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IMPERIAL PACIFIC

INTERNATIONAL HOLDINGS

博華太平洋國際控股有限公司

IMPERIAL PACIFIC INTERNATIONAL HOLDINGS LIMITED

博華太平洋國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1076)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the “**Directors**”) (the “**Board**”) of Imperial Pacific International Holdings Limited (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2021 together with comparative figures for the corresponding period of 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	–	26,672
Cost of sales		–	(79,659)
Gross loss		–	(52,987)
Other income, gains and losses, net		413	15,890
Selling and marketing expenses		–	(1,294)
Operating and administrative expenses		(171,034)	(439,119)
Impairment losses recognised for trade receivables, net	11	–	(222,120)
Share-based payments		(470)	(527)
Finance costs	6	(188,360)	(96,921)
Share of loss of a joint venture		(83)	(846)
Loss before tax	5	(359,534)	(797,924)
Income tax expense	7	–	–
Loss for the period attributable to owners of the Company		(359,534)	(797,924)

		Six months ended 30 June	
		2021	2020
<i>Note</i>		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
	Exchange differences on translation of foreign operations	2,747	(49,725)
	Reclassification for foreign operation disposed of during the period	—	(2)
	Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	2,747	(49,727)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
	Equity investments designated at fair value through other comprehensive income:		
	Changes in fair value	1,960	(3,131)
	Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent period	1,960	(3,131)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		4,707	(52,858)
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY		(354,827)	(850,782)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
		9	
	Basic	HK(0.25) cents	HK(0.56) cents
	Diluted	HK(0.25) cents	HK(0.56) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	10	7,056,301	7,116,235
Investment in a joint venture		55,886	55,986
Prepayments, deposits and other receivables		27,605	32,058
Equity investments designated at fair value through other comprehensive income		7,081	5,121
Total non-current assets		7,146,873	7,209,400
CURRENT ASSETS			
Inventories		24,157	24,118
Trade receivables	11	1,009,084	1,005,677
Prepayments, deposits and other receivables		141,516	159,096
Cash and cash equivalents		7,776	10,013
Total current assets		1,182,533	1,198,904
CURRENT LIABILITIES			
Trade payables	12	69,617	72,096
Other payables and accruals		6,915,836	6,698,229
Other borrowings		4,296,774	3,662,240
Lease liabilities		5,065	3,611
Unsecured bonds and notes		36,028	102,997
Loans from a joint venture		–	8,477
Tax payable		21,204	21,048
Total current liabilities		11,344,524	10,568,698
NET CURRENT LIABILITIES		(10,161,991)	(9,369,794)
TOTAL ASSETS LESS CURRENT LIABILITIES		(3,015,118)	(2,160,394)

		30 June 2021	31 December 2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Other borrowings		10,000	504,099
Lease liabilities		18,027	19,097
Unsecured bonds and notes		49,281	49,755
Total non-current liabilities		77,308	572,951
NET LIABILITIES		(3,092,426)	(2,733,345)
CAPITAL AND RESERVES			
Share capital	13	71,492	71,492
Reserves		(3,163,918)	(2,804,837)
DEFICIENCY IN ASSETS		(3,092,426)	(2,733,345)

NOTES TO INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2021

1. CORPORATE INFORMATION

Imperial Pacific International Holdings Limited (the “**Company**”) was incorporated in Bermuda as an investment holding company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business is Units 05–06, 16th Floor, Global Trade square, No. 21 Wong Chuk Hang Road, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

During the period, the Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the gaming and resort business, including the development of an integrated resort on the Island of Saipan, Commonwealth of the Northern Mariana Islands (“**CNMI**”).

