement. The balance of the indebted amount after the Loan set-off of approximately US\$6.8 million was repaid in cash by Suntrust to the Group. Loss on derecognition of the financial asset amounting to approximately HK\$35,747,000 was disclosed under "other gains and losses" in note 6.

For the six-month period ended 30 June 2022, interest income from the Loan amounting to approximately HK\$24,856,000 was recognised and disclosed under "other income" in note 5.

The principal amount of the 2022 CB is PHP6.4 billion, which can be converted into 3,878,787,878 ordinary shares of Suntrust at a conversion price of PHP1.65 per share from the inception date until the maturity date. The maturity date falling on the third anniversary of the issue date (i.e. year 2025) of the 2022 CB which may, subject to agreement by the holder of the 2022 CB upon request by Suntrust, be extended to the date falling on the sixth (6th) anniversary of the issue date of the 2022 CB.

The 2022 CB carried interest at 6.0% per annum on the aggregate principal amount of the 2022 CB from time to time outstanding, payable yearly in arrears accruing from the issue date of the 2022 CB on the basis of a 365-day year, with the last payment of interest to be made on the maturity date.

Suntrust is entitled to cancel and to redeem all the 2022 CB in whole at any time after the first anniversary of the issue date and expiring on the maturity date at 100% of their outstanding principal amount together with accrued interest (including default interest, if any) up to the date of redemption. The holder of the 2022 CB may request for early redemption of the 2022 CB at any time during the period commencing from the day immediately after the first anniversary of the issue date of the 2022 CB and expiring on the maturity date or if extended, the maturity date as extended at their outstanding principal amount together with interest thereon up to the date of redemption.

For the six-month period ended 30 June 2023, the interest income generated from the derivative financial instruments amounting to approximately HK\$51,176,000 (six-month period ended 30 June 2022: approximately HK\$28,229,000) was recognised and disclosed under "other income" in note 5.

For the six-month period ended 30 June 2023, the fair value losses of the derivative financial instruments amounting to approximately HK\$53,072,000 (six-month period ended 30 June 2022: approximately HK\$74,859,000) were recognised, included and disclosed under "fair value losses on derivative financial instruments" in the condensed consolidated statement of profit or loss and other comprehensive income.

The fair values of the derivative financial instruments as at 30 June 2023 had been determined by CHFT Advisory and Appraisal Limited, an independent and professionally qualified valuer not connected to the Group, based on equity allocation method.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The inputs used for the calculation of fair values of the financial instruments at initial recognition date of the 2022 CB and each subsequent measurement date were as follows:

	30 June 2023	31 December 2022	At initial recognition date of 2022 CB
Share price of SunTrust (PHP)	0.85	0.99	1.01
Expected volatility (%) (Note a)	49.8%	54.93%	62.78%
Risk-free rate (%) (Note b)	6.15%	6.25%	5.30%
Expected remaining life (years)			
– 2020 CB	2.5	3	3.6
– 2022 CB	2	2.4	3

Notes:

- The expected volatility was determined by using the historical volatility of Suntrust share price over the period commensurate with the remaining term.
- Risk-free rate is estimated based on the yield to maturities of peso-denominated government bonds from Philippine Sovereign Curve with a similar remaining tenure.

16. OTHER RECEIVABLES

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Prepayments	44,055	30,864
Other receivables and deposits	3,412	3,789
Less: Allowance	(407)	(417)
	47,060	34,236

For other receivables, the Group assessed the expected credit losses collectively based on the provision matrix as at 30 June 2023 and 31 December 2022. No impairment allowance was provided for the periods due to the low probability of default of those receivables based on the short credit period.

Allowance of approximately HK\$407,000 as at 30 June 2023 (31 December 2022: approximately HK\$417,000) represented individually impaired prepayments and other receivables that the Directors considered uncollectible.

17. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amounts as at 30 June 2023 and 31 December 2022 were unsecured, non-interest bearing and mainly comprised of interest receivable and refund of the withholding tax arising from derivative financial instruments as set out in note 15.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

18. CONTRACT LIABILITIES, TRADE AND OTHER PAYABLES

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Trade payables	144	412
Payable in respect of transfer of connection right to local electricity supply network	–	11,286
Liabilities for VAT arrangements (Note 21)	7,555	9,301
Outstanding gaming chips	2,866	2,747
Gaming tax payables	439	302
Accruals and other payables	30,316	24,753
	41,320	48,801

All trade payables were aged within 30 days based on the invoice date, at the end of the reporting periods.

The Group mainly has two types of liabilities related to contracts with customers which are included in the above: (1) outstanding gaming chip liabilities for gaming chips in the customers' possession amounting to approximately HK\$2,866,000 (31 December 2022: approximately HK\$2,747,000); and (2) loyalty program liabilities for the revenue deferred in relation to points earned by customers under gaming revenue transactions amounting to approximately HK\$1,743,000 (31 December 2022: approximately HK\$1,855,000). Loyalty program liabilities are included in other payables above.

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

19. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE BONDS

On 16 November 2020, the Company issued convertible bonds denominated in US\$ for acquisition of additional interests in a subsidiary from a non-controlling shareholder in an aggregate principal amount of US\$3,000,000 with an initial conversion price of HK\$3.50 (to be translated to US\$ at a fixed rate of HK\$7.75 to US\$1.00) per share with adjustment clauses, which will mature on the fifth anniversary of the respective issue dates. The convertible bonds carry no interest.

The convertible bonds contain two components, a liability component and a derivative financial instrument. The derivative financial instrument represented the conversion option giving to the holder the right at any time to convert the convertible bonds into ordinary shares of the Company. However, since the conversion option would be settled other than by the exchange of a fixed amount of the Company's own equity instruments, the conversion option was accounted for as derivative financial instrument.

At initial recognition, the derivative financial instrument in the convertible bonds is measured at fair value and is separately presented. Any excess of the fair values of the convertible bonds over the amounts initially recognised as derivative financial instrument is recognised as liability component in the convertible bonds.

At the end of the reporting period, the fair value of the derivative financial instrument in the convertible bonds is remeasured and the gain or loss on remeasurement to the fair value is recognised in profit or loss. For the six-month period ended 30 June 2023, the fair value gain amounting to approximately HK\$15,000 (six-month period ended 30 June 2022: approximately HK\$280,000) was recognised, included and disclosed under "fair value losses on derivative financial instruments" in the condensed consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

19. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE BONDS (continued)

The liability component in convertible bonds is subsequently carried at amortised cost with interest expenses calculated using the effective interest method recognised in profit or loss. The effective interest rate of the liability component in the convertible bonds was 7.37% per annum. For the six-month period ended 30 June 2023, imputed interest on convertible bonds amounting to approximately HK\$694,000 (six-month period ended 30 June 2022: approximately HK\$646,000) was recognised and disclosed under "finance costs" in note 8.

When the convertible bonds are converted, the shares to be issued are measured at fair value and any difference between the fair value of shares to be issued and the carrying amounts of the derivative financial instrument and liability component in the convertible bonds is recognised in profit or loss.

The fair value of the derivative financial instrument in the convertible bonds as at 30 June 2023 had been determined by Valplus Consulting Limited, an independent and professionally qualified valuer not connected to the Group, based on the binomial option pricing model. The significant inputs used for the calculation of fair value of the convertible bonds and the derivative financial instrument at each subsequent measurement date were as follows:

	30 June 2023	31 December 2022
Share price of the Company (HK\$)	0.17	0.17
Expected volatility (%) (Note a)	117.81%	111.39%
Expected remaining life (years)	2.38	2.88
Expected dividend yield (Note b)	zero	zero
Risk-free rate (%) (Note c)	4.76%	4.26%

Notes:

- The expected volatility was determined by using the historical volatility of the Company's share price over a period commensurate with the remaining term.
- The expected dividend yield was estimated with reference to the historical dividend payment record and the expected dividend payment in the remaining term of the Company.
- Risk-free rate is estimated with reference to the United States Treasury Yield Curve of similar remaining tenure.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

19. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE BONDS (continued)

The movements of the liability component of the convertible bonds and derivative financial instrument are as follows:

	Liability component <i>HK\$'000</i>	Derivative financial instrument <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2022 (Audited)	17,767	286	18,053
Imputed interest on convertible bonds	646	–	646
Exchange difference	115	–	115
Fair value change on derivative financial instrument	–	(280)	(280)
At 30 June 2022 (Unaudited)	18,528	6	18,534
At 1 January 2023 (Audited)	19,073	167	19,240
Imputed interest on convertible bonds	694	–	694
Exchange difference	96	–	96
Fair value change on derivative financial instrument	–	(15)	(15)
At 30 June 2023 (Unaudited)	19,863	152	20,015

20. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

On 15 July 2014, each of the shareholders of Oriental Regent Limited (“Oriental Regent”), the joint venture of the Group which the Group has obtained control during the year ended 31 December 2016, entered into a loan agreement with Oriental Regent whilst they agreed to provide their contributions proportionally of the additional capital amount of US\$137,691,000 (equivalent to approximately HK\$1,071,236,000) in total as required by Oriental Regent to continue to fund the gaming and resort project in the Russian Federation by way of ordinary shareholder convertible loan (the “Shareholder’s Loan”) as contemplated under the investment and shareholders agreement dated 23 August 2013. A total of US\$55,076,400 (equivalent to approximately HK\$428,494,000) was contributed by the other shareholders of Oriental Regent. The Shareholder’s Loan is non-interest bearing, unsecured and due to mature after 3 years from the date of the agreement, which shall automatically renew for another term of three years. No repayment at all time shall be made by Oriental Regent unless there are sufficient free cash flows generated from its operations to make the repayment. The Shareholder’s Loan can only be converted into new shares of Oriental Regent at the option of Oriental Regent at such conversion price(s) and ratio(s) as Oriental Regent shall agree with the shareholders of Oriental Regent at the relevant time. The conversion period is from the date on which the payment for the entire principal amount of the Shareholder’s Loan was made by the shareholders to the day immediately prior to the repayment date. The Shareholder’s Loan was discounted at an effective interest rate calculated at 11.28% per annum at inception.

On 15 July 2020, after prepayments previously made, the repayment date of the outstanding loan with a total principal amount of US\$75,691,000 (equivalent to approximately HK\$586,832,000), out of which US\$30,276,400 (equivalent to approximately HK\$234,642,000) was contributed by the other shareholders of Oriental Regent, was extended for three years from 15 July 2020 to 15 July 2023 and shall automatically renew for another term of three years. The Shareholder’s Loan is discounted at an effective interest rate calculated at 5.76% per annum at extension.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

20. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY (continued)

On 16 November 2020, the Group repurchased 7.5% of the Shareholder's Loan with a total principal amount of US\$5,676,825 (equivalent to approximately HK\$43,995,000) from the non-controlling shareholders under the equity transaction.

For the six-month period ended 30 June 2023, the Group made a repayment of US\$7,509,593 (equivalent to approximately HK\$58,824,000) (the year ended 31 December 2022: US\$2,245,901 (equivalent to approximately HK\$17,510,000), resulting in an outstanding principal amount of US\$14,844,081 (31 December 2022: US\$22,353,674) contributed by the non-controlling shareholders of Oriental Regent. The difference between the carrying amount of the portion of the Shareholder's Loan repaid to the non-controlling interests and the repayment sum of approximately HK\$15,221,000 was recognised as deemed distribution to equity participant and attributable to and included in non-controlling interests.

For the six-month period ended 30 June 2023, imputed interest on loans from non-controlling shareholders of a subsidiary amounting to approximately HK\$3,852,000 (six-month period ended 30 June 2022: approximately HK\$4,282,000) was recognised and disclosed under "finance costs" in note 8.

