

# IAO KUN GROUP HOLDING CO LTD

## FORM 20-F

(Annual and Transition Report (foreign private issuer))

Filed 03/11/16 for the Period Ending 12/31/15

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Industry	Casinos & Gaming
Sector	Services
Fiscal Year	12/31

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark one)

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 2015**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34804

**Iao Kun Group Holding Company Limited**  
(Exact name of the Registrant as specified in its charter)

**Cayman Islands**  
(Jurisdiction of incorporation or organization)

**Alameda Dr. Carlos D' Assumpcao No: 181-187 Centro Comercial**  
**c/o Grupo Brilhantismo**  
**12 Andar T, Macau**  
**Phone: is 853-2872-3425**  
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(Address of principal executive offices)

**Vong Hon Kun, Chief Executive Officer**  
**Iao Kun Group Holding Company Limited**  
**Alameda Dr. Carlos D' Assumpcao No: 181-187 Centro Comercial**  
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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

with a copy to:  
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Securities registered or to be registered pursuant to Section 12(b) of the Act:

**ORDINARY SHARES, PAR VALUE \$0.0001**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None.**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None.**

On December 31, 2015, the issuer had 62,307,794 ordinary shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

If this report is an annual or transition report, indicate by check mark if the registrant is required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes

No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP

International Financial Reporting Standards as issued by the  
International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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## CERTAIN INFORMATION

In this Annual Report on Form 20-F (this “Annual Report”), unless otherwise indicated, “we”, “us”, “our”, the “Company”, “IKGH”, and “Iao Kun Group” refers to Iao Kun Group Holding Company Limited, a Cayman Islands company, its subsidiaries and the Promotion Entities (as defined below).

On February 2, 2010, CS China Acquisition Corp., our predecessor, consummated a business combination pursuant to which it acquired all of the outstanding capital stock of Asia Gaming & Resort Limited (“AGRL”), a Hong Kong corporation.

References to “Promoter Companies” or to “IKGH’s VIP gaming promoters” refer to those VIP gaming promoters and predecessors that are affiliated with IKGH and its subsidiaries.

References to “Promotion Entities” refer to the Promoter Companies, Mr. Lam Chou In, the Collaborator at the Oriental VIP room (defined below), and Mr. Lou Kan Kuong, the Crown Australia Junket Operator (defined below) and whose operations are included in the financial statements included in this Annual Report.

References to “Collaborator Agreement” refer to the collaborator agreement for the promotion of games of fortune and chance at the Oriental VIP Room in Le Royal Arc Casino (“L’Arc”) in Macau between the L’Arc Promoter and the L’Arc Collaborator.

References to the “Crown Australia Junket Operator” refer to the junket operator agreement for the promotion of games of fortune and chance at the Crown Perth Casino in Perth, Australia and at the Crown Melbourne Casino in Melbourne, Australia between Mr. Lou Kan Kuong and the Crown Perth Casino in Perth, Australia and at the Crown Melbourne Casino in Melbourne, Australia.

References to “Gaming Promoter Agreement(s)” refer to, collectively or individually, the four gaming promotion agreements for the promotion of games of fortune and chance in VIP gaming rooms at City of Dreams Hotel & Casino, Sands Cotai Central, StarWorld Hotel and Casino and Galaxy Macau Resort, respectively, entered into between the Promoter Companies and the casino operators, as amended from time to time.

References to “Promotion Agreements” refer the Gaming Promoter Agreements and the Collaborator Agreement.

On November 10, 2010, we acquired 100% of the profit interest in King’s Gaming Promotion Limited (“King’s Gaming”).

On September 12, 2012, we acquired 100% of the profit interest in Bao Li Gaming Promotion Limited (“Bao Li”).

On June 26, 2013, we acquired 100% of the profit interest in the VIP gaming promotion business in the Oriental VIP gaming room located in Le Royal Arc Casino (“Oriental VIP Room”).

On September 30, 2013, we changed our name from “Asia Entertainment & Resources, Ltd.” to “Iao Kun Group Holding Company Limited.”