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

2.1 BASIS OF PRESENTATION

Going Concern

Despite that the Group reported net losses of HK\$359,534,000 for the six months ended 30 June 2021 and had net current liabilities of HK\$10,161,991,000 and net liabilities of HK\$3,092,426,000 and capital commitments of HK\$512,980,000 as at 30 June 2021 and the adverse impact from the coronavirus disease 2019 (“**COVID-19**”) pandemic, which has also resulted in the temporary closure of its casino operation in Saipan since 17 March 2020, the Directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group’s business forecast and cash flow projection which, inter alia, take into account the past actual operating performance of the Group and the following:

- (a) On 23 April 2021, Imperial Pacific International (CNMI), LLC (the “**Licensee**”), an indirect wholly-owned subsidiary of the Company, received an order from the Commonwealth Casino Commission (“**CCC**”) that, among other matters, the casino resort developer license as granted under the Casino License Agreement (as amended) between the Licensee and the CNMI is suspended, the Licensee shall pay the Annual License Fee of US\$15,500,000 (equivalent to HK\$120,373,000) and the Casino Regulatory Fee of US\$3,100,000 (equivalent to HK\$24,075,000) immediately and that the Licensee shall pay penalties of US\$6,600,000 (equivalent to HK\$51,256,000). The Board considered that pursuant to the force majeure clause under the Casino License Agreement, the Licensee is not required to pay the Annual License Fee in the event of natural disasters. However, the CCC raised disputes and alleged that the COVID-19 pandemic does not constitute a natural disaster or force majeure. As a result, the Licensee has filed a review with Superior Court in Saipan to determine whether the pandemic constitutes a natural disaster or force majeure. If it is determined that the pandemic constitutes a natural disaster or force majeure, the Licensee will not be required to pay the Annual License Fee. As of the date of this announcement, such review is still ongoing.
- (b) The Company has been contacting certain major lenders and bond and note holders to renew certain other borrowing and unsecured bonds and notes with which were originally due for repayment in 2021, for extension of the repayment tenure to 2022 and/or beyond;
- (c) As at the end of the reporting period, the Company has unutilised credit facility of US\$350,000,000 (equivalent to HK\$2,718,100,000) from an independent third party. The total facility amount is US\$500,000,000 (equivalent to HK\$3,883,000,000), of which an amount of US\$150,000,000 (equivalent to HK\$1,164,900,000) was drawn down during the year ended 31 December 2019 and outstanding as at the end of the reporting period. The Company will draw down the unutilised credit facility when necessary;

- (d) Inventive Star and other related parties have undertaken to provide additional funding to settle the Group's operating costs, liabilities, potential liabilities related to litigation, the casino annual license fee and the community benefit fund and capital investments as and when necessary;
- (e) The management will consider other financing arrangements with a view to increasing the Group's capitalisation/equity; and
- (f) The management will continue to refinance and/or roll-over the Group's existing loans with a view to improving the Group's liquidity.

The Directors believe that, taking into account the above factors, the Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from the end of the reporting period. However, should the above financing be unavailable, the Group may be unable to continue as a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to write down to their realisable values, to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the results announcement.

2.2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard 34 ("**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.

Other than additional 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 months ended 30 June 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

The unaudited interim condensed consolidated financial information has been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income ("**FVOCI**"), which have been measured at fair value. This unaudited interim condensed consolidated financial information is presented in Hong Kong dollars ("**HK\$**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 APPLICATION OF AMENDMENTS TO HKFRSs

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform

Covid-19-Related Rent Concessions

*Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)*

The revised standards have had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the gaming and resort business, including the development of an integrated resort on the Island of Saipan. No separate operating segment information is presented as the Group has only one operating segment.

Geographical information is not presented since all of the Group's revenue was derived from the Island of Saipan, where the Group provides the services to its customers. Over 95% of the Group's non-current assets are located in the Island of Saipan. Accordingly, the presentation of geographical information would provide no additional useful information to the users of this interim financial information.