21. LIABILITIES FOR VAT ARRANGEMENTS

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

However, according to the Russian regulations, as gaming activities are not subject to Output VAT in the Russian Federation, the Input VAT refunded to the Group cannot be utilised. Instead it is required to be divided into 10 equal parts and each has to be returned to the tax authority in each of the next 10 years from the first year of operations to the extent of the annual proportion of the revenue generated from the gaming activities over the total revenues of the Group's gaming and hotel operations in the Russian Federation. Such assessment is performed on an annual basis over a period of 10 years from the year when the relevant VAT is refunded to the Group. Against this, as at 30 June 2023, a provision of approximately Russian rubles ("RUB") 189,699,000 (equivalent to approximately HK\$17,080,000) (31 December 2022: approximately RUB267,209,000 (equivalent to approximately HK\$29,619,000)) was recognised for the estimated amount of the relevant Input VAT that has been refunded to the Group but has to be returned to the tax authority under this regulation. The estimated repayable amount to the tax authority was calculated by using an effective interest rate of 6.98% (31 December 2022: 6.98%) per annum. Accordingly, as at 30 June 2023, approximately RUB83,906,000 (equivalent to approximately HK\$7,555,000) (31 December 2022: approximately RUB83,906,000 (equivalent to approximately HK\$9,301,000)) of such provision was presented as current and included in other payables (Note 18) as such amount was under the aforesaid assessment within the next twelve months and was expected to be returned to the tax authority upon final assessment, with the remainder of approximately RUB105,793,000 (equivalent to approximately HK\$9,525,000) (31 December 2022: approximately RUB183,303,000 (equivalent to approximately HK\$20,318,000)) presented as non-current.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis
Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value as at		Fair value hierarchy	Valuation technique	Significant unobservable inputs	Notes
	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)				
Financial asset						
Derivative financial instruments – issued by Suntrust	1,557,922	1,610,994	Level 3	Equity allocation model (31 December 2022: Equity allocation model)	Volatility: 49.8% (31 December 2022: 54.93%)	(i)
Financial liability						
Derivative financial instrument – issued by the Company	(152)	(167)	Level 3	Binomial model (31 December 2022: Binomial model)	Discount rate: 13.55% Volatility: 117.81% (31 December 2022: Discount rate: 13.32%, Volatility:111.39%)	(ii)
	1,557,770	1,610,827				

During the six-month period ended 30 June 2023 and year ended 31 December 2022, there were no transfers between Level 1 and 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Fair value hierarchy (Continued)

Notes:

- (i) If the volatility of the Suntrust's share price had been 5% higher/lower while all other variables were held constant, the Group's post-tax loss for the six-month period ended 30 June 2023 (year ended 31 December 2022: post-tax profit) would have increased/decreased by approximately HK\$5,771,000 (year ended 31 December 2022: decreased/increased by approximately HK\$7,933,000) (as a result of changes in fair value of derivative financial instruments).
- (ii) If the volatility of the Company's share price or discount rate had been 5% higher/lower while all other variables were held constant, the Group's post-tax loss for the six-month period ended 30 June 2023 (year ended 31 December 2022: post-tax profit) would have increased/decreased by approximately HK\$29,000 and approximately HK\$244,000 respectively (year ended 31 December 2022: decreased/increased by approximately HK\$30,000 and approximately HK\$273,000 respectively) (as a result of changes in fair value of derivative financial instruments).

b) Reconciliation of Level 3 fair value measurement of financial instruments

Investment carried at FVTPL

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
At the beginning of the period	1,610,827	839,719
Addition during the period	–	913,020
Fair value losses recognised in profit or loss during the period (Note)	(53,057)	(74,579)
At the end of the period	1,557,770	1,678,160

Note:

Fair value loss during the period in respect of investment carried at FVTPL was recognised, included and disclosed under "fair value losses on derivative financial instruments" in the condensed consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

23. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.025 each		
Authorised:		
At 1 January 2022 (Audited), 31 December 2022 (Audited) and 30 June 2023 (Unaudited)	<u>6,000,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1 January 2022 (Audited), 31 December 2022 (Audited) and 30 June 2023 (Unaudited)	<u>4,509,444,590</u>	<u>112,736</u>

