NAGACORP
金界控股有限公司

NAGACORP LTD.//金界控股有限公司

(Incorporated in Cayman Islands with limited liability)

STOCK CODE : **3918**

2019
INTERIM REPORT


NAGAWORLD


NABA 歌剧院
NABA THEATRE @ NAGA2
SHOWTIME ASIA
SHOWTIME ASIA
SHOWTIME ASIA

9TH ASIAN EXCELLENCE AWARD 2019

Corporate Governance Asia
9TH ASIAN EXCELLENCE AWARD 2019
Best Investor Relations Company

Corporate Governance Asia
9TH ASIAN EXCELLENCE AWARD 2019
Asia's Best CEO
Investor Relations

Corporate Governance Asia
9TH ASIAN EXCELLENCE AWARD 2019
Best Investor Relations Professional

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CORPORATE INFORMATION

NagaCorp Ltd. ("NagaCorp" or the "Company", together with its subsidiaries, the "Group") is the largest hotel, gaming and leisure operator in Cambodia. The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (SEHK: 3918) since 2006. NagaCorp was the first company with operations in Cambodia to become a publicly listed entity and the first gaming-related company traded on the Stock Exchange. Our flagship, NagaWorld, is Phnom Penh's only integrated hotel-casino entertainment complex and we enjoy a 70-year casino licence that will run until 2065, as well as a 41-year monopoly within a 200-km radius of Phnom Penh (except the Cambodia-Vietnam border area, Bokor, Kirirom Mountains and Sihanoukville) that expires in 2035.

Board of Directors

Executive Directors

Tan Sri Dr Chen Lip Keong *(Chief Executive Officer)*
Philip Lee Wai Tuck *(Executive Deputy Chairman)*
Chen Yiy Fon

Non-executive Director

Timothy Patrick McNally *(Chairman)*

Independent Non-executive Directors

Lim Mun Kee
Michael Lai Kai Jin
Leong Choong Wah

Audit Committee

Lim Mun Kee *(Chairman)*
Michael Lai Kai Jin
Leong Choong Wah

Remuneration Committee

Michael Lai Kai Jin *(Chairman)*
Tan Sri Dr Chen Lip Keong
Lim Mun Kee
Leong Choong Wah

Nomination Committee

Michael Lai Kai Jin *(Chairman)*
Tan Sri Dr Chen Lip Keong
Lim Mun Kee
Leong Choong Wah

AML Oversight Committee

Timothy Patrick McNally *(Chairman)*
Tan Sri Dr Chen Lip Keong
Chen Yiy Fon
Michael Lai Kai Jin

Company Secretary

Lam Yi Lin

Authorised Representatives

Philip Lee Wai Tuck
Lam Yi Lin

Independent Auditor

BDO Limited

Solicitors

Freshfields Bruckhaus Deringer

Principal Bankers

CIMB Bank Plc *(Phnom Penh Branch)*
United Overseas Bank Limited *(Hong Kong Branch)*

We acknowledge the importance of maintaining communication with our shareholders and investors through channels like annual reports, interim reports, press releases and announcements. Our interim reports contain details of financial and other information about the Company's activities. We welcome enquiries about the Company's activities and will handle them in a timely fashion.

Listing

The Company's shares of US$0.0125 each (the "Shares") have been listed on the Main Board of the Stock Exchange since 19 October 2006.

2019 Interim Report

This interim report, in both English and Chinese, is available in printed form and on the Company's website – www.nagacorp.com.

Stock Code

3918

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Cambodia

NagaWorld
Samdech Techo, Hun Sen Park
Phnom Penh, 120101
P.O. Box 1099 Phnom Penh
Kingdom of Cambodia
Tel: +855 23 228822 Fax: +855 23 225888

Principal Place of Business in Hong Kong

Suite 2806, 28/F
Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Tel: +852 2877 3918 Fax: +852 2523 5475

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Chief Executive Officer

Tan Sri Dr Chen Lip Keong

Chief Financial Officer

Tan Sean Czoon

Head of Investor Relations

Gerard Chai, *Managing Director*

Investor Relations (North America)

Kevin Nyland, *Vice President*

Investor Relations (Europe)

Lili Huang, *Vice President*

Company Website

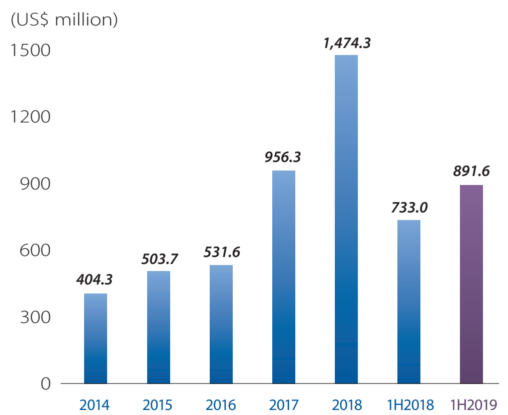
www.nagacorp.com

Share Information

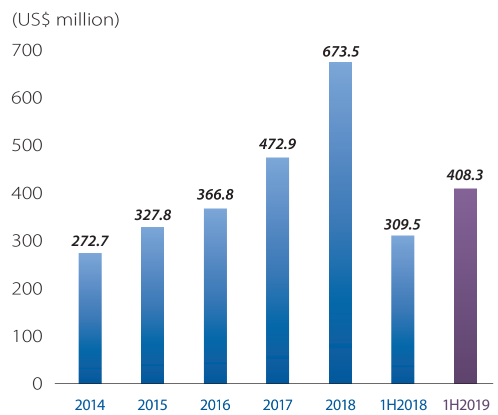
Board lot: 2,000 Shares
Issued Shares as at 30 June 2019:
4,341,008,041 Shares

FINANCIAL HIGHLIGHTS

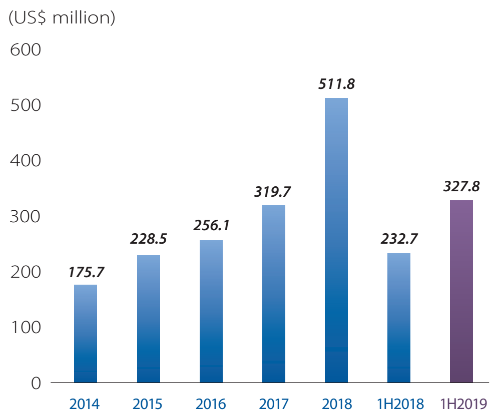
Revenue



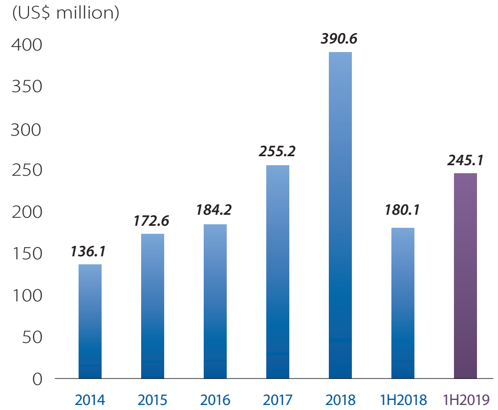
Gross Profit



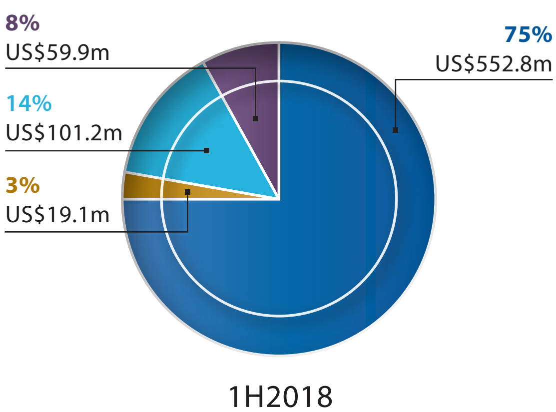
EBITDA



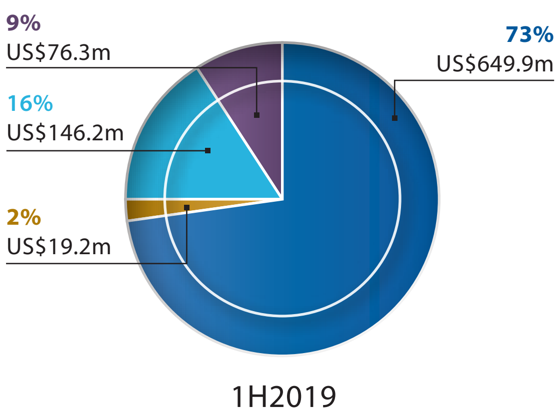
Net Profit



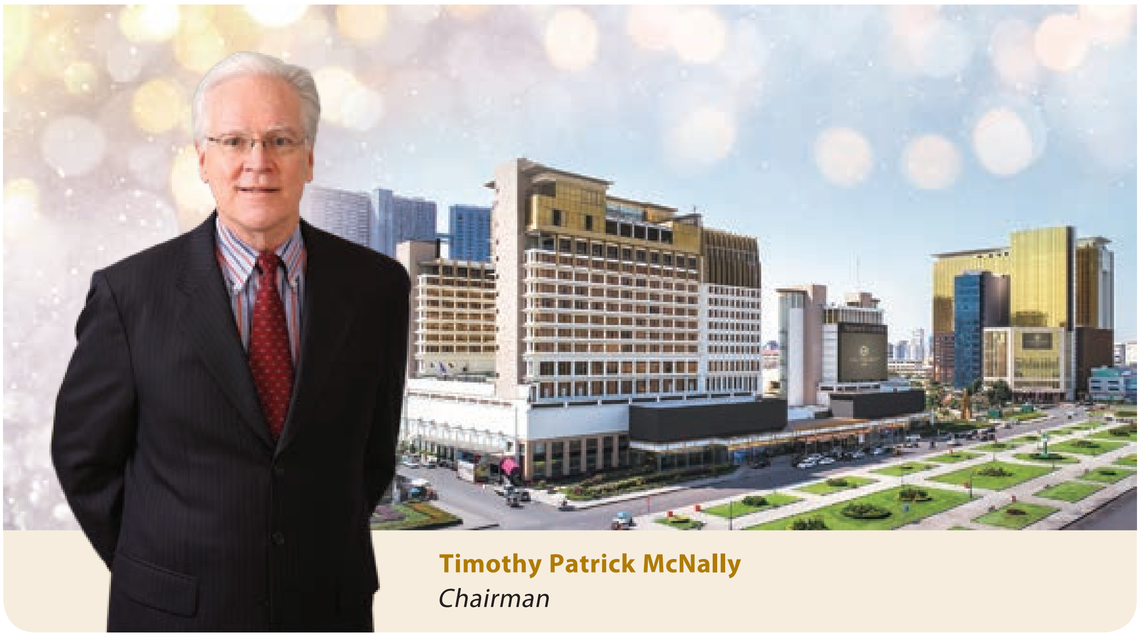
Revenue (US$733.0 million)



Revenue (US$891.6 million)



Mass Market: Public Floor Tables
Mass Market: Electronic Gaming Machines
VIP Market
Non-Gaming



Timothy Patrick McNally
Chairman

Dear Shareholders,

We are pleased to report that NagaCorp continued to generate positive operational and financial results for shareholders of the Company (the "Shareholders") during the six months ended 30 June 2019 (the "Period" or "1H2019") with net profit of US$245.1 million, a 36% increase over the same period of last year. Gross Gaming Revenue ("GGR") for 1H2019 increased by 22% to US$872.4 million.