4. REVENUE

The Group's revenue is as follows:

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
VIP gaming operations	–	(24,728)
Mass gaming operations	–	32,837
Slot machines and Electronic Table Game (“ETG”) gaming operations	–	12,762
Food and beverage	–	5,801
	<u>–</u>	<u>26,672</u>

5. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold*	–	1,639
Business gross revenue tax (“BGRT”)*	–	1,185
Depreciation of property, plant and equipment	68,471	125,480
Depreciation of right-of-use assets	6,738	14,574
Casino licence fees*	58,222	60,158
Rental expense of short-term leases	1,240	1,446
Gain on disposal of subsidiaries**	–	(15,227)
Staff costs (including directors' remuneration):		
Salaries, bonus and allowances***	10,117	135,294
Retirement benefits scheme contributions	133	131
Total staff costs	<u>10,250</u>	<u>135,425</u>

- * Included in “Cost of sales” on the face of the condensed consolidated statement of profit or loss and other comprehensive income.
- ** Included in “Other income, gains and losses, net” on the face of the condensed consolidated statement of profit or loss and other comprehensive income.
- *** Staff costs of approximately HK\$3,869,000 (six months ended 30 June 2020: approximately HK\$74,049,000) included in the above were capitalised under property, plant and equipment.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on lease liabilities	2,393	2,831
Interest on other borrowings and loans from related parties	183,813	193,324
Interest on unsecured bonds and notes	2,154	34,905
	188,360	231,060
Less: Interest capitalised	–	(134,139)
	188,360	96,921

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2021 and 2020. Income tax provision for the six months ended 30 June 2021 and 2020 represents income tax on casino operations for the subsidiaries operating in the CNMI, which is calculated at the applicable tax rates for the six months ended 30 June 2021 and 2020.

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax — CNMI:		
Charge for the period	–	–
Deferred tax:		
Credit for the period	–	–
Tax charge for the period	–	–

8. INTERIM DIVIDEND

No dividend was paid or proposed by the Company for the six months ended 30 June 2021 and 2020.

9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amounts for the period is based on the loss for the period attributable to owners of the Company, and the weighted average number of ordinary shares of approximately 142,984,808,000 (six months ended 30 June 2020: approximately 142,984,808,000) in issue during the period.

No adjustment had been made to the basic loss per share amount presented for the period ended 30 June 2021 in respect of a dilution as the impact of the share options (2020: share option and convertible bonds) had an anti-dilutive effect on the basic loss per share amount presented.

The calculations of the basic and diluted loss per share are based on:

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to owners of the Company, used in the basic and diluted loss per share calculation	<u>(359,534)</u>	<u>(797,924)</u>
	Number of shares	
	2021	2020
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation	<u>142,984,808</u>	<u>142,984,808</u>
Weighted average number of ordinary shares in issue during the period used in the diluted loss per share calculation	<u>142,984,808</u>	<u>142,984,808</u>

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of property, plant and equipment of approximately HK\$8,344,000 (six months ended 30 June 2020: approximately HK\$253,322,000).

11. TRADE RECEIVABLES

An ageing analysis of trade receivables as at the end of the reporting period, based on the program end date and net of loss allowance, is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	–	–
More than 1 month but within 3 months	–	–
More than 3 months but within 6 months	–	–
More than 6 months but within 1 year	–	137,901
More than 1 year	9,068,005	8,916,631
	9,068,005	9,054,532
Allowance for expected credit losses	(8,058,921)	(8,048,855)
	1,009,084	1,005,677

As at 30 June 2021, the Group had received guarantee deposits of HK\$1,009,084,000 (31 December 2020: HK\$1,005,677,000) from certain patrons/guarantors which can be used to offset against certain of the above trade receivables in an aggregate amount of approximately HK\$1,009,084,000 (31 December 2020: HK\$1,005,677,000) due from certain patrons in the event that the Group cannot recover the trade receivable amounts from these patrons in the normal course of its business.