On May 15, 2015, we entered into agreements to acquire all of the profit interests of Mr. Lou Kan Kuong (“Mr. Lou” or the “Crown Australia Junket Operator”) promotion activities at the Crown Perth Casino in Perth, Australia and at the Crown Melbourne Casino in Melbourne, Australia.

Unless otherwise indicated or the context indicates otherwise, all references to “Macau” or “MSAR” refer to the Special Administrative Region of Macau, and all references to “China” or “PRC” refer to the People’s Republic of China.

All references to Hong Kong Dollar (“HKD\$”) are to the legal currency of Hong Kong and all references to “U.S. dollars”, “dollars”, “US\$”, “\$” are to the legal currency of the United States. This Report contains translations of HKD\$ amounts into U.S. dollars at specified rates solely for the convenience of the reader. We make no representation that the HKD\$ or U.S. dollar amounts referred to in this Report could have been or could be converted into U.S. dollars or HKD\$, as the case may be, at any particular rate or at all. On March 4, 2016, the buying rate announced by the Federal Reserve Statistical Release was HKD\$7.7647 to \$1.00.

## FORWARD-LOOKING STATEMENTS

This Annual Report contains “forward-looking statements” that represent our beliefs, projections and predictions about future events. All statements other than statements of historical fact are “forward-looking statements” including any projections of earnings, revenue or other financial items, any statements of the plans, strategies and objectives of management for future operations, any statements concerning proposed new projects or other developments, any statements regarding future economic conditions or performance, any statements of management’s beliefs, goals, strategies, intentions and objectives, and any statements of assumptions underlying any of the foregoing. Words such as “may”, “will”, “should”, “could”, “would”, “predicts”, “potential”, “continue”, “expects”, “anticipates”, “future”, “intends”, “plans”, “believes”, “estimates” and similar expressions, as well as statements in the future tense, identify forward-looking statements.

These statements are necessarily subjective and involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements described in or implied by such statements. Actual results may differ materially from expected results described in our forward-looking statements, including with respect to correct measurement and identification of factors affecting our business or the extent of their likely impact, the accuracy and completeness of the publicly available information with respect to the factors upon which our business strategy is based or the success of our business.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of whether, or the times by which, our performance or results may be achieved. Forward-looking statements are based on information available at the time those statements are made and management’s belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, those factors discussed under the headings “Risk Factors”, “Operating and Financial Review and Prospects,” “Information on the Company” and elsewhere in this Annual Report.

This Annual Report should be read in conjunction with our audited financial statements and the accompanying notes thereto, which are included in Item 18 of this Annual Report.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not required.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not required.

### ITEM 3. KEY INFORMATION

#### A. Selected financial data

The consolidated balance sheets data of Iao Kun Group as of December 31, 2015, 2014, 2013, 2012 and 2011 and the consolidated statements of operations data and cash flow data for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 are derived from the audited consolidated financial statements of Iao Kun Group. The audited consolidated financial statements of Iao Kun Group as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 are included elsewhere in this Annual Report.



The information is only a summary and should be read in conjunction with each of our historical financial statements and related notes and “Operating and Financial Review and Prospects” contained elsewhere herein. The historical results included below and elsewhere in this Annual Report are not indicative of our future performance.

**IAO KUN GROUP HOLDING COMPANY LIMITED**

**SELECTED HISTORICAL CONSOLIDATED AND COMBINED FINANCIAL INFORMATION**

**Statement of Operations Data**

	<b>For the Year Ended December 31, 2015</b>	<b>For the Year Ended December 31, 2014</b>	<b>For the Year Ended December 31, 2013</b>	<b>For the Year Ended December 31, 2012</b>	<b>For the Year Ended December 31, 2011</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from VIP gaming operations	\$ 105,002,184	\$ 233,822,859	\$ 236,850,159	\$ 236,300,623	\$ 250,575,452
Total expenses	130,100,150	232,982,225	219,016,868	181,348,081	179,570,303
Operating (Loss) Income Attributable to Ordinary Shareholders before change in fair value of contingent consideration	\$ (25,097,966)	\$ 840,634	\$ 17,833,291	\$ 54,952,542	\$ 71,005,149
Change in fair value of contingent consideration for the acquisition of King’s Gaming, Bao Li and Oriental	30,215,735	(60,918,569)	(12,445,789)	15,166,700	6,248,361
Net Income (Loss) attributed to ordinary shareholders	5,117,769	(60,077,935)	5,387,502	70,119,242	77,253,510
Other Comprehensive Income (Loss)	89,182	65,092	(76,610)	669,109	(64,634)
Total Comprehensive Income (Loss)	\$ 5,206,951	\$ (60,012,843)	\$ 5,310,892	\$ 70,788,351	\$ 77,188,876
Net Income (Loss) per share attributable to ordinary shareholders (A)					
Basic	\$ 0.08	\$ (0.99)	\$ 0.10	\$ 1.53	\$ 1.91
Diluted	\$ 0.08	\$ (0.99)	\$ 0.10	\$ 1.53	\$ 1.85
Dividend declared per share	\$ 0.01	\$ 0.03	\$ 0.18	\$ 0.31	\$ 0.10