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

24. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in these condensed consolidated financial statements, the Group entered into the following transactions with related parties during the six-month period ended 30 June 2023:

(a) Compensation of key management personnel

The remuneration of Directors and other members of key management during the period were as follows:

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term benefits	7,213	5,305
Post-employment benefits	<u>18</u>	<u>14</u>
	<u>7,231</u>	<u>5,319</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

24. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

	Six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Transactions with non-controlling shareholders of a subsidiary:		
Imputed interest expenses on the Shareholder's Loan	3,852	4,282
Transactions with fellow subsidiaries:		
Interest income from derivative financial instruments	51,176	28,229
Interest income from the Loan	-	24,856
Interest income from a fellow subsidiary	-	69

25. EVENT AFTER REPORTING PERIOD

- On 18 May 2023, the Company entered into the sale and purchase agreements with LET Group Holdings Limited ("LET") and Solid Impact Limited ("Solid Impact", an independent third party), pursuant to which amongst other things, (i) LET (as seller) conditionally agreed to sell, and the Company (as buyer) conditionally agreed to acquire, the entire issued share capital of Modest Achieve Limited ("Modest Achieve", a private company incorporated in the British Virgin Islands (the "BVI") and a fellow subsidiary of the Company) and a loan at a total consideration of HK\$142.8 million; and (ii) the Solid Impact (as seller) conditionally agreed to sell, and the Company (as buyer) conditionally agreed to acquire, the entire issued share capital of Joyful Award Limited ("Joyful Award", a private company incorporated in BVI) and a loan at a total consideration of HK\$137.2 million (the "Acquisitions").

Modest Achieve directly holds and Joyful Award indirectly holds 51% and 49% interest in MSRD Corporation Limited respectively, a private company incorporated in Japan and whose sole material asset is a property comprising 28 adjoining land parcels located in Nishihara, Aza Nikadori, Hirara, Miyakojima City, Okinawa Prefecture, Japan (the "Land Parcels"). Upon completion, Modest Achieve and Joyful Award will be directly wholly-owned by the Company and accordingly the Company will have 100% interest in the Land Parcels.

The Acquisitions were approved by the Company's independent shareholders at the special general meeting and completed on 14 July 2023, details of which were disclosed in the announcements of the Company dated 18 May 2023 and 14 July 2023 and the circular dated 28 June 2023.

- On 26 July 2023, the Group entered into a subscription agreement with Suntrust, pursuant to which, Suntrust conditionally agrees to issue and the Group conditionally agrees to subscribe for the zero-coupon convertible bonds in the principal amount of up to PHP13,511.1 million (equivalent to approximately HK\$1.93 billion), and will pay the subscription price by setting off against the indebted amounts under the 2020 CB and the 2022 CB (in full or as the case may be, in part) as at the completion date.
 - In pursuance of the loan agreement dated 8 June 2023 as amended by an amendment agreement dated 26 July 2023 between Suntrust and China Banking Corporation, Suntrust is required to maintain a credit balance of not less than US\$20 million in a construction reserve account with the bank. On 26 July 2023, the Group entered into a loan agreement with Suntrust, pursuant to which, the Group will provide a loan facility of up to US\$20 million (equivalent to approximately HK\$155 million) to Suntrust for the sole purpose of Suntrust to fulfill the relevant requirement.

These transactions are, among others, subject to obtaining the approval of the Company's independent shareholders at the special general meeting, details of which are stated in the announcements of the Company dated 9 June 2023 and 26 July 2023.