Our positive results were attributed to a combination of solid business strategy and acumen, operational and execution efficiency, and an increasingly vibrant tourism market in a politically stable country, leading to an increase in business volume across all segments of the gaming business. Specifically, the opening of Naga 2 in November 2017 has significantly increased the appeal, capacity, quality, range and reach of our VIP, mass gaming and non-gaming offerings. Naga 2 has been transformative and has provided the Group with a competitive integrated casino resort product comparable to integrated resorts in other established gaming destinations in Asia.

Today, we operate the largest integrated leisure and gaming entertainment destination in the Mekong region.

Steady Tourism and Local Economic Growth

The Cambodian economy continued to register stable growth in 1H2019. The International Monetary Fund is projecting real gross domestic product ("GDP") growth of 6.8% in 2019 and 6.7% in 2020, with an inflation rate of 2.6% and 2.8% respectively (Source: International Monetary Fund – World Economic Outlook Database April 2019).

NagaWorld, operating in Asia, a region that is home to half of the world's population, continues to benefit from the region's robust travel and tourism trends. In the first 5 months of 2019, visitation to Cambodia continued to grow with international arrivals increasing 11% to 2.9 million visitors. China continues to be the leading source of visitation to Cambodia, growing by 40% to 1.1 million visitors in the first 5 months of 2019. China (38%), Vietnam (11%) and Laos (7%) are the top three sources of arrivals, collectively accounting for 56% of total visitation to Cambodia. Arrivals at Phnom

Penh International Airport grew 18% over the same period (Source: Ministry of Tourism, Cambodia). Overall, Cambodia's visitation growth continues to be a key driver of growth for the Group.

In order to capture the fast-growing tourism and economic growth in Cambodia and capitalise further on the Group's favourable competitive position and the supportive regulatory environment, the Group announced the proposed development and construction of Naga 3, a multi-entertainment, comprehensive and integrated resort complex. Set within five modern purpose-built towers, the Company expects that Naga 3 will complement the existing facilities of Naga 1 and Naga 2 (the "Combined NagaWorld Complex"), with a quality standard set to rival that of the integrated resorts located in Macau. Upon completion, Naga 3 is expected to comprise of two 66-storey hotels, two 45-storey hotels, one 48-storey condotel, one three-level basement and one eleven-level multi-entertainment podium.

Sound Strategy, Positioned for Growth

The Group continued to achieve solid growth in the Mass Market segment where Public Floor Tables buy-ins increased by 32% and electronic gaming machines ("EGM") bills-in increased by 29%. The business volume growth is attributable to the increasing visitation at the Combined NagaWorld Complex as a result of the tourism growth into Cambodia, particularly from China which recorded 40% growth in the first 5 months of 2019.

The NagaWorld Rewards loyalty program continues to enable the Group to understand its players' profile, create targeted marketing promotions and rollout player development initiatives to increase the frequency of visitation and gaming spend.

The Group's VIP Market comprises players brought in by junket operators, who are either under a commission or incentive program, and direct players without an intermediary. The competitive overseas junket incentive program introduced in March 2013 continues to enable the Group to balance the increase in table limits while managing volatility and credit risk.

The VIP Market segment continues to register strong growth, as a result of increasing market acceptance of the Combined NagaWorld Complex as an integrated gaming and entertainment destination. During the Period, two junket operators commenced fixed base operations at Naga 2, contributing to the increase in the number of higher end VIP players from the region and rollings. Overall, the VIP Market segment has seen a 38% increase in rollings to US$23.2 billion, with a win rate of 2.8%. This has translated into an 18% increase in VIP Market revenue to US$649.9 million during the Period.

Non-gaming revenue remained stable at US$19.2 million. The 2,000-seat theatre in Naga 2 has also attracted local interest and the hosting of international shows is expected to increase both gaming and non-gaming business volume.

Based on the current state of development, our gaming and resort development project in Vladivostok, Russia remains broadly on schedule for completion in 2019. Site clearing commenced in 2016 and we have now established an office at the city centre of Vladivostok, and certain key personnel have been appointed to monitor various aspects of the progress of the project. We believe our strategy to diversify our business geographically and expand into new casino markets will drive revenue growth in the long term.

Maintaining Competitive Dividend Yield

As a top-performing gaming stock on the Stock Exchange, NagaCorp continues to deliver profitability and business volume growth at an impressive level compared to other gaming operations in the Asia region.

The board of directors of the Company (the "Board") has resolved to declare payment of an interim dividend for Shareholders of US cents 3.39 per Share (or equivalent to HK cents 26.27 per Share) for the Period. This represents a payout ratio of approximately 60%, based on the net profit generated for the Period. For the purpose of determining the Shareholders' entitlement to the interim dividend for the Period, the register of members of the Company will be closed from Monday, 5 August 2019 to Thursday, 8 August 2019 (both days inclusive) (the "Book Closure Period"). During the Book Closure Period, no transfer of Shares will be registered. Therefore, in order to qualify for the interim dividend for the Period, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited located at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 2 August 2019. The interim dividend is payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 8 August 2019.

Social Responsibility

For many years, NagaCorp has been recognized for its leadership in corporate social responsibility. 1H2019 was no different. We will continue our journey of being a good corporate citizen and strive for excellence in upholding our responsibilities in Cambodia.

Corporate Governance

NagaCorp has engaged an independent professional party to review the internal controls of the Group with a focus on anti-money laundering ("AML") on a semi-annual basis. The independent professional party will issue its findings in its reports, details of which will be enclosed in our annual report for the year ending 31 December 2019. The Company has also engaged another professional party, Political and Economic Risk Consultancy, Ltd., to assess the investment risks in Cambodia and its findings are set out in this interim report.

Our Appreciation

The Board would like to express their appreciation to our employees for their hard work and dedication, and to our Shareholders, customers and suppliers for their continued support.

Timothy Patrick McNally
Chairman

Hong Kong, 23 July 2019


ALVIN


ALVIN

MARKET REVIEW

The Cambodian economy continued to register stable growth during the Period. The International Monetary Fund is projecting real GDP growth of 6.8% in 2019 and 6.7% in 2020, with an inflation rate of 2.6% and 2.8% respectively (Source: International Monetary Fund – World Economic Outlook Database April 2019).

In the first 5 months of 2019, visitation to Cambodia continued to grow, with international arrivals increasing 11% to 2.9 million visitors. Visitation from the Asia Pacific region was a key driver, with a 16% growth rate. China continues to be the leading source of visitation to Cambodia, growing by 40% to 1.1 million visitors in the first 5 months of 2019, while visitation from South East Asian countries including Malaysia, Indonesia and Thailand also increased by double digit growth rates of 10%, 17% and 10% respectively. China (38%), Vietnam (11%) and Laos (7%) are the top three sources of arrivals, collectively accounting for 56% of total visitation to Cambodia. Arrivals at Phnom Penh International Airport grew 18% over the same period (Source: Ministry of Tourism, Cambodia). The overall increase in visitation to Cambodia contributes to the growth of the Group.

The Group achieved an increase in GGR of 22% to US$872.4 million and an increase in net profit of 36% to US$245.1 million for the Period, continuing the journey of healthy and steady growth. The stable business volume and revenue growth across all segments of the business are attributed to the following:

1. **Political Stability, increasing FDI and Business-Related Visitation to Cambodia:** The official and smooth formation of the new Royal Government of Cambodia for another 5-year term from 6 September 2018 has contributed to the continued political stability of the operating environment, leading to increased foreign direct investments ("FDI") and tourism growth. FDI inflow into Cambodia amounted to US$3.1 billion in 2018, representing an 11% increase from US$2.8 billion in 2017 (Source: The World Bank). A close geopolitical relationship with China and China's "Belt and Road" policy further drives business-related visitation to Cambodia. International business-related travel into Cambodia increased to 567,357 visitors in the first 5 months of 2019, representing a 148% increase from 228,721 visitors in the same period in 2018, and 77% of such travel originated from China. International business-related travel from South East Asian countries into Cambodia also grew rapidly, with visitation from Malaysia, Vietnam, Indonesia and Singapore increasing by 50%, 30%, 70% and 27% respectively (Source: Ministry of Tourism, Cambodia). The increase in FDI and business travels have promoted visitation to NagaWorld, resulting in improved business volume growth. Furthermore, it is expected that the much-anticipated casino law shall be due to be promulgated within 2019, further strengthening the regulatory environment which has been improving in recent years. The Group is confident that it will continue to enjoy the benefits of long-term win-win private public partnership initiatives which further fuel the growth of tourism to Cambodia.

2. **Naga 2's Contribution:** Naga 2 significantly increased the appeal, capacity, quality, range and reach of VIP, mass gaming and non-gaming offerings, such as up-market gaming and complementary entertainment facilities and equally attractive non-gaming products/facilities including spa, theatre, shopping, competitive rooms and food and beverage ("F&B") offerings. Naga 2 has been transformative and has provided the Group with a competitive integrated casino resort product comparable to integrated resorts in other established gaming destinations in Asia.

3. **Visitation and Tourism Growth:** The Mass Market segment continued to benefit from visitation and tourism growth in Cambodia, and continued to underpin visitor headcount growth at the Combined NagaWorld Complex. In particular, visitation from China increased substantially, and China is the leading source of visitation to Cambodia, growing by 40% to 1.1 million visitors in the first 5 months of 2019. Cambodia also benefits from 877 weekly scheduled in-bound international flights (an increase from 738 and 386 of such flights in June 2018 and December 2013 respectively). As a result, the average daily foot traffic and customer spend at the Combined NagaWorld Complex continues to grow.

4. **VIP Business Growth:** The increase in VIP business volume of the Group during the Period was driven by the continued influx of tourists, especially visitation from China, and increased footfall to NagaWorld, in particular at Naga 2 where there has been customer demand for higher table limits and hence, increased rollings. A few large Macau-based junket operators have set up fixed based operations and officially commenced bringing in VIP players to NagaWorld during the Period. In addition, another notable Macau-based junket operator, Suncity Group, has moved its operation in Naga 2 to a dedicated larger space that accommodates more VIP tables and other supporting entertainment facilities. Overall, both South East Asian and Macau-based junket operators have contributed to increased VIP rollings during the Period.

5. **Financial Strength:** The market capitalisation of the Company increased to approximately US$6 billion (as at 23 July 2019), representing a growth of over 13 times from US$441 million since the Company's initial public offering in October 2006. The Company's US$300 million senior notes (the "Senior Notes") are rated "B1" by Moody's Investors Service (one notch above Cambodia's sovereign rating) and "B+" by S&P Global Ratings, whereby its yield to maturity compressed further to 5.8% as at 22 July 2019 from 9.375% on issuance in May 2018. The Company has continued to adopt a prudent finance policy of nil to low gearing ratio. As at 30 June 2019, the Company maintained a net cash position with 0.5x debt to EBITDA ratio.

6. **Naga 1 Upgrade:** The renovation for Naga 1 with the refurbishment of 500 hotel rooms out of a total of 750 hotel rooms caused minimal disruption to the Group's business volume growth during the Period. The Group believes that the completion of the Naga 1 upgrade project is expected to contribute positively towards the Group's business volume growth.

Management of the Group continues to adopt a conservative gaming policy, diluting the risks by offering more incentives to junket operators. With improvements in operating efficiencies and rigorous financial discipline on costs control, the Group has been able to keep its operating costs reasonably low. Despite the significant increase in gross floor areas (gaming and non-gaming) following the completion and opening of Naga 2, the increase in administrative and operating expenses were relatively low.