12. TRADE PAYABLES

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	–	–
More than 1 month but within 3 months	–	–
More than 3 months but within 6 months	–	–
More than 6 months but within 1 year	–	2,301
More than 1 year	69,617	69,795
	69,617	72,096

13. SHARE CAPITAL

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Authorised:		
300,000,000,000 ordinary shares of HK\$0.0005 each	150,000	150,000
Issued and fully paid:		
142,984,807,678 ordinary shares of HK\$0.0005 each	71,492	71,492

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Integrated Resort Business

In August 2014, Imperial Pacific International (CNMI), LLC (the “**Licensee**”), an indirect wholly-owned subsidiary of the Company, and the Commonwealth of the Northern Mariana Islands (“**CNMI**”) entered into a casino license agreement (as amended) (“**Casino License Agreement**”) in respect of the exclusive casino resort developer license for the Island of Saipan pursuant to which the Casino Resort Developer License was granted subject to the terms and conditions as stipulated therein.

Imperial Palace • Saipan

On 6 July 2017, the casino portion of Imperial Palace • Saipan commenced operation (with maximum capacity of up to 193 tables and 365 slot machines upon completion of Imperial Palace • Saipan).

During the six months ended 30 June 2021, no unaudited VIP table games rolling (six months ended 30 June 2020: HK\$846 million) was generated from the operations of Imperial Palace • Saipan. The VIP table games rolling showed a drastic decline compared to the first half of last year due to the coronavirus disease 2019 (“**COVID-19**”) pandemic and adverse market conditions.

Since the outbreak of COVID-19, a number of travel restrictions remain in place all over the world, which are significantly affecting the number of visitors to Saipan. From 2 February 2020, all foreign nationals who were physically present within Mainland China during the 14-day period preceding their attempted entry are not permitted to enter into the US, including Saipan. To cope with the measures imposed by local government, the casino in Imperial Palace • Saipan has suspended operations since 17 March 2020 to help curb the spread of the COVID-19.

On 23 April 2021, the Licensee received an order from the Commonwealth Casino Commission (“**CCC**”) that, among other matters, the casino resort developer license as granted under the Casino License Agreement (as amended) between the Licensee and the CNMI is suspended, the Licensee shall pay the Annual License Fee of US\$15,500,000 (equivalent to HK\$120 million) and the Casino Regulatory Fee of US\$3,100,000 (equivalent to HK\$24 million) immediately and that the Licensee shall pay penalties of US\$6,600,000 (equivalent to HK\$51 million).

The Board considered that pursuant to the force majeure clause under the Casino License Agreement, the Licensee is not required to pay the Annual License Fee in the event of natural disasters. However, the CCC raised disputes and alleged that the COVID-19 pandemic does not constitute a natural disaster or force majeure. As a result, the Licensee has filed a review with Superior Court in Saipan to determine whether the pandemic constitutes a natural disaster or force majeure. If it is determined that the pandemic constitutes a natural disaster or force majeure, the Licensee will not be required to pay the Annual License Fee. As of the date of this announcement, such review is still ongoing.

Major global construction companies, consulting firms, design and engineering firms as well as local sub-contractors have been engaged. As at 30 June 2021, approximately US\$914 million (equivalent to approximately HK\$7,098 million) (31 December 2020: US\$913 million (equivalent to approximately HK\$7,083 million) has been invested in design, consulting, engineering, construction material and labour.

Imperial Casha Hotel

Due to the COVID-19 pandemic, construction for Imperial Casha Hotel has been temporarily suspended.

BUSINESS OUTLOOK

Integrated Resort Development

Imperial Palace • Saipan, perched on the water front of downtown Garapan, will boast 10 restaurants of Michelin grade standard, in addition to the 193 gaming tables and 365 slot machines, and 329 hotel rooms and 15 villas upon completion of construction.

The CNMI has welcomed the first batch travel bubble tourists in July 2021. In addition, the US government has also approved re-including Hong Kong in the CNMI Visa Waiver program.