(A) Earnings per share prior to year 2013 have been adjusted to reflect the rights issue accounting.

**Balance Sheet Data**

	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total Current Assets	\$ 176,853,137	\$ 201,573,499	\$ 255,597,767	\$ 265,135,490	\$ 258,382,355
Total Assets	\$ 282,740,801	\$ 341,641,630	\$ 411,828,690	\$ 377,467,005	\$ 328,407,314
Total Current Liabilities	\$ 64,996,064	\$ 83,088,675	\$ 111,668,955	\$ 60,105,783	\$ 77,127,221
Total Liabilities	\$ 64,996,064	\$ 130,382,820	\$ 142,736,723	\$ 161,400,764	\$ 169,620,206
Total Equity	\$ 217,744,737	\$ 211,258,810	\$ 269,091,967	\$ 216,066,241	\$ 158,787,108

## Cash Flow Data

	<b>For the Year Ended December 31, 2015</b>	<b>For the Year Ended December 31, 2014</b>	<b>For the Year Ended December 31, 2013</b>	<b>For the Year Ended December 31, 2012</b>	<b>For the Year Ended December 31, 2011</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows provided by operating activities	\$ 29,882,486	\$ 60,601,543	\$ 37,906,358	\$ 46,428,105	\$ 5,280,509
Cash flows used in investing activities	(2,623)	(290,924)	(20,126,974)	(15,146,032)	(27,956)
Cash flows used in financing activities	(37,965,746)	(56,929,036)	(30,844,943)	(27,390,634)	(2,305,762)
Net (decrease) increase in cash	<u>\$ (8,085,883)</u>	<u>\$ 3,381,583</u>	<u>\$ (13,065,559)</u>	<u>\$ 3,891,439</u>	<u>\$ 2,946,791</u>

## Exchange Rates

The following table sets forth information concerning exchange rates between the HKD\$ and the U.S. dollar for the periods indicated. On March 4, 2016, the buying rate announced by Federal Reserve Statistical Release was HKD\$7.7647 to \$1.00.

Period	Spot Exchange Rate			
	Period Ended	Average (1)	Low	High
(HKD\$ per US\$1.00)				
2010	7.7736	7.7686	7.7546	7.7880
2011	7.7767	7.7839	7.7716	7.7965
2012	7.7501	7.7568	7.7501	7.7622
2013	7.7535	7.7565	7.7523	7.7631
2014	7.7541	7.7545	7.7502	7.7612
2015	7.7507	7.7524	7.7499	7.7584
2016*	7.7702	7.7781	7.7702	7.7829
January	7.7876	7.7734	7.7505	7.7962
February	7.7763	7.7828	7.7700	7.7955
March*	7.7647	7.7696	7.7647	7.7745

\* Through March 4, 2016

Source: Federal Reserve Statistical Release

(1) Annual averages, lows, and highs are calculated from month-end rates. Monthly averages, lows, and highs are calculated using the average of the daily rates during the relevant period.

### B. Capitalization and Indebtedness

Not required.

### C. Reasons for the Offer and Use of Proceeds

Not required.

#### **D. Risk factors**

An investment in our securities involves a high degree of risk. You should consider carefully the material risks described below, which we believe represent all the material risks related to an investment in our securities, together with the other information contained in this Annual Report, before making a decision to invest in our securities. This annual report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks described below.