OTHER INFORMATION

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

As at 30 June 2023, the interests and short positions of each director (the "Director") of Summit Ascent Holdings Limited (the "Company", together with its subsidiaries collectively as the "Group") in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Hong Kong Stock Exchange were as follows:

(i) Long positions in the shares and underlying shares of the Company

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

<u>Name of Directors</u>	<u>Capacity/ Nature of Interest</u>	<u>Number of ordinary shares of the Company held</u>	<u>Approximate % of total issued shares of the Company</u>
Mr. Lo Kai Bong ("Mr. Lo")	Interest of controlled corporations (Note 2)	3,146,533,811	69.77%
Mr. Li Chak Hung ("Mr. Li")	Beneficial owner	400,000	0.00%

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

<u>Name of Directors</u>	<u>Capacity/ Nature of Interest</u>	<u>Number of underlying shares of the Company held pursuant to share options</u>	<u>Approximate % of total issued shares of the Company</u>
Mr. Lau Yau Cheung ("Mr. Lau")	Beneficial owner	937,500	0.02%
Mr. Li	Beneficial owner	937,500	0.02%

OTHER INFORMATION

Notes:

1. As at 30 June 2023, the total number of issued shares of the Company was 4,509,444,590.
2. LET Group Holdings Limited (“LET”), the listed holding company of the Company, is the beneficial owner of 123,255,000 shares of the Company and is also interested in 3,018,306,811 shares of the Company through its wholly-owned subsidiary, Victor Sky Holdings Limited (“Victor Sky”). As at 30 June 2023, LET was majority controlled by Major Success Group Limited (“Major Success”), which is wholly-owned by Mr. Lo. In addition, Better Linkage Limited (“Better Linkage”), a company wholly-owned by Mr. Lo, is the beneficial owner of 520,000 shares of the Company and is also interested in 4,452,000 shares of the Company through its wholly-owned subsidiary Ever Smart Capital Limited (“Ever Smart”). By virtue of the SFO, Mr. Lo is deemed to be interested in 3,146,533,811 shares of the Company held by LET, Victor Sky, Better Linkage and Ever Smart collectively.
3. The options granted to the Directors are registered under the name of the Directors who are also beneficial owners.
4. Details of share options granted to the Directors pursuant to the share option scheme of the Company as set out in the section headed “Share Option Scheme” of this report.

(II) Long positions in the shares and underlying shares of an associated corporation of the Company

(a) *Ordinary shares of LET (Note 1)*

Name of Directors	Capacity/ Nature of Interest	Number of ordinary shares of LET held	Approximate % of total issued shares of LET
Mr. Lo	Interest of controlled corporations (<i>Note 2</i>)	4,999,694,857	72.07%
Mr. Chiu King Yan (“Mr. Chiu”)	Beneficial owner	80,000	0.00%

OTHER INFORMATION

(b) Share options granted by LET

Name of Directors	Capacity/Nature of Interest	Number of underlying shares of LET held pursuant to convertible bonds of LET	Approximate % of total issued shares of LET
Mr. Lo	Beneficial owner (Note 3)	40,000,000	0.58%
Mr. Chiu	Beneficial owner (Note 4)	6,000,000	0.09%

Notes:

- As at 30 June 2023, the total number of issued shares of LET was 6,936,972,746.
- As at 30 June 2023, LET was majority controlled by Major Success, which is wholly-owned by Mr. Lo. By virtue of the SFO, Mr. Lo is deemed to be interested in 4,999,694,857 shares of LET owned by Major Success.
- These share options of LET granted on 4 September 2017 at an exercise price of HK\$0.455 per share are divided into 3 tranches: 8,000,000 share options are exercisable from 4 September 2017, 12,000,000 share options are exercisable from 4 September 2018 and the remaining 20,000,000 share options are exercisable from 4 September 2019 respectively until 3 September 2027 to subscribe for shares of LET. The closing price of the shares of LET on the Hong Kong Stock Exchange immediately preceding the date of the grant was HK\$0.460.
- These share options of LET granted on 4 September 2017 at an exercise price of HK\$0.455 per share are divided into 3 tranches: 1,200,000 share options are exercisable from 4 September 2017, 1,800,000 share options are exercisable from 4 September 2018 and the remaining 3,000,000 share options are exercisable from 4 September 2019 respectively until 3 September 2027 to subscribe for shares of LET. The closing price of the shares of LET on the Hong Kong Stock Exchange immediately preceding the date of the grant was HK\$0.460.