Throughout the recovery process our Group remains committed to our mission of enhancing the tourism of Saipan and creating local opportunities. Despite the current impact from the COVID-19, we believe visitation to the Island of Saipan still has great potential in the long run benefiting from the island's favorable weather, stunning attractions, proximity location and flexible visa policies, with more hotels to be built and opened. Once the travel restrictions in Saipan are lifted and upon favourable review result from the Superior Court in Saipan, the casino in Imperial Palace • Saipan shall resume operations and be opened to public. We expect the successional opening of villas and hotel rooms of Imperial Palace • Saipan, subject to the lifting of the global travel restrictions, will enhance our capacity to welcome visitors to Saipan.

Debt/Equity Fund Raising and Refinancing

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

FINANCIAL REVIEW

For the six months ended 30 June 2021, no revenue was generated from the operations of Imperial Palace • Saipan. Loss attributable to owners of the Company for the six months ended 30 June 2021 amounted to approximately HK\$359 million, as compared with the loss attributable to owners of approximately HK\$798 million in the corresponding period of last year. Basic and diluted loss per share were HK0.25 cent and HK0.25 cent respectively, as compared with basic and diluted loss per share of HK0.56 cent and HK0.56 cent respectively in the corresponding period of last year.

VIP Gaming Operations

A significant portion of our VIP casino customers was sourced through the Group's own marketing channels. Such high-spending VIP customers generally receive commission and allowances based on a percentage of the rolling chip turnover. The allowances can be utilised for expenses incurred on hotel rooms, food and beverages and other discretionary customer-related expenses. The Group's VIP players were also brought to us via intensive marketing campaigns.

As aforementioned, to cope with the measures imposed by local government, the casino in Imperial Palace • Saipan has suspended operations since 17 March 2020 to help curb the spread of the COVID-19. As a result, no revenue was generated from VIP gaming operations during the period.

Impairment

The gross trade receivables was approximately HK\$9,068 million (31 December 2020: HK\$9,055 million) as at 30 June 2021. While the scale of VIP gaming operations had a significant impact to the Group, the Group regularly reviews the recoverability of trade receivables to ensure that adequate impairments are made for irrecoverable amounts.

Impairment of the Group's trade receivables was estimated based on expected credit losses which has taken into consideration the collectability of individual customers, debts' ageing profile, security provided in the form of front money and guarantee deposits as well as experience with collection trends in the casino industry and forward looking factors including economic outlook and business conditions and provision for impairment was made on certain customers' trade receivables as follows:

- (i) as at 30 June 2021, the provision for impairment of trade receivables due from the Group's largest and the ten largest customers amounted to approximately HK\$1,082 million and approximately HK\$2,763 million (31 December 2020: HK\$1,081 million and HK\$2,760 million) respectively. The aforementioned provisions were made based on the expected credit losses, which include a review of individual customer's facts and circumstances (such as financial position and ongoing dialogue on settlement arrangements, etc.), aging of the outstanding amounts, securities provided and past repayment records.

- (ii) as at 30 June 2021, the provision for impairment of trade receivables due from the remaining customers of the Group amounted to approximately HK\$5,296 million (31 December 2020: HK\$5,289 million) arising from regular review of the overdue balances by the management.

The Board has also prudently benchmarked against its industry peers on provision of bad debt on trade receivables and considered that the impairment of trade receivables as estimated by the Company in the condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2021 to be comparable and in line with global industry standard.

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

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

Mass Gaming Operations

For the six months ended 30 June 2021, no revenue was generated from mass gaming operations (six months ended 30 June 2020: HK\$33 million). Customers from the mass gaming operations do not receive commissions from the Group.

As aforementioned, to cope with the measures imposed by local government, the casino in Imperial Palace • Saipan has suspended operations since 17 March 2020 to help curb the spread of the COVID-19.

Slot Machines and ETG Gaming Operations

No revenue was generated from the slot machines and ETG gaming operations (six months ended 30 June 2020: HK\$13 million) for the six months ended 30 June 2021.