#### **Risks Relating To Our Business**

##### **Our business is entirely dependent on the Promotion Entities, which have limited operating histories and are subject to many uncertainties and contingencies.**

Our sole source of revenue is the assigned profits we receive from the Promotion Entities under the profit interest agreements described below. The Promotion Entities generate their revenues from conducting VIP gaming promotion business in casinos pursuant to the Gaming Promoter Agreements, the Collaborator Agreement and the Australia Casino Junket Operator Agreements. Deterioration in the Promotion Entities' business, financial condition and results of operations may have a material adverse effect on our business and results of operations.

Consistent with industry standards, the terms of each of the Gaming Promoter Agreements and the Collaborator Agreement are for one year, the same term as the gaming promoter licenses of the Promoter Companies and the L'Arc Promoter, which are subject to annual renewal. However, the Gaming Promoter Agreements may be terminated unilaterally by the casino operators at any time upon 14 to 30 days' advance written notice, and the Collaborator Agreement may be terminated unilaterally by the L'Arc Promoter at any time upon three months' advance notice, to the Promotion Entities. If the Promotion Entities' relationship with any of the casino operators or the L'Arc Promoter deteriorates, the casino operators or the L'Arc Promoter may terminate or decide not to renew, at their sole discretion, the respective Gaming Promoter Agreements or the Collaborator Agreement with or without cause. Further if the relationship between Sociedade de Jogos de Macau, S.A. ("SJM") and the L'Arc Promoter deteriorates, SJM may terminate or decide not to renew the gaming promoter agreement with the L'Arc Promoter, hence discontinues the Collaborator Agreement. The Australia Casino Junket Operator Agreements may be terminated by either party upon 21 days advance written notice. Any of the above events may have a material and adverse effect on our business, financial condition and results of operations.

The operations of the Promotion Entities are also subject to significant business, economic and regulatory uncertainties and contingencies frequently encountered by businesses in competitive environments, many of which are beyond their control. The Promoter Companies are required to obtain and maintain gaming promoter licenses, which are renewed annually, to enter into the Gaming Promoter Agreements and conduct gaming promoter business in Macau. Although we have no reason to believe the renewal of the gaming promoter licenses of the Promoter Companies or the L'Arc Promoter will not be granted, we cannot assure you that these licenses will be renewed upon expiration or at all. If any of the Promoter Companies' or the L'Arc Promoter's gaming promoter license is terminated or not renewed, we may lose a significant part of our revenue.

If we are not able to manage these risks successfully, our business, financial condition and results of operations may be materially and adversely affected.

**We are entirely dependent on our relatively limited number of VIP gaming rooms for all of our revenue and cash flow.**

Our operations are currently conducted at five VIP gaming rooms in five casinos in Macau and two casinos in Australia (limited activity) that are primarily focused on VIP baccarat. Therefore, we are subject to greater risks than other gaming promoters with more VIP gaming rooms at different geographic locations. For the years ended December 31, 2013, 2014 and 2015 revenue contributed by our largest VIP Gaming Room, accounted for 38.6%, 37.3% and 46.1% of our total revenue, respectively. If any of the five VIP gaming rooms is not performing as expected or ceases operation due to termination of the Gaming Promoter Agreements or the Collaborator Agreement or any other reason, our business, financial condition and results of operations could be materially and adversely affected. We are also more susceptible to the risk of changing VIP gaming patron tastes or preferences due to the limited scope of our business. Any negative developments in this regard could adversely affect our business, financial condition and results of operations.

**The profitability of our business depends on a variety of factors, some of which are beyond our control.**

The profitability of the gaming industry is inherently dependent on an element of chance. No one has full control of the winning of the games. In addition, theoretical win rates and, thus, our profitability are also affected by other factors, including amongst others, the VIP players' skill and experience, the financial resources of the VIP players, the spread of table limits, the number of gaming tables in the VIP gaming rooms, the volume of bets placed by the VIP players and the amount of time VIP players spend on gaming. As a result, our VIP rooms' rolling chip turnover and win rates may fluctuate, causing our interim results to be volatile. These factors, alone or in combination, may adversely impact our profitability.