Save as disclosed above, so far as known to any Directors as at 30 June 2023, none of the Directors and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to section 347 of the SFO and the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

OTHER INFORMATION

SHARE OPTION SCHEME (Note 1)

Pursuant to an annual general meeting held on 28 May 2021, the shareholders of the Company approved the adoption of a new share option scheme (the "Scheme") and the termination of the previous share option scheme adopted on 7 July 2011 (collectively the "Share Option Schemes").

As at 1 January 2023 and 30 June 2023, the number of options available for grant under the Scheme was 450,944,459. During the six-month period ended 30 June 2023, the number of shares of Company that may be issued in respect of options that may be granted under the Scheme was 450,944,459, being 10% of the weighted average number of shares of the Company in issue for the period.

As at 30 June 2023, the number of shares in respect of the options granted and remained outstanding under the Scheme was 13,496,875 (31 December 2022: 13,496,875), representing 0.30% (31 December 2022: 0.30%) of the total number of issued shares of the Company.

Movements of share options granted under the Share Option Schemes during the six-month period ended 30 June 2023 are as follows:

Category of Participants	As at 1 January 2023 and 30 June 2023 (Note 4)	Date of grant	Exercise price (HK\$)	Notes
Directors				
Mr. Li	937,500	13 December 2018	1.05	2
Mr. Lau	<u>937,500</u>	13 December 2018	1.05	2
	1,875,000			
Employees	10,621,875	13 December 2018	1.05	2
Consultant	<u>1,000,000</u>	2 November 2020	0.912	3
Exercisable at the end of the period	<u>13,496,875</u>			

OTHER INFORMATION

Notes:

1. Each option gives the holder the right to subscribe for one share of the Company and the vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The share options granted on 13 December 2018 are exercisable from 13 December 2018 until 12 December 2023. The closing price of the Company's shares on the Hong Kong Stock Exchange immediately preceding the date of the grant was HK\$0.98. The exercise price was adjusted from HK\$0.98 to HK\$1.05 as a result of the rights issue completed on 15 October 2020.
3. The share options granted on 2 November 2020 are divided into 3 tranches, 30% of which is exercisable from 2 November 2020, 30% of which is exercisable from 2 November 2021 and the remaining 40% is exercisable from 2 November 2022 respectively until 1 November 2025. The closing price of the Company's shares on the Hong Kong Stock Exchange immediately preceding the date of the grant was HK\$0.89.
4. During the six-month period ended 30 June 2023, no share options were granted, exercised, cancelled or lapsed under the Share Option Schemes. The weighted average exercise price of the share options outstanding is HK\$1.04 at 1 January 2023 and 30 June 2023.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2023, within the knowledge of the Directors, the following persons or corporations had or deemed or taken to have an interest or a short position in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Ordinary shares of the Company (Note 1)

Name	Capacity/ Nature of interest	No. of shares of the Company	Approximate % of total issued shares of the Company
LET	Beneficial owner	123,255,000	2.73%
	Interest of controlled corporations (Note 2)	3,018,306,811	66.93%
		<hr/> 3,141,561,811	<hr/> 69.66%
Victor Sky	Beneficial owner (Note 2)	3,018,306,811	66.93%
Major Success	Interest of controlled corporations (Note 2)	3,141,561,811	69.66%
Allied Group Limited	Interest of controlled corporations (Note 3)	3,141,561,811	69.66%
Lee Seng Huang	Interest of controlled corporations (Note 3)	3,141,561,811	69.66%
Lee Seng Hui	Interest of controlled corporations (Note 3)	3,141,561,811	69.66%
Lee Su Hwei	Interest of controlled corporations (Note 3)	3,141,561,811	69.66%

OTHER INFORMATION

Notes:

1. As at 30 June 2023, the total number of issued shares of the Company was 4,509,444,590.
2. LET, the listed holding company of the Company, is the beneficial owner of 123,255,000 shares of the Company and is also interested in 3,018,306,811 shares of the Company through its wholly-owned subsidiary, Victor Sky. As at 30 June 2023, LET was majority controlled by Major Success, which is wholly-owned by Mr. Lo. By virtue of the SFO, Major Success is deemed to be interested in 3,141,561,811 shares of the Company held by LET and Victor Sky collectively.
3. As at 30 June 2023, LET and Victor Sky pledged 123,255,000 shares of the Company and 3,018,306,811 shares of the Company respectively in favour of Long Set Investments Limited as a security of a loan facility provided to LET. Long Set Investments Limited is a controlled corporation of Allied Group Limited and Allied Group Limited is a controlled corporation of Lee Seng Huang, Lee Seng Hui and Lee Su Hwei.