At the corporate level, on 28 June 2019, the Group was awarded "Asia's Best CEO (Investor Relations)", "Best Investor Relations Company" and "Best Investor Relations Professional" at "The 9th Asian Excellence Awards 2019", which was organized by Corporate Governance Asia. The Group is committed to creating long-term value for all stakeholders and continuously strives to be a good corporate citizen by carrying out its business in a socially responsible way.

BUSINESS REVIEW

Table 1: Performance Highlights

For the Period and the comparable period of the immediately preceding financial year:

	1H2019	1H2018	Increase
	US$'000	US$'000	%
Mass Market: Public Floor Tables			
– Buy-ins	**756,263**	573,764	32
– Win rate	**19.3%**	17.6%	
– Revenue	**146,190**	101,134	45
Mass Market: EGM			
– Bills-in	**1,341,330**	1,042,571	29
– Win rate	**8.7%**	8.1%	
– Revenue	**76,346**	59,908	27
VIP Market			
– Rollings	**23,180,385**	16,839,635	38
– Win rate	**2.8%**	3.3%	
– Revenue	**649,870**	552,824	18
GGR	**872,406**	713,866	22

Mass Market (Public Floor Tables and EGM)

The Group continued to achieve solid growth in the Mass Market segment where Public Floor Tables buy-ins increased by 32% and EGM bills-in increased by 29%. The business volume growth is attributable to the increasing visitation at the Combined NagaWorld Complex as a result of the tourism growth into Cambodia, particularly from China which recorded a 40% growth in the first 5 months of 2019. Overall, Mass Market GGR increased by 38% to US$223 million.

The NagaWorld Rewards loyalty program continues to enable the Group to understand its players' profile, create targeted marketing promotions and rollout player development initiatives to increase the frequency of visitation and gaming spend.

VIP Market

The Group's VIP Market comprises players brought in by junket operators, who are either under a commission or incentive program, and direct players without an intermediary. The competitive overseas junket incentive program introduced in March 2013 continues to enable the Group to balance the increase in table limits while managing volatility and credit risk.

The VIP Market segment continues to register strong growth, as a result of increasing market acceptance of the Combined NagaWorld Complex as an integrated gaming and entertainment destination. During the Period, two junket operators commenced fixed base operations at Naga 2, contributing to the increase in the number of higher end VIP players from the region and rollings. Overall, the VIP Market segment has seen a 38% increase in rollings to US$23.2 billion, with a win rate of 2.8%. This has translated into an 18% increase in VIP Market revenue to US$649.9 million during the Period.

Non-Gaming – Hotel, F&B and Entertainment

Non-gaming revenue remained stable at US$19.2 million. The 2,000-seat theatre in Naga 2 has also attracted local interest and the hosting of international shows is expected to increase both gaming and non-gaming business volume.

Revenue and Gross Profit Analysis

Table 2(a)

	Revenue		Gross Profit		Gross Profit Margin
1H2019	**US$'m**	**%**	**US$'m**	**%**	**%**
Mass Market	**222.5**	**25**	**219.1**	**54**	**98**
VIP Market	**649.9**	**73**	**173.0**	**42**	**27**
Non-Gaming	**19.2**	**2**	**16.2**	**4**	**84**
Total	**891.6**	**100**	**408.3**	**100**	**46**

Table 2(b)

	Revenue		Gross Profit		Gross Profit Margin
1H2018	US$'m	%	US$'m	%	%
Mass Market	161.1	22	156.1	50	97
VIP Market	552.8	75	138.2	45	25
Non-Gaming	19.1	3	15.2	5	80
Total	733.0	100	309.5	100	42

The Group recorded a gross profit increase of 32% to US$408.3 million for the Period, which was in line with the business volume growth across all segments. Overall gross profit margin increased to 46% (six months ended 30 June 2018: 42%), as a result of the higher percentage of revenue contribution from the Mass Market segment and higher gross profit margins recorded across all business segments. The Mass Market segment continued to generate a high gross profit margin of 98%.

Administrative and Other Operating Expenses (Before Impairment Losses, Depreciation and Amortisation)

Administrative and other operating expenses before impairment losses, depreciation and amortisation increased by 6% to US$86.5 million during the Period. These increases in expenses were required to support higher business volume across all segments, in addition to the hiring of experienced and qualified staff to facilitate regional marketing efforts and ongoing property enhancements of the Combined NagaWorld Complex.

Finance Costs

During the Period, the Group incurred finance costs of US$17.3 million (six months ended 30 June 2018: US$3.5 million) for the interest expenses and transaction costs relating to the Senior Notes issued.

Net Profit

Net profit attributable to the Shareholders, or net profit, increased by 36% to US$245.1 million for the Period. The net profit margin for the Period increased to 28% (six months ended 30 June 2018: 25%) as a result of the increase in contribution from the Mass Market segment, which has a higher profit margin.

Basic earnings per share was US cents 5.65 (HK cents 43.79) and US cents 4.15 (HK cents 32.16) for 1H2019 and 1H2018 respectively.

FINANCIAL REVIEW

Pledge of Assets

In December 2014, in accordance with the terms of the Investment Agreement in respect of the development of an integrated resort in Vladivostok, Russia, a subsidiary of the Company remitted approximately US$8.9 million from its Hong Kong bank account to a Russian bank account of the Company's Russian subsidiary, Primorsky Entertainment Resorts City LLC. This amount was deposited in the same Russian bank as fixed deposits, which were pledged and against which promissory notes were subsequently issued to provide collateral for the issuance of a bank guarantee from the same bank, which was required under the Investment Agreement.

Contingent Liabilities

Based on the formula stated in Clause 3.3 of the service agreement entered into between the Company and Tan Sri Dr Chen Lip Keong ("Dr Chen"), an executive director and the Chief Executive Officer of the Company, both parties acknowledge and agree that Dr Chen is entitled to a performance incentive of US$18,570,000 for the financial year ended 31 December 2018 (the "2018 Performance Incentive Entitlement").

Pursuant to a resolution passed by the Board on 22 July 2019, the Board considered the matter relating to the payment of the 2018 Performance Incentive Entitlement and resolved to appeal to the generosity and good judgement of Dr Chen to defer such entitlement. The Company and Dr Chen agreed that it was in the interests of the Company to defer the 2018 Performance Incentive Entitlement until the achievement of certain key performance indicators (the "KPIs") in 2019. The Company and Dr Chen agreed that subject to the achievement of the KPIs, the deferral of the 2018 Performance Incentive Entitlement should be extended to 2019 or beyond at the sole election of Dr Chen, and that the Company and Dr Chen shall negotiate in good faith a reasonable timeframe which is in the best interests of the Company.

For record purposes, Dr Chen has foregone total performance incentive entitlement of US$18.6 million from the financial years 2010 to 2014.

Except for the above and other than the additional obligation payments as described in note 7 in the Notes to the Condensed Consolidated Financial Statements below, there were no other contingent liabilities as at 30 June 2019.

Exchange Rate Risk

The Group's income is earned principally in US$. The Group's expenditure is paid principally in US$ and to a lesser extent in Cambodian Riel and Russian Rubles. The Group therefore does not have any significant exposure to foreign currency risk and therefore has not entered into any currency hedging transactions.

Issue of New Shares

No Shares were issued by the Company during the Period.

Liquidity, Financial Resources and Gearing

As at 30 June 2019, the Group had total cash and bank balances, certificates of deposit, fixed deposits and other liquid funds of US$323.0 million (31 December 2018: US$393.0 million). The cash and bank balances, certificates of deposit, fixed deposits and other liquid funds were mainly denominated in US$.

As at 30 June 2019, the Group had net current assets of US$317.9 million (31 December 2018: US$420.1 million). The Group had net assets of about US$1.7 billion as at 30 June 2019 (31 December 2018: US$1.5 billion).

As at 30 June 2019, the Group had outstanding Senior Notes with a carrying amount of US$292.9 million (31 December 2018: US$291.1 million).

As at 30 June 2019, the presentation of the Group's gearing ratio calculated as total debts less cash and bank balances, certificates of deposit, fixed deposits and other liquid funds divided by equity, is not applicable as the Group's cash and bank balances, certificates of deposit, fixed deposits and other liquid funds were more than the Group's debt (31 December 2018: Not applicable).

Capital and Reserves

As at 30 June 2019, the capital and reserves attributable to Shareholders was US$1.7 billion (31 December 2018: US$1.5 billion).

Employees

As at 30 June 2019, the Group employed a total work force of 8,013 (31 December 2018: 8,551), stationed in Cambodia, China, Hong Kong, Macau, Malaysia, Singapore, Thailand, the United Kingdom, the United States and Russia. The remuneration and staff costs for the Period were US$59.3 million (six months ended 30 June 2018: US$45.8 million).

Employee Benefits

Salaries, annual bonuses, paid annual leave, contributions to a defined contribution retirement scheme, seniority payments and costs to the Group of non-monetary benefits are accrued in the Period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect of such would be material, these amounts are stated at their present value. The Company has adopted a share option scheme as incentive to its directors and other eligible participants. The Group also provides and arranges on-the-job training for the employees.

Trade Receivables and Credit Policy

The Group continues to monitor the changes in trade receivables. Net trade receivables increased from US$75.1 million (as at 31 December 2018) to US$89.8 million (as at 30 June 2019).

During the Period, the Group prudently made provision for impairment loss of US$1.2 million (six months ended 30 June 2018: Nil). The bad debts written off was US$5.8 million (six months ended 30 June 2018: Nil), whereby impairment loss had been fully provided for in previous years.

The Group has adhered to strict credit policies implemented since 2009. From time to time, the Group will review its policies to ensure that they are competitive and are in line with the Group's risk management strategy. During the Period, the credit policy for gaming receivables was five to thirty days from end of tour, while the credit policy on non-gaming receivables remained as thirty days from end of month.

Very Substantial Acquisition and Connected Transaction – Naga 3 Project

The Group operates the largest integrated resort in the Kingdom of Cambodia and in the Mekong region. In order to capture the fast-growing tourism and economic growth in Cambodia and capitalise further on the Group's favourable competitive position and the supportive regulatory environment, the Group announced the proposed development and construction of a multi-entertainment, comprehensive and integrated resort complex ("Naga 3"). Set within five modern purpose-built towers, the Company expects that Naga 3 will complement the existing facilities of Naga 1 and Naga 2, with a quality standard set to rival that of the integrated resorts located in Macau. Upon completion, Naga 3 is expected to comprise of two 66-storey hotels, two 45-storey hotels, one 48-storey condotel, one three-level basement and one eleven-level multi-entertainment podium.

On 12 April 2019, the Group (through its subsidiary, Naga 3 Company Limited) entered into a guaranteed maximum sum design and build agreement (the "DBA") with CCAG Asia Co., Ltd. (the "Contractor"), pursuant to which the Contractor undertakes together with its sub-contractors to develop and deliver to the Group a fully completed and operational Naga 3 with a total built-up area of up to 544,801 square metres for a maximum sum of US$3,515,011,000. The DBA constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and is therefore subject to approval by the Shareholders at an extraordinary general meeting of the Company (the "Extraordinary General Meeting").

On 14 April 2019, the Company as the issuer entered into a subscription agreement (the "Subscription Agreement") with ChenLipKeong Fund Limited, a special purpose vehicle wholly owned by Dr Chen, an executive director, the Chief Executive Officer and the controlling shareholder of the Company, as the subscriber (the "Subscriber"), pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for 1,142,378,575 settlement shares (subject to adjustments under the terms of the Subscription Agreement) with a par value of US$0.0125 each at the price of HK$12.00 per share (subject to adjustments under the terms of the Subscription Agreement) for the subscription sum, which shall be paid by the Subscriber for the funding of Naga 3 pursuant to the terms of the Subscription Agreement. The Subscription Agreement and the transaction(s) contemplated thereunder constitute a connected transaction of the Company under the Listing Rules, and the Subscription Agreement is therefore subject to approval by the Company's independent Shareholders at the Extraordinary General Meeting.