Our profitability also depends on the proportion of VIP players that are sourced by junket agents compared to direct business players sourced by our management team, as we pay commissions to these junket agents based on the rolling chip turnover of the VIP players sourced by them, while no such commission is paid in respect of direct business players. Therefore, if the percentage of non-negotiable chips purchased by junket agents increases, our profit may decline. In 2013, 2014 and 2015, rolling chip turnover generated from direct business players accounted for 1%, 1% and 0%, of our total rolling chip turnover, respectively. Such decreasing trend may persist in the future, which will adversely affect our profitability.

**The success of our acquired Oriental VIP Room operations at Le Royal Arc Casino is subject to the renewal or extension of the Collaborator Agreement and the rolling chip turnover achieved by Mr. Lam Chou In and the network of junket agents under Mr. Vong Veng Im.**

In June 2013, we acquired 100% of the net operating profit generated by the Oriental VIP Room at L'Arc, which effectively gained us access to the network of junket agents operating in this location. In November 2013, Mr. Lam Chou In became the collaborator of the Oriental VIP room. Pursuant to the Collaborator Agreement between Mr. Lam Chou In and L'Arc Promoter, L'Arc Promoter is entitled to terminate such agreement if Mr. Lam Chou In and Vong Veng Im's network of junket agents fail to generate the minimum monthly rolling chip turnover requirement. If the Collaborator Agreement is not renewed or extended upon expiration, or Mr. Lam Chou In and Vong Veng Im's network of junket agents fail to achieve the minimum monthly rolling chip turnover requirement, the success of our VIP gaming promotion operations at L'Arc and our business and prospects may be adversely affected.

**Our revenue sharing model may result in greater volatility in our revenues as compared to a fixed rate commission model. Our short-term revenue under the revenue sharing model is subject to significant volatility and may not be indicative of our long-term results.**

Beginning in September 2012, we changed our remuneration model from a predetermined fixed rate commission of 1.25% of the rolling chip turnover to a revenue sharing model for all of our VIP rooms. Therefore, our past performance under the fixed rate commission model may not be indicative of our future results under the revenue sharing model. Under the revenue sharing model, we currently share 42.5% to 45 % of the net gaming wins or losses before expenses with the respective casino operators and L'Arc Promoter. In respect of Oriental VIP Room at L'Arc, we elected to pay table rental in exchange for a higher win/loss share percentage. Beginning in September 2015, we are no longer paying a table rental fee and our percentage of net gaming win/loss was reduced. Our revenues under the current model may experience significant volatility during a particular interim period and may not be indicative of our long-term results of operations. For example, should one or more of our VIP players win or lose large sums in a given period, our short-term results of operations could be materially impacted. The generally expected win rate for VIP baccarat, the table game played at our VIP rooms, is between 2.7% to 3.0%. Our quarterly win rates from January 1, 2011 to December 31, 2015 ranged from 2.2% to 4.2%. Should the win rates at one or more of our VIP rooms consistently fall below the typical range, it would adversely affect our short-term results of operations.

**We face intense competition in Macau and elsewhere.**

The VIP gaming promotion business in Macau is highly competitive. As of March 10, 2016, our VIP rooms are located at five out of approximately 36 casinos of varying sizes in Macau and the Promotion Entities currently compete with approximately 142 other gaming promoters in Macau.

We expect competition in Macau's VIP gaming market to increase in the near future as numerous new hotel, casino and entertainment complex projects, which are currently under construction or development, are due to open beginning in the third quarter of 2016. These projects are expected to include internationally recognized hotels and significant additional gaming space. Any opening of additional casinos and hotels is likely to result in a significant increase in the number of VIP gaming rooms, intensifying competition in Macau's VIP gaming business and among VIP gaming promoters.

We also face current and prospective competition from casinos and gaming promoters located elsewhere in Asia, particularly since many countries have loosened visa restrictions on Chinese visitors. Such casinos include Genting Highlands, a major gaming and resort destination located outside of Kuala Lumpur in Malaysia, and other casinos located in the Philippines and Singapore. Certain countries, including the Republic of Korea, Singapore, Malaysia, Vietnam and Cambodia, have already legalized casino gaming while others, such as Japan, Taiwan and Thailand, may legalize gaming in the future, which could further increase regional competition. Additional competition is provided from other major gaming centers located around the world, including Australia and Las Vegas, as well as from cruise ships in Asia (many of which are based in Hong Kong) that offer gaming facilities. If we cannot compete effectively, our business, prospects and results of operations may be materially and adversely affected.