As aforementioned, to cope with the measures imposed by local government, the casino in Imperial Palace • Saipan has suspended operations since 17 March 2020 to help curb the spread of the COVID-19.

Cost of Sales

Given that no revenue was generated from the operations of Imperial Palace • Saipan for the six months ended 30 June 2021, cost of sales for the same period decreased to HK\$Nil (six months ended 30 June 2020: HK\$80 million).

Cost of sales for the period ended 30 June 2020 comprised principally direct casino costs such as half year casino license fee of US\$7.5 million (equivalent to approximately HK\$60.2 million) and Saipan's business gross revenue tax of US\$0.2 million (equivalent to approximately HK\$1.2 million).

Other income, gains and losses

Other gains and losses for the six months ended 30 June 2021 mainly represents interest income for the period.

Other gains and losses for the six months ended 30 June 2020 mainly represents gain on disposal of subsidiaries of approximately HK\$15 million (six months ended 30 June 2021: HK\$Nil).

Operating expenses

Operating expenses, excluding impairment of trade receivables, decreased to approximately HK\$171 million. The decrease is mainly attributable to a decrease in staff costs of approximately HK\$125 million, and decrease in deprecation and amortisation of approximately HK\$65 million as certain assets have been fully depreciated during the six months ended 30 June 2020.

Significant Investment and Acquisition

Apart from the development of integrated resort on the Island of Saipan, the Company did not have any significant investment, acquisition or disposal during the six months ended 30 June 2021 that should be notified to the shareholders of the Company.

Capital expenditure

The Group incurred capital expenditure of approximately HK\$8 million (31 December 2020: HK\$69 million) during the six months ended 30 June 2021, mainly for construction of the Imperial Palace • Saipan and acquisition of gaming related equipment.

Liquidity and Financial Resources

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes, unsecured bonds and notes, loans from related parties, other borrowings, less cash and cash equivalents. Capital represents total equity attributable to owners of the Company. The gearing ratio as at 30 June 2021 was approximately 337.9% (31 December 2020: 270.1%).

Capital structure

During the six months ended 30 June 2021, there was no change to the authorised and issued share capital of the Company (31 December 2020: No change).

As at 30 June 2021, the total number of the issued ordinary shares with the par value of HK\$0.0005 each was 142,984,807,678 (31 December 2020: 142,984,807,678).

On 16 August 2021, the Board proposes to implement a share consolidation on the basis that every twenty (20) issued and unissued existing shares of the Company of HK\$0.0005 each will be consolidated into one (1) consolidated Share of HK\$0.01 each (“**Consolidated Share(s)**”) (the “**Share Consolidation**”), details of which are set out in the circular of the Company dated 25 August 2021. If the Share Consolidation is approved by the shareholders at the special general meeting of the Company to be held on 14 September 2021 (“**SGM**”), assuming no further shares will be allotted, issued or repurchased from the date of this announcement up to the date of the SGM, upon the Share Consolidation becoming effective, there will be 7,149,240,383 Consolidated Shares in issue.

Risk of Foreign Exchange Fluctuation

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

Capital Commitments

As at 30 June 2021, the Group had capital commitments of approximately HK\$513 million (31 December 2020: HK\$512 million).

Contingent Liabilities

(a) Regulatory oversight — BSA compliance

The Group is subject to the jurisdiction of the Regulatory Authorities in the conduct of its casino operations through the Licensee. Specifically, the Licensee is required to comply with the rules and regulations of the CCC in the conduct of its gaming operations. The Licensee is also under the jurisdiction of the FinCEN in terms of its compliance with the anti-money laundering provisions of the BSA. Should the Licensee violate the requirements of the Regulatory Authorities, it could be subject to various sanctions and disciplinary actions including monetary fines and penalties, restrictions and conditions in the scope of operations, and the potential suspension or revocation of its gaming license.