Please refer to the Company's announcements dated 3 April 2019, 14 April 2019, 24 April 2019, 7 May 2019, 27 May 2019, 27 June 2019 and 21 July 2019, and the Shareholders' circular dated 22 July 2019 for further details of the Naga 3 transactions.

Significant Investments Held, Material Acquisitions or Disposals of Subsidiaries

There were no significant investments held or material acquisitions or disposals of subsidiaries, associates or joint ventures during the Period.

Events after Reporting Period

No major subsequent events have occurred since the end of the Period and up to the date of this interim report.

PROJECT UPDATES AND PROSPECTS

Update on the Investment Project in Vladivostok

In respect of the Group's gaming and resort development project in Vladivostok, Russia, site clearing commenced in 2016.

An office has been established in the city centre of Vladivostok, Russia and certain key personnel have been appointed to monitor various aspects of the progress of the project, which remains broadly on schedule for completion in 2019.

The Group believes that its strategy to diversify its business geographically and expand into new casino markets will drive revenue growth in the long term.

Prospects

The continued growth of visitation to Cambodia is a reflection of the development of Cambodia as a prominent regional tourism and investment destination, brought about by continued political and social stability in the country. The expected promulgation of the casino law in 2019 is another significant step forward in the investment and tourism prospects for Cambodia.

China remains the world's largest market in outbound tourism with nearly 150 million outbound visitations made by Chinese travellers in 2018, an increase of 14.7% year-on-year according to a report issued by the China Tourism Academy and Ctrip (Source: Hong Kong Economic Journal, 14 March 2019). The Group is well-positioned to tap the vast potential of the wave of consumerism from China, from which outbound visitation is expected to reach 200 million by 2020; Chinese per-capita international tourism spend is also expected to reach above US$2,000 by 2020, representing a 49% growth from 2018 to 2020 (Source: CLSA, 19 July 2017 and 14 June 2018). Chinese arrivals to Cambodia of about 1.1 million visitors in the first 5 months of 2019 (mainly driven by business-related travel) represents a small percentage of the potential opportunities. Cambodia is targeting to attract at least 5.5 million Chinese tourists by 2025 (Source: The Commercial News, 15 January 2019).

Similarly, South East Asian countries, which have an estimated total population of 648 million, remains one of the Group's core target markets. Visitation to Cambodia from South East Asian countries including Malaysia, Indonesia and Thailand increased by double digit growth rates of 10%, 17% and 10% respectively in the first 5 months of 2019. In particular, international business-related travel from Malaysia, Vietnam, Indonesia and Singapore into Cambodia increased by 50%, 30%, 70% and 27% respectively.

The strong growth in business-related travel (whereby such visitors tend to have higher disposal incomes and longer average length of stays) into Cambodia augurs well for the Group's future growth, in particular the Mass Market segment, which has always been the Group's key focus market. This is also in line with the Naga 3 development, whereby around 92% of total gross floor area will be allocated for non-gaming activities.

Flight connectivity between Cambodia and regional countries continues to improve. Direct weekly flights into Cambodia has increased from 738 (June 2018) to 877 (June 2019). As part of commemorating the 60th anniversary of diplomatic relations between Indonesia and Cambodia, direct flights between Phnom Penh and Jakarta was established in June 2019, with a total of 7 direct weekly flights. With the anticipated robust growth in visitations, the Cambodian Minister of Tourism (His Excellency Thong Khun) estimated that Cambodia will require 100,000 extra hotel rooms by 2028, of which 60,000 are required for the luxury high-end segment (Source: Khmer Times, 6 September 2018). Given the close geopolitical relationship between Cambodia and China and the continued influx of business-related travel from South East Asian countries, the Group sees good prospects ahead and will continue to be well-positioned as a notable emerging integrated resort in Asia.

The vision of the Group is to build the largest comprehensive, multi-entertainment riverine integrated resort in the world and position the Group as a competitive gaming powerhouse with a firm footing in the Asia Pacific region. Currently, the Group operates the largest integrated resort in the Kingdom of Cambodia and in the Mekong region.

Since its inception in 1994, the Company has been growing steadily, with its market capitalization multiplying more than 13 times from US$441 million since its listing in October 2006 to approximately US$6 billion as at 23 July 2019. Since listing, the Company has paid out more than US$1 billion in dividends. The Group's business operations have also raised the international economic profile, attracted FDI, enhanced tourism and contributed to the socio-economic development of Cambodia. In 2018, the Group contributed approximately 23% to local tourism GDP and approximately 1.3% of national GDP in Cambodia (Source: The Ministry of Economy and Finance of Cambodia classification of rooms and F&B compared with the Group's 2018 annual report).

Cambodia is expected to register 7% of GDP growth in 2019 (Source: Macroeconomic and Banking Sector Development in 2018 and Outlook for 2019 prepared by the National Bank of Cambodia). Following more than two decades of strong economic growth, Cambodia has attained lower middle-income status with gross national income per capita reaching US$1,230 in 2017. Driven by garment exports and tourism, Cambodia sustained an average growth rate of 7.7% between 1995 and 2017, making the country the sixth fastest-growing economy in the world. As global demand peaks in 2018, economic growth is expected to reach 7%, compared to 6.9% in 2017. Growth is expected to remain robust over the medium term (Source: The World Bank). Cambodia is expected to attract at least 5.5 million Chinese visitors by 2025, and recorded an impressive increase of 67% in 2018 (with 2,024,443 Chinese arrivals) as compared to 2017 (with 1,210,782 Chinese arrivals) (Source: Ministry of Tourism of Cambodia). A close geopolitical relationship with China helps drive Cambodia's economic and tourism growth. China's "Belt and Road" policy also further drives a large number of business travellers, resulting in a construction boom in the city of Phnom Penh and overall tourism and other business growth in Cambodia in recent years.

The smooth and official formation of a new government for another 5-year term from 6 September 2018 provides continued political stability, social security, tourism and economic development in the operating environment. It is expected that the much-anticipated casino law shall be promulgated in 2019, further strengthening the regulatory environment that has been improving in recent years.

The Company, through its wholly-owned subsidiary, is licensed to operate casinos in Cambodia for a period of 70 years, expiring in 2065. During this 70-year period, the Group has exclusive rights up to 2035 to operate casinos within a 200-kilometre radius (except the Cambodia-Vietnam border area, Bokor, Kirirom Mountains and Sihanoukville) of Phnom Penh, the capital city of Cambodia. This unique position has helped the Group to attain steady growth and to deliver impressive and consistently improving financial performance. Some of the key features of the casino license are the lack of restrictions on the number of tables, EGM, gaming space, gaming promoter commission and rebates, each of which allows the Company great flexibility to optimize its operations over time.

The Company believes that Phnom Penh is geographically located in the middle of an area which is a corridor of fast economic growth and tourism development. Its favourable location as a tourist destination and its good connectivity and network of international flights enable Phnom Penh to attract both South East Asian and North Asian (especially Chinese) visitors. In addition, the Combined NagaWorld Complex is situated in the heart of the city, in close proximity to places of interest such as the Royal Palace, gardens and eateries.

Having considered the uniqueness of a casino monopoly in the heart of a capital city, and after having operated successfully for the past 24 years in a region with political stability and consistent tourism and economic growth, the Group's vision of building Naga 3, a complex with 4,720 bays (which only satisfy 4.7% of the 100,000 total estimated additional hotel rooms required by the Ministry of Tourism by 2028) paves the way for more success for the Group, greatly enhancing its competitiveness and its footing as an Asian gaming powerhouse. As stated in the unaudited operational highlights for the three months ended 31 March 2019, the hotel occupancy rate of the Combined NagaWorld Complex has already increased to 86% by March 2019. The Company believes that the launch of Naga 3 is not only timely, but also the answer to solve future capacity problems and a surer way to continue the Company's journey of earnings growth, especially after the recent successful ramping up of Naga 2.

Naga 1, Naga 2 and Naga 3 are sited in the city of Phnom Penh next to one of Asia's biggest rivers, the romantic and mystic Mekong River. This inspires and encourages the Company to develop the largest riverine integrated resort in the world and enhances the competitiveness of the Group as one of Asia's gaming powerhouses.

The US-China trade war has undoubtedly created uncertainty in the macro business environment. However, the Group's business is expected to be relatively less affected due to the following reasons:

1. **Well balanced customer base and Mass Market focus:** The Group serves a wide and geographically diverse customer base, mainly from both South East Asia and North Asia. About 54% of the Group's gross profit was contributed from the Mass Market segment, which is of lower risk, lower volatility and a higher profit margin.

2. **Business-related travel being the main purpose of visitation to Cambodia:** During the first 5 months of 2019, international business-related travel into Cambodia increased by 148% to 567,357 visitors. The US-China trade war has in fact encouraged Chinese factories to relocate to lower cost countries such as Cambodia, which is consistent with the influx of foreign capital and expatriates into Cambodia, especially its capital Phnom Penh (Source: CICC, 19 July 2019).

3. **Flexibility in current licensing environment:** With no restrictions on the number of tables, EGM, game types, gaming space, gaming promoter commission and rebates, the Company has great flexibility to optimize its operations over time, including the ability to react robustly to changes in market demand and alter its operations to best suit customers' needs.

4. **Close geopolitical relationship between China and Cambodia:** The close geopolitical relationship helps drive Cambodia's economic and tourism growth. China's "Belt and Road" policy drives a large number of business travellers, resulting in a construction boom in the city of Phnom Penh and overall tourism and other business growth in Cambodia in recent years.

Management is optimistic about the Group's future business prospects. Naga 1, Naga 2 and Naga 3 are sited in the city of Phnom Penh next to one of Asia's biggest rivers, the romantic and mystic Mekong River. This inspires and encourages the Company to develop the biggest riverine integrated resort in the world, thereby enhancing the competitiveness of the Group as one of Asia's gaming powerhouses, with high quality standards set to rival other established integrated resorts in the region.

Interim Dividend

The Board has resolved to declare payment of an interim dividend for Shareholders of US cents 3.39 per Share (or equivalent to HK cents 26.27 per Share) for the Period. This represents a payout ratio of approximately 60%, based on the net profit generated for the Period. The interim dividend is payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 8 August 2019.

The interim dividend shall be paid on Tuesday, 20 August 2019.

Closure of Register of Members

For the purpose of determining the entitlement to the interim dividend for the Period, the Company's register of members will be closed from Monday, 5 August 2019 to Thursday, 8 August 2019 (both days inclusive), during which no transfer of Shares will be registered. The ex-dividend date will be Thursday, 1 August 2019. In order to qualify for the interim dividend for the Period, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited located at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 2 August 2019.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

The directors of the Company (the "Directors") who held office as at 30 June 2019 had the following interests in the Shares at that date as recorded in the register of directors' and chief executive's interests required to be kept under section 352 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"):

Interests in Shares

Name of Director	Capacity	Number of Shares Held	% of Total Issued Shares (Note 1)
Dr Chen	Founder of a discretionary trust (Note 2)	951,795,297 (L)	21.93 (L)
Dr Chen	Beneficial owner	1,917,807,166 (L)	44.17 (L)
Dr Chen	Interest of controlled corporation (Note 3)	1,142,378,575(L)	26.32 (L)

Notes:

(1) Based on the Company's issued share capital of 4,341,008,041 Shares as at 30 June 2019.