**We face competition for qualified and skilled employees and depend on one service provider to provide the majority of our operational staffing. We are also dependent on our key management and operating personnel.**

Our business success depends, in large part, on our ability and the ability of our service provider to attract, train, motivate and retain a sufficient number of qualified and skilled employees. Although we have employed over 100 senior operational staff directly, we still depend on Pak Si Management and Consultancy Limited ("Pak Si"), a company owned by Ms. Tam Lai Ching, who is Mr. Vong Hon Kun's sister in law, to supply operational staff and there can be no assurance that Pak Si will be able or willing to continue to provide us with experienced VIP gaming related and other personnel. Macau has a relatively limited labor pool for VIP gaming operations. Our and our sole service provider's ability to seek employees from other jurisdictions is also restricted by labor quota restrictions imposed by the Macau government. In addition, many employees at the VIP gaming rooms are required to possess certain gaming-related skills, for which substantial training and experience are needed. We cannot assure you that we will be able to compete successfully for the limited supply of qualified VIP gaming related and other personnel and to recruit, train and retain a sufficient number of qualified employees for our Macau operations.

Increasing competition for a limited number of qualified employees could force us and our service provider to raise the salaries of current employees or to pay higher wages to attract new employees, which could cause labor costs to increase. During the three years ended December 31, 2013, 2014 and 2015, our labor costs, including management fee to Pak Si for hiring and managing non-senior operating staff, accounted for 4.6%, 5.2% and 8.4% of our total revenue, respectively. If we and our sole service provider are unable to attract and retain a sufficient number of qualified employees, or if we encounter a significant increase in labor costs due to salary increases, our ability to compete effectively with the other VIP gaming promotion participants would be hampered.

**Our ability to maintain our competitive position is also dependent to a large degree on the efforts, skills and continued service of certain key management and operating personnel**

Our ability to maintain our competitive position is also dependent to a large degree on the efforts, skills and continued service of Mr. Vong Hon Kun and other key management and operating personnel such as Mr. Mok Chi Hung, Mr. Lou Kan Kuong, Mr. Lam Chou In and Mr. Vong Veng Im. The loss of any of these key management and operating personnel would likely have a material adverse effect on our business since these individuals are instrumental in marketing our VIP rooms to the junket agents and VIP players. Therefore, if these individuals, for whatever reason, were no longer able or willing to perform such services, our business and results of operations would be materially and adversely affected. Our success also depends upon our ability to attract, hire and retain qualified operating, marketing, financial and technical personnel in the future. Given the intense competition for qualified management personnel in the industry, there can be no assurance that we will be able to continue to hire or retain such key personnel. We do not maintain any key person insurance.

**If we fail to maintain an effective internal control and accounting system, we may be unable to report our financial results accurately or detect and prevent fraud and criminal activities.**

We dedicate a significant amount of management, operational and financial resources to enhance and maintain our internal control and accounting systems, which has increased our administrative and other operating expenses. Although we review our internal control policies and procedures on an ongoing basis, we cannot assure you that we will be able to enhance and maintain our internal controls successfully, which may result in us being unable to report our financial results accurately or detect and prevent fraud and criminal activities. Effectiveness of our internal control systems and procedures may also be adversely affected by misjudgment, clerical mishandling and errors, reporting errors or our limited resources in making accurate, complete, updated evaluations. Any deficiency in our internal controls could adversely affect management's ability to monitor, evaluate and manage our business and operations, or lead to substantial business or operational risk or inaccurate financial and regulatory reporting. Therefore, a failure to implement and maintain an effective internal control system to detect and prevent fraud and to accurately report our results could materially and adversely affect our business, financial condition and results of operations and subject us to legal or regulatory sanctions.