Save as disclosed above, as at 30 June 2023, the Directors are not aware of any other person (other than the Directors) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

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

The Company has complied with the Corporate Governance Code ("CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") during the six-month period ended 30 June 2023.

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

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

Terms of reference of the aforesaid committees have been posted on the Company's website at www.saholdings.com.hk under the "Corporate Governance" section.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code for dealing in the Company's securities by Directors and relevant employees, who are likely to be in possession of inside information in relation to the securities of the Company (the "Code of Securities Dealings") on terms no less exacting than the required standards set out in the Model Code of the Listing Rules. We have received confirmation from all Directors that they have complied with the required standards as set out in the Model Code and the Code of Securities Dealings throughout the six-month period ended 30 June 2023.

UPDATE ON DIRECTORS' INFORMATION

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the publication of the Company's 2022 Annual Report and up to the date of this report are set out below:

Name of Directors	Details of changes
Mr. Lo	Entered into a supplemental letter of appointment with the Company on 29 March 2023 and entitled to a monthly director fee of HK\$300,000 and a monthly housing allowance of up to HK\$250,000 with effect from 1 April 2023.
Mr. Li	Appointed as a member of each of the Remuneration Committee and the Nomination Committee of the Company with effect from 29 March 2023.
Mr. Lau	Appointed as a member of the Corporate Governance Committee of the Company with effect from 29 March 2023.

AUDIT COMMITTEE

The Company's Audit Committee is currently composed of three Independent Non-executive Directors. The primary duties of the Audit Committee are (i) to review the annual reports, interim reports and financial statements of the Group and to provide advice and comments thereon to the Board; (ii) to review and supervise the Group's financial reporting process; and (iii) to oversee the Group's risk management and internal control systems. The Audit Committee has reviewed the interim report for the six-month period ended 30 June 2023 which was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

During the six-month period ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE INFORMATION *(Note)*

BOARD OF DIRECTORS

Executive Directors

Mr. Lo Kai Bong (*Chairman*)
Mr. Chua Ming Huat David
(*Chief Executive Officer*)
Mr. Chiu King Yan

Independent Non-executive Directors

Mr. Lam Kwan Sing
Mr. Lau Yau Cheung
Mr. Li Chak Hung

AUDIT COMMITTEE

Mr. Li Chak Hung (*Chairman*)
Mr. Lam Kwan Sing
Mr. Lau Yau Cheung

REMUNERATION COMMITTEE

Mr. Lam Kwan Sing (*Chairman*)
Mr. Lau Yau Cheung
Mr. Li Chak Hung

NOMINATION COMMITTEE

Mr. Lau Yau Cheung (*Chairman*)
Mr. Lam Kwan Sing
Mr. Li Chak Hung

CORPORATE GOVERNANCE COMMITTEE

Mr. Lam Kwan Sing (*Chairman*)
Mr. Li Chak Hung
Mr. Lau Yau Cheung

COMPANY SECRETARY

Ms. Mok Ming Wai

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PRINCIPAL BANKERS

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Bank of Communications Co., Ltd.,
Hong Kong Branch
PJSC Bank Primorye
PJSC Sberbank
Alfa-Bank

AUDITOR

Crowe (HK) CPA Limited
(*Registered Public Interest Entity Auditors*)

LEGAL ADVISOR

Chiu & Partners

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Hong Kong

STOCK CODE

102 (Listed on the Hong Kong Stock Exchange)

WEBSITE

www.saholdings.com.hk

Note: As of the date of this report.