(2) Dr Chen is the founder of a discretionary family trust named ChenLa Foundation. ChenLa Foundation indirectly holds, through LIPKCO ENTERPRISES LIMITED and LIPKCO Group Limited, a total of 951,795,297 Shares. As a founder of ChenLa Foundation, Dr Chen is taken to be interested in the Shares held by ChenLa Foundation. Details of the interests in the Company held by ChenLa Foundation and LIPKCO Group Limited are set out in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" below.

(3) Such interest is held by ChenLipKeong Fund Limited. By virtue of the 100% interest held by Dr Chen in ChenLipKeong Fund Limited, Dr Chen is deemed to be interested in the Shares held by ChenLipKeong Fund Limited. These 1,142,378,575 Settlement Shares or such Adjusted Settlement Shares (both as defined in the shareholders' circular of the Company dated 22 July 2019) will be issued to ChenLipKeong Fund Limited upon the completion of the DBA and the Subscription Agreement. Details of the interests in the Company held by ChenLipKeong Fund Limited is set out in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" below.

(4) The letter "L" denotes the entity's long position in the Shares.

Save as disclosed above, as at 30 June 2019, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as the Directors or the chief executive of the Company are aware of, as at 30 June 2019, the Shareholders, other than a Director or the chief executive of the Company, who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name of Shareholders	Capacity	Number of Shares Held	% of Total Issued Shares (Note 1)
ChenLa Foundation	Interest of controlled corporation (Note 2)	951,795,297 (L)	21.93 (L)
LIPKCO Group Limited	Beneficial owner	789,534,854 (L)	18.19 (L)
ChenLipKeong Fund Limited	Beneficial owner (Note 3)	1,142,378,575 (L)	26.32 (L)

Notes:

(1) Based on the Company's issued share capital of 4,341,008,041 Shares as at 30 June 2019.

(2) These 951,795,297 Shares are held by LIPKCO Group Limited and LIPKCO ENTERPRISES LIMITED which in turn are controlled by ChenLa Foundation of which Dr Chen is the founder.

(3) Upon the completion of the DBA and the Subscription Agreement, these 1,142,378,575 Settlement Shares or such Adjusted Settlement Shares (both as defined in the shareholders' circular of the Company dated 22 July 2019) for the funding of the Naga 3 project will be issued to ChenLipKeong Fund Limited. ChenLipKeong Fund Limited is wholly owned by Dr Chen.

(4) The letter "L" denotes the entity's long position in the Shares.

Save as disclosed above and so far as the Directors and the chief executive of the Company are aware of, as at 30 June 2019, no other party (other than a Director or the chief executive of the Company) had an interest or short positions in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 in Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Share Option Scheme

On 20 April 2016, the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentive or reward to any employees, executives, officers, directors of the Group or any invested entity, and any consultant, business associate, adviser or agent of any member of the Group or any invested entity, who have contributed or will contribute to the growth and development of the Group or any invested entity.

Since its adoption date and up to 30 June 2019, no share option has been granted by the Company under the Share Option Scheme. Accordingly, there were no outstanding share options as at 30 June 2019.

Apart from the foregoing, at no time during the Period was the Company, or any of its subsidiaries, a party to any arrangement which enabled the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

INDEPENDENT REVIEW OF INVESTMENT RISKS IN CAMBODIA

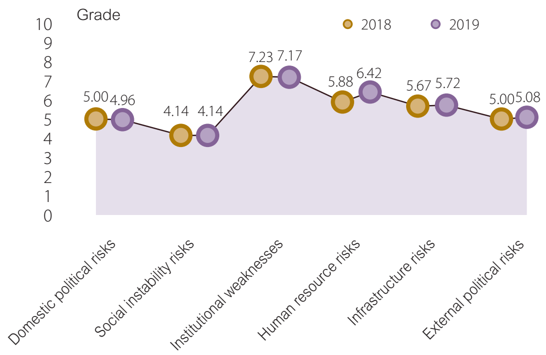
Political and Economic Risk Consultancy, Ltd. ("PERC")
20/F, Central Tower
28 Queen's Road, Central
Hong Kong

TO THE BOARD OF NAGACORP LTD.

We have assessed and reviewed the political, social, investment and macro-economic risks in Cambodia as they relate to NagaCorp's casino, hotel and entertainment business operations. In arriving at our findings below, we have taken into account, amongst others, domestic political risks, social instability risks, institutional weaknesses, human resource risks, infrastructure risks and external political risks.

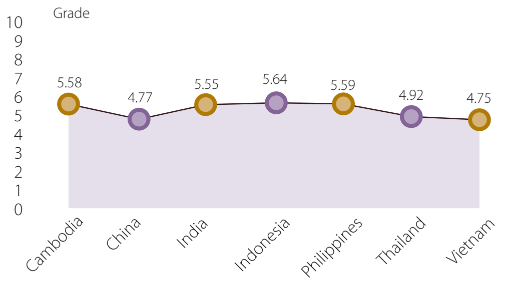
Based on the assessments and reviews carried out between late November 2018 and the end of December 2018 we summarised our findings below:

Perceptions of Cambodia's Business Environment Risks



Grades range from zero to 10, with zero being the best grade possible and 10 the worst.

How Perceptions of Cambodian Socio-Political Risks Compare



Grades range from zero to 10, with zero being the best grade possible and 10 the worst.

We quantify investment risks in Cambodia through the measure of the following variables:

- Domestic political risks
- Social instability risks
- Institutional weaknesses
- Human resource risks
- Infrastructure risks
- External political risks

Each of these variables is itself made up of a number of sub-variables relating to specific aspects of the category being assessed. The weighted sum of the grades for sub-variables equals the score of a broader variable, while the weighted sum of the grades of the broad variables defines overall investment risks in Cambodia. We have treated each variable as having equal importance or weight.

Summary

PERC's most recent risk survey gives Cambodia an overall risk grade of 5.58 (slightly worse than one year ago). The maximum possible risk rating is 10 (the worst grade possible) while the minimum is 0 (the most favorable grade possible). The main reasons for the deterioration include an increase in external challenges and human resource cost and quality constraints arising from the economy's rapid growth.

Domestic political risks have declined slightly compared with one year ago. The government is more firmly under the control of the ruling Cambodian People's Party ("CPP"), headed by Prime Minister Hun Sen, who now has greater freedom to try to prepare for his own succession. Questions remain over this longer-term issue of political succession, but the range of possibilities is limited and the odds strongly favor any future government sticking with the current pro-business, pro-private sector policies that have enabled Cambodia to be one of the most rapidly growing economies in the world for the past two decades.

Rapid economic growth is raising general living standards and helping to preserve social stability. Although the country still suffers an image problem due to civil violence that existed in the 1970s and 1980s, Cambodia's social disorder problems have greatly diminished. Conditions today are more stable than in most ASEAN countries. For example, Cambodia does not have problems with religious extremism, domestic insurrection movements, or ethnic rivalries. It is not a target for terrorists and is not burdened by an unwanted influx of refugees.

Last year's economic performance was the most rapid in five years and the outlook for 2019 is for only a slight slowdown. Some of Cambodia's biggest attractions to foreign investors include the low cost of labor, the widespread use of the US dollar and the ease of moving capital and profits out of the country, and liberal foreign ownership policies. Although corruption is a problem, the government depends on the private sector to spearhead development. State-owned enterprises are confined to a much smaller role than is typical in other Asian countries, which helps to encourage competition and maintain a level playing field.

The main negative consequences of years of rapid economic growth relate to labor pressures. Although labor in Cambodia is still relatively inexpensive, costs are rising rapidly and have been aggravated by recent policy reforms like the introduction of a new seniority payments system. The high demand for labor has also exceeded the ability of the local market to supply companies with people possessing the required skills and experience. This is adversely affecting the quality of labor and contributing to high rates of labor turnover. It is also forcing companies, including in some labor-intensive industries like residential and commercial real estate construction, to rely more on imported labor, which could become a source of resentment by some local groups who either feel displaced or otherwise inconvenienced by the rapid growth of foreign workers in Cambodia.

There are several external risks that could hurt the growth of Cambodia's exports in 2019 and 2020. They include the protectionist policies being pursued by the US, the ongoing slowdown in China's economy, supply-chain disruptions caused by the US-China trade war, and the EU threat to remove Cambodia's tax-free access under the "Everything But Arms" agreement.

Cambodia's strong relationship with China will remain a positive feature, underpinning the growth of tourism and the inflow of foreign direct investment. China's continuing aid and soft-term loans will ensure the balance of payments stays in surplus, the government is able to fund its fiscal spending program, and major infrastructure facilities continue to expand. However, China's growing influence over the Cambodian economy also makes the economy more vulnerable to changes in China, including a weakening of economic growth there and policy changes in Beijing that could affect capital outflows.

Positive Developments

- Because of the CPP's consolidation of power, there is now greater certainty that there will be no major changes in the current government over the next few years. The government will remain firmly under the control of Hun Sen, who now has greater freedom to try to prepare for his own succession.

- The government has a long and consistent track record of policies, the results of which have enabled Cambodia to post one of the highest rates of real economic growth in all of Asia for several decades now. The impressive record has strengthened social stability and maintained local support for the government.

- The quality of governance and professional standards is improving in some institutions such as the financial system and monetary regulatory authorities, the judicial system, and parts of the civil service. More specifically, the government is reducing the problem of corruption in education testing and improving the skills of those responsible for financial sector regulation.

- The most notable tourism development in 2018 was the rapid growth in visitors from China. The total number of visitors from China increased 71.2% in January-September over the like span of 2017 to 1.44 million persons. This was the most rapid increase in visitors from Mainland China experienced by any Asian country last year.

The Challenges

- The disappearance of a political opposition will hurt the quality of public debate and limit the existence of effective channels for citizens to seek redress for their grievances. The government will have to assume full responsibility for reading the pulse of public opinion and crafting policies in ways that balance the aspirations of all relevant groups.

- There continues to be concern about how the long-term political succession will be managed. Hun Sen's personal role as the force holding the CPP together as a political unit is so critical that there are inevitably going to be questions about how the system will handle his departure from politics.

- A potentially disruptive new development that companies will have to manage was the government's decision to introduce a new seniority payments system, called Prakas 443. The new system could add to costs and adversely affect a company's flexibility to manage its labor force.

- Cambodia's rapid economic growth has generated new problems that have to be managed, including environmental damage, traffic congestion, and certain kinds of labor shortages. Companies are under pressure to import more labor, which adds to costs, or to hire locals lacking the necessary skills and experience, which can hurt quality.

- Cambodia will have to manage a likely slowdown in China's economy, growing protectionism in the US, and the EU's threat to stop giving preferential treatment to imports from Cambodia.

Robert Broadfoot
Managing Director
PERC

Hong Kong, 19 January 2019

Robert Broadfoot researched and wrote the report on the review on investment risks in Cambodia. Mr. Broadfoot is the founder and Managing Director of Political & Economic Risk Consultancy, Ltd. (PERC). Established in 1976, PERC is headquartered in Hong Kong and engaged principally in the monitoring and auditing of country risks in Asia. From this base, PERC manages a team of researchers and analysts in the ASEAN countries, the Greater China region and South Korea. Corporations and financial institutions worldwide use PERC's services to assess key trends and critical issues shaping the region, to identify growth opportunities, and to develop effective strategies for capitalizing on these opportunities.