**We face the risk of anti-social forces influencing our operations and cannot assure you that our anti-money laundering and anti-corruption policies will be effective in preventing the occurrence of money laundering or other illegal activities at our VIP rooms.**

The VIP gaming promotion industry faces the risk of anti-social forces influencing its operations, including but not limited to money-laundering, terror financing and cross-border crimes. We and the casino operators have implemented anti-money laundering and anti-corruption policies in compliance with all applicable laws and regulations in Macau. For instance, pursuant to Regulation 7/2006, we obtain and retain identification documents of VIP gaming patrons when presented with transactions which are suspicious due to their nature, complexity, amounts or volume. However, we cannot assure you that such policies will be effective in preventing the VIP gaming room operations from being exploited for money laundering purposes or by other anti-social forces. Any incidents of money laundering, accusations of money laundering or association with anti-social forces, or regulatory investigations into possible money laundering or anti-social activities involving us, the casino operators or their employees or our employees, service providers, junket agents or VIP players could harm our reputation, relationship with casino operators, L'Arc Promoter and gaming regulators and results of operations. Any serious incidents of money laundering or regulatory investigation into money laundering or other anti-social activities could also cause a revocation or suspension of the Promotion Entities or the concessions or sub-concessions, which may cause the termination of the Gaming Promoter Agreements with the casino operators or the Collaborator Agreement with L'Arc Promoter as a result of the termination of the L'Arc Promoter Agreement. The Gaming Inspection and Coordination Bureau ("DICJ"), who is responsible for monitoring money laundering activities in the gaming industry and oversees the activities of the concessionaires and gaming promoters, may impose other regulatory sanctions as well. If any of these happens, our business, financial condition and results of operations may be materially and adversely affected.

**We face the risk of counterfeiting and cheating and may be adversely affected by the reputation and integrity of the parties with whom we engage in business activities.**

Gaming activities in VIP gaming rooms are conducted almost exclusively with non-negotiable chips which, like real currency, are subject to the risks of alteration and counterfeiting. Although the casino operators incorporate a variety of security and anti-counterfeit features to detect altered or counterfeit chips, unauthorized parties may try to copy the non-negotiable chips and introduce, use and cash in altered or counterfeit non-negotiable chips in the gaming areas. Any negative publicity arising from such incidents could also tarnish our reputation and may result in a decline in our business, financial condition and results of operations. Although no counterfeit or altered chips have been detected in our VIP rooms in the past, we cannot assure you that no counterfeit or altered chips will be detected in the future.

Although the casino operators have in place surveillance and security systems designed to detect cheating at the casinos, those systems may not be able to detect all such activities in time or at all. There is a possibility that VIP gaming patrons may successfully cheat at their games, particularly if VIP gaming patrons collude with the casino operators' employees. In addition, our junket agents or other persons could, without our knowledge, enter into arrangements with VIP players to side-bet on the outcomes of the games of chance in the VIP gaming rooms, thus depriving us of revenues and in effect operating a side gaming operation at our expense. Failure to discover such schemes in a timely manner could result in losses in VIP gaming promotion operations which are borne between our Promotion Entities and the L'Arc Promoter or and the concessionaire or sub-concessionaire. In addition, negative publicity related to such incidents could harm our reputation, thereby adversely affect our business, financial condition, results of operations and prospects.

The reputation and integrity of the parties with whom we engage in business activities, in particular, junket agents, are important to our own reputation and ability to continue to operate in compliance with the requirements of our licenses and Macau Gaming Law. While we endeavor to ensure that our junket agents that we work with comply with the high standards of probity and integrity required by Macau Gaming Law, we cannot assure you that they will adhere to these standards. In addition, if we enter into a business relationship with junket agent whose probity was in doubt, this may be considered by regulators or investors to reflect negatively on our own probity. As we are jointly liable for the activities conducted by our employees and collaborators, if any of the junket agents who are registered as our collaborators violate Macau gaming laws while promoting our VIP rooms, the Macau government may, at its discretion, take enforcement action against us and/or such junket agents and we may be sanctioned and our reputation harmed. The casino operators may also terminate their Gaming Promoter Agreements with us.