In March 2019, the Internal Revenue Service (“**IRS**”) issued a report (“**IRS Report**”) with findings on the Licensee’s compliance with the BSA. The Licensee, through its external legal counsel, had responded to the IRS Report and acknowledged certain of the findings of violations noted in the IRS Report. The Licensee then received a letter from FinCEN dated 4 March 2020, which has requested the Licensee to provide certain information and documents relevant to compliance with these regulatory requirements from October 2016 through the present. FinCEN has indicated in the letter that there were apparent violations of the BSA and its implementing regulations and it is considering whether to impose civil money penalties or take additional enforcement action against the Licensee. As of the date of this announcement, the Licensee is still in the process of preparing for the information to be submitted to FinCEN. Accordingly, it is not practicable for the Company to accurately predict the resolution of this matter, including timing and amount of any possible impact to the Group. Notwithstanding the aforesaid, as at 30 June 2021, the Group, based on external advice, has made a provision for the estimated civil money penalty in respect of the identified and potential violations.

(b) Investigation by Federal Government Authorities

On 7 November, 2019, the Federal Government Authorities conducted a search of the Licensee offices requesting certain documents and information. Subsequently, a federal grand jury issued two grand jury subpoenas on the Licensee to provide additional documents and information in December 2019. The Licensee has fully cooperated with the Federal Government Authorities in providing documents and information.

The Group has engaged external legal counsels to conduct an independent investigation on the financial transactions undertaken by the Group with the named parties in the two subpoenas for the period from 2013 to 2019. Based on the findings from the investigation reports, the Directors have not identified any transactions which were assessed to be either of a high or moderate risk to a criminal liability exposure. The external legal counsels of the Licensee have also opined that the criminal liability exposures which were assessed to be of a low to moderate risk in the investigation reports do not amount to a material breach of any provisions of the Casino License Agreement or the CCC’s regulations. The Directors also believe that the Licensee had not undertaken any unlawful activities, and the Licensee has sound defenses that it had acted in good faith and conduct. The Group continues to cooperate with the Federal Government Authorities. As of the date of this announcement, the investigation is still ongoing and it is premature to predict the eventual outcome. Accordingly, the potential for any fines, penalties or other consequences cannot currently be assessed. It is also not yet possible to identify the timescale in which these issues might be resolved.

(c) Commonwealth Casino Commission

As of the date of issuance of this announcement, there were five individual cases pending before the CCC of aggregate amount of US\$19,800,000 (equivalent to HK\$153 million) which related to failure of payment annual license fee, payment of community benefit, lack of cash reserves and payment of regulator fee. The Group did not dispute that it owes this money and instead has argued that a Force Majeure clause contained within the Casino License Agreement should be applicable as a result of the COVID-19 pandemic and that payment should be delayed. On 23 April 2021, the Licensee received an order from the CCC that, among other matters, the casino resort developer license as granted under the Casino License Agreement (as amended) between the Licensee and the CNMI is suspended, the Licensee shall pay the Annual License Fee of US\$15,500,000 (equivalent to HK\$120 million) and the Casino Regulatory Fee of US\$3,100,000 (equivalent to HK\$24 million) immediately and that the Licensee shall pay penalties of US\$6,600,000 (equivalent to HK\$51 million). The Board considered that pursuant to the force majeure clause under the Casino License Agreement, the Licensee is not required to pay the Annual License Fee in the event of natural disasters. However, the CCC raised disputes and alleged that the COVID-19 pandemic does not constitute a natural disaster or force majeure. As a result, the Licensee has filed a review with Superior Court in Saipan to determine whether the pandemic constitutes a natural disaster or force majeure. If it is determined that the pandemic constitutes a natural disaster or force majeure, the Licensee will not be required to pay the Annual License Fee. As of the date of this announcement, such review is still ongoing. A provision has been made in the unaudited interim condensed consolidated financial information.

(d) Other litigation matters

As at 30 June 2021 and up to the date of this announcement, apart from expressly stated above, the Group is a party to a number of civil litigation cases, as either a plaintiff or defendant. After taking into account the respective legal advices, provisions have been made in the unaudited interim condensed consolidated financial information.