PERC helps companies understand how politics and other subjective variables are shaping the business environment. Such variables may be difficult to quantify, but nevertheless can have a critical impact on investment performance and therefore have to be factored into the decision-making process, which is the function of PERC's services. PERC's value lies in the organization's experience, its Asian network of seasoned analysts, its emphasis on primary research, its complete independence from any vested interest groups, its pioneering work in the technical aspects of country risk research, its discretion, and its integrated, regional approach to analysis.


李聖傑

Compliance with Corporate Governance Code

The Board is committed to maintaining a high standard of corporate governance and ensuring integrity, transparency and comprehensive disclosure.

The Directors, having reviewed the corporate governance practices of the Company, and considered, amongst other things, the findings of reviews conducted by the independent professional parties, confirm that the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code") for the Period.

Compliance with Model Code

The Company has adopted the Model Code as the code of conduct of the Directors in respect of transactions in securities of the Company by the Directors. Having made specific enquiry, the Company confirms that the Directors have complied with the required standard set out in the Model Code for the Period.

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

During the Period, the Company did not redeem any of its listed securities nor did the Company or any of its subsidiaries purchase or sell any of such securities.

Audit Committee

The audit committee of the Board (the "Audit Committee") is responsible for overseeing, among other things, the objectivity and credibility of financial reporting of the Company and the effectiveness of the risk management and internal control systems of the Group as well as maintaining an appropriate relationship with the external auditor of the Company. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lim Mun Kee (Chairman), Mr. Michael Lai Kai Jin and Mr. Leong Choong Wah.

During the Period, the Audit Committee has reviewed, among other things, the financial reports and statements as well as the internal control framework of the Company.

The Audit Committee has reviewed this interim report, and in particular the condensed consolidated financial statements for the Period and the financial standards adopted by the Group, and was of the opinion that the preparation of such financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

Nomination Committee

The nomination committee of the Board (the "Nomination Committee") is responsible for reviewing the structure, size and composition of the Board to ensure that it has a balance of appropriate skills, experience and diversity of perspectives for the needs of the businesses of the Group, and makes recommendations to the Board in the above areas. The Nomination Committee undertakes to identify individuals suitably qualified to become a Director and nominate such individuals to the Board for directorship. It also assesses the independence of independent non-executive Directors, makes recommendations to the Board on the appointment, re-appointment and succession plans for Directors, and reviews and monitors the implementation of the Board Diversity Policy and the Nomination Policy.

The Nomination Committee consists of Mr. Michael Lai Kai Jin (Chairman), Dr Chen, Mr. Lim Mun Kee and Mr. Leong Choong Wah.

During the Period, the Nomination Committee nominated Dr Chen, Mr. Chen Yiy Fon, Mr. Michael Lai Kai Jin and Mr. Leong Choong Wah, the retired Directors, for re-election by Shareholders at the Company's 2019 annual general meeting (the "2019 AGM"), and reviewed, among other things, the structure, size and composition of the Board with reference to the measurable objectives set out under the Board Diversity Policy. It has also assessed the independence of the Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules.

Remuneration Committee

The remuneration committee of the Board (the "Remuneration Committee") is responsible for making recommendations to the Board on the Company's policy for and structure of remuneration of the Directors and senior management of the Company.

The Remuneration Committee consists of Mr. Michael Lai Kai Jin (Chairman), Dr Chen, Mr. Lim Mun Kee and Mr. Leong Choong Wah.

During the Period, the Remuneration Committee considered and proposed, among other things, the Directors' fees to Shareholders for approval at the 2019 AGM.

Risk Management and Internal Control

The Board plays a key role in overseeing risks undertaken by considering risks as part of the strategy setting process. The Company has an established risk framework under which it identifies risks relevant to the operations and activities of the Group, and assesses these risks in relation to their likelihood and potential impacts. Such systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and aims to provide a reasonable, as opposed to an absolute assurance, against material misstatement or loss. Under our framework, management is primarily responsible for the design, implementation and maintenance of the risk management and internal control systems, while the Board and the Audit Committee oversee the actions of management and monitor the effectiveness of these systems in safeguarding the Group's assets. This risk management and internal control framework is reviewed annually by the Audit Committee on behalf of the Board.

Besides, the Company has in place an AML Procedure Manual, which takes into account regulatory requirements and expectations, as well as industry demands, to ensure that regulatory compliance is maintained at the highest monitoring standards. The Board was also satisfied that the Company complies with the code provisions relating to internal control contained in the CG Code.

Internal Controls on AML

In order to ensure that the Company maintains a high standard for compliance and integrity on AML, the Company has established a program designed to protect its reputation and mitigate AML risks. NagaCorp's long term sustainability and success is dependent on its integrity and transparency in its daily gaming operations in relation to the world's best practices on AML. The Company has in place a four-tier AML control structure comprising:

Tier 1 – An AML Management Committee, led by the Compliance Officer and supported by senior managers from various key operational departments, is tasked with ensuring that the Company adopts policies and procedures as governed by the AML Procedure Manual in its day to day operational activities.

Tier 2 – Internal audit of AML procedures to ensure that the Company is in compliance with AML policies, with the results of such audits reported to the Audit Committee and the AML Oversight Committee.

Tier 3 – AML Oversight Committee established at the Board level, chaired by the non-executive Chairman of the Board, which meets on a quarterly basis to review the work and reports of the AML Management Committee and Internal Audit. Matters of significance are then reported to the Board for deliberation.

Tier 4 – External audit of the Company's AML procedures. The Company engages an AML specialist firm which carries out a biannual audit of the Company's AML procedures, which includes work conducted by the AML Management Committee. The report of this external AML audit for the year 2019 will be enclosed in our annual report for the financial year ending 31 December 2019.

The AML Oversight Committee consists of Mr. Timothy Patrick McNally (Chairman), Dr Chen, Mr. Michael Lai Kai Jin and Mr. Chen Yiy Fon. During the Period, the AML Oversight Committee considered, among other things, reports from the independent professional party and the AML Management Committee in relation to the internal controls of the Group.

Independent Review of Investment Risks in Cambodia

Since the listing of the Company, the Company has engaged Political and Economic Risk Consultancy, Ltd., an independent professional party, to assess and review on an annual basis, the political, social, investment and macro-economic risks in Cambodia, and discloses its findings in the Company's annual and interim financial reports. For more details, please refer to the section headed "Independent Review of Investment Risks in Cambodia" on pages 26 to 29 in this interim report.

Disclosure under Rule 13.21 of the Listing Rules

On 21 May 2018, a written agreement (the "Indenture") was entered into between the Company as issuer of the Senior Notes, NagaCorp (HK) Limited, NAGAWORLD LIMITED, TanSriChen (Citywalk) Inc. and TanSriChen Inc., wholly-owned subsidiaries of the Company and collectively as guarantors, and GLAS Trust Company LLC as trustee of the Senior Notes, pursuant to which the Senior Notes were issued. The Indenture provides that upon the occurrence of a Change of Control (as defined in the Indenture), the Company will make an offer to repurchase all outstanding Senior Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Please refer to the announcements of the Company dated 30 April 2018, 8 May 2018, 15 May 2018 and 22 May 2018 for details about the Senior Notes.

Changes in Directors' Information pursuant to Rule 13.51B(1) of the Listing Rules

The changes in Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Timothy Patrick McNally, Chairman and Non-executive Director

– received a discretionary bonus of US$100,000 for the financial year ended 31 December 2018

Tan Sri Dr Chen Lip Keong, Chief Executive Officer and Executive Director

– received an annual performance incentive of US$11,765,321 for the financial year ended 31 December 2017

– received a discretionary bonus of US$150,000 for the financial year ended 31 December 2018

Philip Lee Wai Tuck, Executive Deputy Chairman and Executive Director

– received a discretionary bonus of US$120,000 for the financial year ended 31 December 2018

– basic salary has been revised from US$21,949 to US$22,498 per month effective 1 January 2019

Chen Yiy Fon, Executive Director

– received a discretionary bonus of US$30,000 for the financial year ended 31 December 2018

Lim Mun Kee, Independent Non-executive Director

– received a discretionary bonus of US$30,000 for the financial year ended 31 December 2018

Michael Lai Kai Jin, Independent Non-executive Director

– received a discretionary bonus of US$20,000 for the financial year ended 31 December 2018

Leong Choong Wah, Independent Non-executive Director

– received a discretionary bonus of US$6,667 for the financial year ended 31 December 2018

– resigned as an executive director of HCK Capital Group Berhad effective 26 April 2019

– has acted as the chief financial officer of Inmagine Group, a leading global creative ecosystem and technology group, since May 2019

The basis for determining the Directors' emoluments (including bonus payments) remained unchanged during the Period.

Save as disclosed above, as at 30 June 2019, there had not been any other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of NagaCorp Ltd.
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 37 to 60 which comprise the condensed consolidated statement of financial position of NagaCorp Ltd. (the "Company") and its subsidiaries as of 30 June 2019 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other 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 International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. This report is made 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of interim financial information 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 International 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

BDO Limited
Certified Public Accountants

Chiu Wing Cheung Ringo
Practising Certificate Number P04434

25th Floor, Wing On Centre,
111, Connaught Road Central
Hong Kong

Hong Kong, 23 July 2019

CONDENSED CONSOLIDATED STATEMENT OF INCOME

for the six months ended 30 June 2019 (unaudited)
(Expressed in United States dollars)

	Notes	Six months ended 30 June 2019 $'000 (Unaudited)	 2018 $'000 (Unaudited)
Revenue	4	**891,559**	732,955
Cost of sales		**(483,293)**	(423,456)
Gross profit		**408,266**	309,499
Other income		**7,149**	4,417
Administrative expenses		**(28,849)**	(35,200)
Other operating expenses		**(108,963)**	(90,684)
Profit from operations		**277,603**	188,032
Finance costs	5	**(17,316)**	(3,494)
Profit before taxation	6	**260,287**	184,538
Income tax	7	**(15,182)**	(4,407)
Profit attributable to owners of the Company		**245,105**	180,131
Earnings per share (US cents)			
Basic	9	**5.65**	4.15
Diluted	9	**5.65**	4.15

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 (unaudited)
(Expressed in United States dollars)

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(Unaudited)	(Unaudited)
Profit for the period	**245,105**	180,131
Other comprehensive income for the period:		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences from translation of foreign operations	**54**	(596)
Total comprehensive income attributable to owners of the Company for the period	**245,159**	179,535

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 (unaudited)
(Expressed in United States dollars)

	Notes	30 June 2019 $'000 (Unaudited)	31 December 2018 $'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**1,506,404**	1,275,596
Right-of-use assets	3(c)	**88,368**	–
Interest in leasehold land held for own use under operating lease		**–**	26,634
Intangible assets	12	**57,334**	59,107
Prepayments for acquisition, construction and fitting-out of property, plant and equipment		**62,094**	84,364
Promissory notes	13	**9,608**	9,372
		1,723,808	1,455,073
Current assets			
Consumables		**2,679**	2,051
Trade and other receivables	14	**136,927**	117,140
Prepaid current tax		**7,714**	–
Certificates of deposit, fixed deposits and other liquid funds	17	**153,068**	76,441
Cash and cash equivalents		**169,924**	316,536
		470,312	512,168
Current liabilities			
Trade and other payables	15	**139,812**	79,711
Contract liabilities		**10,023**	10,023
Lease liabilities	3(c)	**2,627**	–
Current tax liability		**–**	2,374
		152,462	92,108
Net current assets		**317,850**	420,060
Total assets less current liabilities		**2,041,658**	1,875,133

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 (unaudited)
(Expressed in United States dollars)

	Notes	30 June 2019 $'000 (Unaudited)	31 December 2018 $'000 (Audited)
Non-current liabilities			
Senior notes	16	**292,945**	291,118
Contract liabilities		**39,771**	44,146
Lease liabilities	3(c)	**50,182**	–
		382,898	335,264
NET ASSETS		**1,658,760**	1,539,869
CAPITAL AND RESERVES			
Share capital		**54,263**	54,263
Reserves		**1,604,497**	1,485,606
TOTAL EQUITY		**1,658,760**	1,539,869

Approved and authorised for issue by the board of directors of the Company (the "Board") on 23 July 2019.

Timothy Patrick McNally
Chairman

Philip Lee Wai Tuck
Executive Deputy Chairman

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019 (unaudited)
(Expressed in United States dollars)

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Capital contribution reserve	Exchange reserve	Retained profits	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2018 as originally presented (audited)	54,263	751,356	151	(12,812)	55,568	(799)	534,818	1,382,545
Initial application of IFRS 15	–	–	–	–	–	–	(61,646)	(61,646)
Restated balance as at 1 January 2018	54,263	751,356	151	(12,812)	55,568	(799)	473,172	1,320,899
Changes in equity for the six months ended 30 June 2018:								
Profit for the period	–	–	–	–	–	–	180,131	180,131
Other comprehensive income – exchange differences from translation of foreign operations	–	–	–	–	–	(596)	–	(596)
Total comprehensive income for the period	–	–	–	–	–	(596)	180,131	179,535
2017 final dividend declared and paid	–	–	–	–	–	–	(62,732)	(62,732)
Balance at 30 June 2018 (unaudited)	54,263	751,356	151	(12,812)	55,568	(1,395)	590,571	1,437,702
Profit for the period	–	–	–	–	–	–	210,447	210,447
Other comprehensive income – exchange differences from translation of foreign operations	–	–	–	–	–	(201)	–	(201)
Total comprehensive income for the period	–	–	–	–	–	(201)	210,447	210,246
2018 interim dividend and distribution declared	–	–	–	–	–	–	(108,079)	(108,079)
Balance at 31 December 2018 (audited)	54,263	751,356	151	(12,812)	55,568	(1,596)	692,939	1,539,869
Balance at 1 January 2019	54,263	751,356	151	(12,812)	55,568	(1,596)	692,939	1,539,869
Changes in equity for the six months ended 30 June 2019:								
Profit for the Period	–	–	–	–	–	–	245,105	245,105
Other comprehensive income – exchange differences from translation of foreign operations	–	–	–	–	–	54	–	54
Total comprehensive income for the Period	–	–	–	–	–	54	245,105	245,159
2018 final dividend declared and paid	–	–	–	–	–	–	(126,268)	(126,268)
Balance at 30 June 2019 (unaudited)	**54,263**	**751,356**	**151**	**(12,812)**	**55,568**	**(1,542)**	**811,776**	**1,658,760**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2019 (unaudited)
(Expressed in United States dollars)

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(Unaudited)	(Unaudited)
Cash generated from operations	**351,746**	195,697
Tax paid	**(25,270)**	(4,111)
Net cash from operating activities	**326,476**	191,586
Investing activities		
Interest received	**2,637**	301
Increase in certificates of deposit, fixed deposits and other liquid funds	**(76,627)**	–
Payment for purchase of property, plant and equipment and for construction cost of property	**(246,845)**	(151,928)
Payment for purchase of right-of-use assets	**(8,000)**	–
Proceeds from disposal of property, plant and equipment	**–**	3
Net cash used in investing activities	**(328,835)**	(151,624)
Financing activities		
Interest paid	**(14,062)**	–
Payment for lease liabilities	**(3,923)**	–
Dividend paid	**(126,268)**	(39,254)
Net proceeds from issue of senior notes	**–**	290,277
Net cash (used in)/generated from financing activities	**(144,253)**	251,023
Net (decrease)/increase in cash and cash equivalents	**(146,612)**	290,985
Cash and cash equivalents at beginning of period	**316,536**	52,794
Cash and cash equivalents at end of period	**169,924**	343,779

1. Corporate information

NagaCorp Ltd. (the "Company", together with its subsidiaries, the "Group") is a company incorporated in the Cayman Islands and has its principal place of business at NagaWorld, Samdech Techo, Hun Sen Park, Phnom Penh, Kingdom of Cambodia.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 (the "Period") comprise the Company and its subsidiaries.

The unaudited condensed consolidated financial statements are expressed in United States dollars.

2. Basis of preparation

The unaudited condensed consolidated financial statements for the Period have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange" and the "Listing Rules", respectively).

The unaudited condensed consolidated financial statements have been prepared on the historical basis except for certain financial instruments which are measured at fair value.

In preparing this condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018 (the "2018 annual financial statements"), except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16 Leases ("IFRS 16").

3. Principal accounting policies

The unaudited condensed consolidated financial statements contain selected explanatory notes which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group after the 2018 annual financial statements. The unaudited condensed consolidated financial statements do not include all of the information required for a full set of annual financial statements prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") adopted by the IASB, and should be read in conjunction with the 2018 annual financial statements.

Except as disclosed below, the unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies and methods of computation adopted by the Group in the 2018 annual financial statements.

(Expressed in United States dollars)

3. Principal accounting policies (continued)

Adoption of new or revised standards and interpretations effective on 1 January 2019:

IFRS 16	Leases
IFRIC-Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11, Joint Arrangements
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12, Income Taxes
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23, Borrowing Costs

Except for IFRS 16, none of the new or revised standards and interpretations have had a material effect on the Group's accounting policies. The Group has not applied any new standard or interpretation that is not yet effective for the Period. The impact of the adoption of IFRS 16 is summarised below.

IFRS 16

IFRS 16 supersedes IAS 17 Leases ("IAS 17"), IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

3. Principal accounting policies (continued)

IFRS 16 (continued)

The effect of adoption of IFRS 16 is as follows:

Impact on the unaudited condensed consolidated statement of financial position as at 30 June 2019 (increase/(decrease)):

	$'000
Assets	
Non-current assets	
Right-of-use assets	**88,368**
Interest in leasehold land held for own use under operating lease	**(34,436)**
Total non-current assets	**53,932**
Current assets	
Trade and other receivables	**(2,147)**
Total current assets	**(2,147)**
Total assets	**51,785**
Liabilities	
Current liabilities	
Lease liabilities	**2,627**
Total current liabilities	**2,627**
Non-current liabilities	
Lease liabilities	**50,182**
Total non-current liabilities	**50,182**
Total liabilities	**52,809**
Equity	
Retained profits	**(1,024)**
Total equity	**(1,024)**

3. Principal accounting policies (continued)

IFRS 16 (continued)

The effect of adoption of IFRS 16 is as follows: (continued)

Impact on the unaudited condensed consolidated statement of income for the Period (increase/(decrease)):

	$'000
Operating lease expenses (included in administrative expenses)	(4,118)
Depreciation and amortisation expense (included in other operating expenses)	2,403
Net exchange loss (included in other operating expenses)	19
Profit from operations	1,696
Finance costs	2,720
Income tax	–
Profit attributable to owners of the Company	(1,024)

Impact on the unaudited condensed consolidated statement of cash flows for the Period (increase/(decrease)):

	$'000
Net cash flows from operating activities	3,923
Net cash flows from financing activities	(3,923)

Impact on segment information disclosures for the Period (increase/(decrease)):

	Casino operations	Hotel and entertainment operations
	$'000	$'000
Segment results	1,842	1,989
Segment assets	22,324	28,309
Segment liabilities	22,769	28,864

The adoption of IFRS 16 has no significant impact on earnings per share for the Period.

3. Principal accounting policies (continued)

IFRS 16 (continued)

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, plant and equipment and interest in leasehold land. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under trade and other receivables and trade and other payables, respectively. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for lease contracts with a lease term of 12 months or less and do not contain a purchase option ("short-term leases") and lease contracts for which the underlying asset is of low value ("low-value assets"). The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average of the incremental borrowing rates used for determination of the remaining lease payments was 10%.

3. Principal accounting policies (continued)

IFRS 16 (continued)

(a) Nature of the effect of adoption of IFRS 16 (continued)

To ease the transition to IFRS 16, the Group applied a practical expedient at the date of initial application of IFRS 16 whereby it elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019.

Based on the foregoing, as at 1 January 2019:

– Right-of-use assets of $82,969,000 were recognised and presented separately in the consolidated statement of financial position. This includes lease assets of $26,634,000 which were reclassified from interest in leasehold land held for own use under operating lease.

– Lease liabilities of $53,993,000 were recognised and presented separately in the consolidated statement of financial position.

– Prepayments included in trade and other receivables of $2,342,000 related to previous operating leases were derecognised.

3. Principal accounting policies (continued)

IFRS 16 (continued)

(a) Nature of the effect of adoption of IFRS 16 (continued)

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	$'000
Operating lease commitments at 31 December 2018	118,986
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(879)
	118,107
Less: total future interest expense	(64,114)
Lease liabilities recognised at 1 January 2019	53,993

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

3. Principal accounting policies (continued)

IFRS 16 (continued)

(b) Summary of new accounting policies (continued)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period during which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3. Principal accounting policies (continued)

IFRS 16 (continued)

(c) Amounts recognised in the unaudited condensed consolidated financial position and unaudited condensed consolidated statement of income

The movements of the carrying amounts of the Group's right-of-use assets and lease liabilities during the Period are set out below:

	Right-of-use assets			
	Leasehold land	Buildings	Equipment	Lease liabilities
	$'000	$'000	$'000	$'000
As at 1 January 2019	43,789	26,915	12,265	53,993
Additions	8,000	–	–	–
Depreciation expense	(1,092)	(1,141)	(368)	–
Interest expense	–	–	–	2,720
Payments	–	–	–	(3,923)
Exchange difference	–	–	–	19
As at 30 June 2019	50,697	25,774	11,897	52,809

The Group recognised rental expense from variable lease payments of $7,690,000 for the Period.

4. Revenue

Revenue represents net house takings arising from casino operations and income from other operations which are set out as follows:

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(Unaudited)	(Unaudited)
Casino operations – gaming tables	**796,060**	653,958
Casino operations – electronic gaming machines	**76,346**	59,908
Hotel room income, sales of food and beverage and others	**19,153**	19,089
	891,559	732,955

4. Revenue (continued)

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	30 June 2019	31 December 2018
	$'000	$'000
	(Unaudited)	(Audited)
Receivables	**89,808**	75,136
Contract liabilities	**49,794**	54,169

The contract liabilities mainly relate to the advance consideration received from customers. $4,375,000 of the contract liabilities as of 31 December 2018 has been recognised as revenue for the Period from performance obligations satisfied during the Period.

5. Finance costs

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(Unaudited)	(Unaudited)
Interest expenses and transaction costs relating to senior notes (note 16)	**15,940**	3,494
Interest on lease liabilities	**2,720**	–
	18,660	3,494
Less: interest expenses capitalised into capital work in progress	**(1,344)**	–
	17,316	3,494

6. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(Unaudited)	(Unaudited)
Amortisation of casino licence premium	**1,773**	1,773
Depreciation and amortisation		
– Own assets	**45,780**	42,920
– Right-of-use assets	**2,601**	–
Staff costs		
– Salaries, wages and other benefits	**59,233**	45,768
– Contributions to defined contribution retirement scheme	**22**	24

7. Income tax

Income tax in profit or loss represents:

(1) the monthly gaming obligation payment of $585,176 (six months ended 30 June 2018: $520,157) and (2) monthly non-gaming obligation payment of $214,338 (six months ended 30 June 2018: $214,338) payable to The Ministry of Economy and Finance of Cambodia (the "MOEF") by NagaWorld Limited Gaming Branch and NagaWorld Limited Hotel and Entertainment Branch, the Group's branches registered in Cambodia. The Group was not subject to Hong Kong, Malaysian, Cayman Islands or Russian income taxes for the Period (six months ended 30 June 2018: Nil).