Save as disclosed above, the Group did not have any other significant contingent liabilities as at 30 June 2021.

Pledge of Assets

As at 30 June 2021, the Group pledged an item of property, plant and equipment with a carrying amount of approximately HK\$86 million (31 December 2020: HK\$92 million) and the issued shares of a subsidiary of the Company (the relevant share charge arrangement has not been completed as of the date of issuance of this announcement), as securities for interest-bearing loans with carrying amounts of approximately HK\$19 million (31 December 2020: HK\$35 million) and HK\$1,165 million (31 December 2020: HK\$1,163 million), respectively.

REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

An Audit Committee of the Company (the “**Audit Committee**”) has been established for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Audit Committee comprises three independent non-executive Directors. The Group’s condensed consolidated financial statements for the six months ended 30 June 2021 have been reviewed and approved by the Audit Committee.

ANNUAL REPORT 2020

Reference is made to the announcements of the Company dated 30 April 2021, 29 June 2021 and 30 July 2021 regarding, among others, the delay in publication of the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) (the “**Delay Announcements**”). As set out in the Delay Announcements, the Company is working closely with the auditors and shall make best endeavours to issue the 2020 Annual Report as soon as practicable. The Company shall make further announcement(s), as and when appropriate in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), to inform the Shareholders the actual date of the despatch of the 2020 Annual Report.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE

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

During the six months ended 30 June 2021, the Company was in full compliance with the Code Provisions set out in Appendix 14 of the Listing Rules (the “CG Code”), except for the following deviation:

Code Provision A.1.8

Code provision A.1.8 of the CG Code provides that appropriate insurance cover in respect of legal action against directors should be arranged. Currently, the Company does not have insurance cover for legal action against its Directors as the previous insurance cover has just expired. The Board is considering to obtain appropriate insurance cover in this regard.

Code Provision A.2.1

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company currently does not have any officer with the title chairman or chief executive. At present, Mr. Xu Zhongxiang, being an Executive Director of the Company and who has considerable experience, is responsible for the strategic planning, formulation of overall corporate development policies and managing the businesses of the Group. Notwithstanding the aforementioned, the Board will review the current structure from time to time and as and when appropriate if candidate with suitable leadership, knowledge, skills and experience is identified, the Company may make the necessary modification to the management structure.

Code Provision A.6.7

Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend the general meetings and develop a balanced understanding of the views of shareholders. Due to other engagements, an independent non-executive Directors of the Company, Mr. Lee Kwok Leung, Mr. Ip Mei Shun and Mr. Robert James Woolsey, were unable to attend the special general meeting of the Company held on 26 February 2021. However, the Board believes that the presence of the other independent non-executive Director at such general meeting allowed the Board to develop an understanding of the views of shareholders.

Code Provision C.1.2

Code Provision C.1.2 of the CG Code provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer’s performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. Although monthly updates to the members of the Board were not arranged regularly during the six months ended 30 June 2021, the management provided information and updates to the members of the Board as and when appropriate to ensure that all members of the Board properly receives adequate, complete and reliable information in a timely manner.

DIVIDEND

No dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil) is recommended by the Board.

By order of the Board
Imperial Pacific International Holdings Limited
Xu Zhongxiang
Executive Director

Hong Kong, 31 August 2021

As at the date of this announcement, the Board comprises Mr. Xu Zhongxiang as executive Director and Mr. Robert James Woolsey, Mr. Ng Hoi Yue, Mr. Lee Kwok Leung and Mr. Ip Mei Shun as independent non-executive Directors.

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

In this announcement, save as otherwise stated, figures in US\$ are translated to HK\$ at the exchange rate of US\$1.00 = HK\$7.766 for illustration purpose only. No representation is made that any amount in US\$ or HK\$ would have been or can be converted at the above rate.