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(Unaudited)	(Unaudited)
Current tax expense		
– Current period	**15,182**	4,407

During the Period, the Group recognised additional obligation payments to the MOEF of $10,385,000 (six months ended 30 June 2018: Nil) which is included in the amounts above.

8. Dividends payable to owners of the Company attributable to the period

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(Unaudited)	(Unaudited)
Interim dividend declared after the end of reporting period:		
2019: US cents 3.39 per ordinary share	**147,063**	–
2018: US cents 2.49 per ordinary share	**–**	108,079
	147,063	108,079

The final dividend of $126,268,000 for the year ended 31 December 2018 was proposed in February 2019 and paid in May 2019.

9. Earnings per share

The calculation of basic and diluted earnings per share is based on the consolidated profit attributable to owners of the Company of $245,105,000 (six months ended 30 June 2018: $180,131,000) and the weighted average number of shares of 4,341,008,041 (six months ended 30 June 2018: 4,341,008,041) in issue during the Period.

There were no dilutive potential shares during the Period (six months ended 30 June 2018: Nil).

10. Segment information

The Group manages its businesses by segments, which comprise a mixture of business activities (casino, hotel and entertainment). The Group has identified the following two main reportable segments in a manner consistent with the way in which information is reported internally to the Group's senior executive management (the "SEM") for the purpose of resource allocation and performance assessment.

- Casino operations: this segment comprises all gaming activities at both Naga 1 and Naga 2.

- Hotel and entertainment operations: this segment comprises the operations of leisure, hotel and entertainment activities.

10. Segment information (continued)

Segment revenue and results

The SEM monitors the revenue and results attributable to each reportable segment as follows:

Revenue and expenses are allocated to the reportable segments with reference to the revenue generated by those segments and expenses incurred by those segments or which would otherwise arise from the depreciation and amortisation of assets attributed to those segments.

Segment revenue and results are the measure reported to the SEM for the purpose of resource allocation and performance assessment. No segment assets and liabilities are presented as the information is not reported to the SEM in the resource allocation and assessment of performance.

	Casino operations	Hotel and entertainment operations	Total
	$'000	$'000	$'000
Segment revenue:			
Six months ended 30 June 2019 (unaudited):			
Timing of revenue recognition:			
At point in time	**832,384**	**8,758**	**841,142**
Transferred over time	**40,022**	**10,395**	**50,417**
Revenue from external customers	**872,406**	**19,153**	**891,559**
Inter-segment revenue	**(389)**	**4,480**	**4,091**
Reportable segment revenue	**872,017**	**23,633**	**895,650**
Six months ended 30 June 2018 (unaudited):			
Timing of revenue recognition:			
At point in time	691,841	10,710	702,551
Transferred over time	22,025	8,379	30,404
Revenue from external customers	713,866	19,089	732,955
Inter-segment revenue	(865)	7,242	6,377
Reportable segment revenue	713,001	26,331	739,332
Segment profit:			
Six months ended 30 June 2019 (unaudited)	**339,851**	**3,435**	**343,286**
Six months ended 30 June 2018 (unaudited)	237,683	2,728	240,411

10. Segment information (continued)

Segment revenue and results (continued)

Reconciliation of reportable segment revenue and profit to revenue and profit per the unaudited condensed consolidated financial statements is as follows:

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(Unaudited)	(Unaudited)
Revenue		
Reportable segment revenue	**895,650**	739,332
Elimination of inter-segment revenue	**(4,091)**	(6,377)
Consolidated revenue	**891,559**	732,955
Profit		
Reportable segment profit	**343,286**	240,411
Other revenue	**2,441**	219
Depreciation and amortisation	**(50,154)**	(44,693)
Finance costs	**(17,316)**	(3,494)
Unallocated head office and corporate expenses	**(17,970)**	(7,905)
Consolidated profit before taxation	**260,287**	184,538

11. Property, plant and equipment

During the Period, the Group acquired property, plant and equipment totalling $276,592,000 (six months ended 30 June 2018: $145,256,000).

12. Intangible assets

The intangible assets include the casino licence premium, and the exclusivity premium of the casino licence for the exclusivity period to the end of 2035; in total consideration of $108,000,000, less accumulated amortisation of $50,666,000 (31 December 2018: $48,893,000).

13. Promissory notes

On 6 September 2013, the Company entered into an investment agreement (the "Investment Ageement") with certain Russian governmental authorities, pursuant to which the Company agreed to invest at least 11,600,000,000 Russian Rubles ("RUB") (approximately $350,000,000 based on then current exchange rates), in a gaming and resort development project in Vladivostok, Russia.

13. Promissory notes (continued)

In December 2014, in accordance with the terms of the Investment Agreement including the requirement to obtain a bank guarantee, a subsidiary of the Company remitted approximately $8,900,000 from its Hong Kong bank account to a Russian bank account of the Company's Russian subsidiary Primorsky Entertainment Resorts City LLC. This amount was deposited in the same Russian bank as fixed deposits, against which promissory notes were subsequently issued. In February 2015, Primorsky Entertainment Resorts City LLC purchased these promissory notes in RUB to provide collateral for the issuance of a bank guarantee from the same bank, which was required under the Investment Agreement.

The promissory notes in total amount of RUB469,100,000 (approximately $9,608,000) (31 December 2018: $9,372,000) bear an interest of 6.6% per annum and the maturity date of which is 2,909 days from the date of issue, i.e. 30 January 2023.

14. Trade and other receivables

	30 June 2019 $'000 (Unaudited)	31 December 2018 $'000 (Audited)
Trade receivables, net of allowance for impairment loss	**89,808**	75,136
Deposits, prepayments and other receivables	**47,119**	42,004
	136,927	117,140

The ageing analysis of trade receivables (net of allowance for impairment loss) is as follows:

	30 June 2019 $'000 (Unaudited)	31 December 2018 $'000 (Audited)
Current to within 1 month	**83,837**	67,931
1 to 3 months	**45**	343
3 to 6 months	**251**	638
6 to 12 months	**1,099**	3,095
More than 1 year	**4,576**	3,129
	89,808	75,136

The credit policy for gaming receivables is five to thirty days (31 December 2018: five to thirty days) from end of tour. The credit policy on non-gaming receivables is thirty days from end of month (31 December 2018: thirty days from end of month).

15. Trade and other payables

	30 June 2019	31 December 2018
	$'000	$'000
	(Unaudited)	(Audited)
Trade payables	**13,594**	5,341
Unredeemed casino chips	**12,082**	12,279
Deposits	**35,821**	6,323
Construction creditors	**12,898**	6,764
Interest payable	**3,125**	3,125
Accruals and other creditors	**62,292**	45,879
	139,812	79,711

Included in trade and other payables are trade creditors with the following ageing analysis as at the end of the reporting period:

	30 June 2019	31 December 2018
	$'000	$'000
	(Unaudited)	(Audited)
Due within 1 month or on demand	**13,245**	4,992
Due after 1 month but within 3 months	**–**	277
Due after 3 months but within 6 months	**37**	72
Due after 6 months but within 1 year	**312**	–
Due after 1 year	**–**	–
	13,594	5,341

16. Senior notes

On 14 May 2018, the Company entered into a purchase agreement with two independent third party purchasers in connection with the issue of senior notes (the "Senior Notes") by the Company of an aggregate principal amount of $300,000,000 with maturity on 21 May 2021. The Senior Notes bear interest at a rate of 9.375% per annum, payable semi-annually in arrears on 21 May and 21 November of each year, commencing on 21 November 2018. These Senior Notes cannot be convertible into ordinary shares of the Company.

The obligations under the Senior Notes are secured by guarantees given by certain subsidiaries of the Company.

17. Certificates of deposit, fixed deposits and other liquid funds

Included in the balance is short term investment in a listed debt fund amounting to $51,183,000 (31 December 2018: $25,394,000) which was classified as debt instrument at fair value though profit or loss. The fair value of the fund was determined based on quoted market price. The fair value of the fund is a level 1 fair value measurement.

18. Capital commitments

The Group had the following capital commitments as at the end of the reporting period:

	30 June 2019	31 December 2018
	$'000 **(Unaudited)**	$'000 (Audited)
Hotel and casino complex – contracted but not incurred	**228,922**	361,739

The capital commitments relating to the hotel and casino complex are expected to be incurred over one year in accordance with the phased construction plans.

19. Related party transactions

As at 30 June 2019, amounts due from related companies of $377,000 (31 December 2018: $352,000) are included in trade and other receivables as disclosed in note 14 to the unaudited condensed consolidated financial statements. The balance is unsecured, interest-free and repayable on demand. The maximum amount during the Period was $377,000 (six months ended 30 June 2018: $294,000).

As at 30 June 2019, the amount due to a director, Tan Sri Dr Chen Lip Keong ("Dr Chen") of $13,838,000 (31 December 2018: $1,959,000) is included in trade and other payables as disclosed in note 15 to the unaudited condensed consolidated financial statements. The balance is unsecured, interest-free and repayable on demand.

19. Related party transactions (continued)

On 14 April 2019, the Company as the issuer entered into a subscription agreement (the "Subscription Agreement") with ChenLipKeong Fund Limited, a special purpose vehicle wholly owned by Dr Chen, an executive director, the Chief Executive Officer and the controlling shareholder of the Company, as the subscriber (the "Subscriber"), pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for 1,142,378,575 settlement shares (subject to adjustments under the terms of the Subscription Agreement) with a par value of US$0.0125 each at the price of HK$12.00 per share (subject to adjustments under the terms of the Subscription Agreement) for the subscription sum, which shall be paid by the Subscriber for the funding of the proposed development and construction of a multi-entertainment, comprehensive and integrated resort complex pursuant to the terms of the Subscription Agreement. The Subscription Agreement and the transaction(s) contemplated thereunder constitute a connected transaction of the Company under the Listing Rules, and the Subscription Agreement is therefore subject to approval by the Company's independent shareholders at an extraordinary general meeting of the Company.

20. Contingent Liabilities

Based on the formula stated in Clause 3.3 of the service agreement entered into between the Company and Dr Chen, both parties acknowledge and agree that Dr Chen is entitled to a performance incentive of $18,570,000 for the year ended 31 December 2018 (the "2018 Performance Incentive Entitlement").

Pursuant to a resolution passed by the Board on 22 July 2019, the Board considered the matter relating to the payment of the 2018 Performance Incentive Entitlement and resolved to appeal to the generosity and good judgement of Dr Chen to defer such entitlement. The Company and Dr Chen agreed that it was in the interests of the Company to defer the 2018 Performance Incentive Entitlement until the achievement of certain key performance indicators (the "KPIs") in 2019. The Company and Dr Chen agreed that subject to the achievement of the KPIs, the deferral of the 2018 Performance Incentive Entitlement should be extended to 2019 or beyond at the sole election of Dr Chen, and that the Company and Dr Chen shall negotiate in good faith a reasonable timeframe which is in the best interests of the Company.

For record purposes, Dr Chen has foregone total performance incentive entitlement of $18,600,000 from the financial years 2010 to 2014.

Except for the above and other than the additional obligation payments as described in note 7, there were no other contingent liabilities as at 30 June 2019.