**Non-compliance with the Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.**

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States public companies from engaging in bribery of or making other prohibited payments to foreign officials to obtain or retain business. While we have adopted a code of ethics which applies to all of our directors, officers and employees and continuously educate our directors, officers and employees about the Foreign Corrupt Practices Act, our directors, officers and employees may engage in such conduct without our knowledge, for which we might be held responsible. If that were to occur, we could suffer penalties that may have a material adverse effect on our business, financial condition and results of operations.

**If our goodwill or other intangible assets become impaired, our total assets and shareholder equity may be significantly reduced.**

Because we have acquired a significant number of companies and businesses in recent years, goodwill and other intangible assets represent a substantial portion of our total assets. As at December 31, 2015, we recorded an impairment to our goodwill of approximately US\$17.8 million. Our other intangible assets (net of accumulated amortization) were approximately US\$105.6 million, accounting for 37.4% of our total assets. We perform an annual impairment assessment in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. If this assessment concludes that it is more likely than not that the fair value is more than its carrying value, goodwill is not considered impaired and we are not required to perform the two-step goodwill impairment test. Qualitative factors considered in this assessment include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit. For the annual impairment assessment in 2015, performed in June 2015, considering the operation results with decreasing total rolling chips turnover and the decrease of market capitalization during the first half of 2015, we performed the first step of goodwill impairment test and determined and concluded that the carrying value of our reporting unit exceeded the estimated fair value. As of June 30, 2015, we have completed our annual impairment assessments and concluded that goodwill was impaired.

A significant impairment charge has had a material adverse impact on our financial condition and results of operation.

**We may require additional debt or equity financing to expand our business and fund future projects, but may not be able to obtain such financing on satisfactory terms or at all.**

Apart from equity financing, we have financed our operations primarily through cash generated from our operations, lines of credit from casinos and loans from our shareholders. We may require additional debt or equity financing in the future to expand our business and fund future projects. Our ability to secure additional financing will depend on a variety of factors, many of which are beyond our control, including our financial performance, economic conditions of the U.S., Hong Kong, Macau and other capital markets in which we may seek to raise funds, credit availability, interest rates, other gaming promotion companies that may also seek funding and investors' and lenders' perceptions of, and demand for, debt and equity securities of gaming promotion companies. As a result, we cannot assure you that we will be able to access capital from external sources on satisfactory terms and conditions, or at all. If we are unable to obtain additional financing, we may not be able to expand our business as anticipated or to fund future projects, and our business, financial condition and results of operations could be materially and adversely affected.

**Our business depends on our continued access to lines of credit granted by casino operators. Any inability to obtain credit from casino operators in the future may adversely impact our business.**

We utilize lines of credit granted by casino operators to purchase non-negotiable chips from the casinos and provide them to VIP gaming patrons. As of December 31, 2015, we obtained lines of credit of approximately US\$57.6 million from casino operators, of which approximately US\$41.9 million were outstanding as of December 31, 2015. As required by the casino operators, these lines of credit are personally guaranteed by the shareholders of the Promoter Companies, namely Mr. Lam, Mr. Vong and Mr. Lou Kan Kuong. We cannot assure you that we will be able to obtain future lines of credit from casino operators without such personal guarantees. If we are unable to obtain such credit in the future and are unable to replace it by alternative independent third party guarantees or other financing arrangements, our ability to provide non-negotiable chips to VIP gaming patrons will be impaired, which may discourage the VIP gaming patrons from coming to our VIP rooms, which in turn may adversely impact our business, financial condition and results of operations.

**We are subject to the credit risk of our VIP gaming patrons.**

In order to attract VIP players and maintain our relationships with VIP gaming patrons, we extend gaming credit to our VIP gaming patrons from time to time directly or through our collaborators, exposing us to the substantial credit risk of these VIP gaming patrons. Extensions of gaming credit to VIP gaming patrons may be made with limited information or credit analysis and are often based primarily on historical gaming chip purchases. The Promotion Entities' limited operating history may put them at a disadvantage compared to their competitors when evaluating credit risk of the VIP gaming patrons. Inability to collect receivables from our VIP gaming patrons could have a material adverse impact on our business, financial condition, results of operations and prospects.

During the three years ended December 31, 2013, 2014 and 2015, there were no defaults by VIP gaming patrons and no provisions were made in relation to markers receivables from VIP gaming patrons. During the three years ended December 31, 2013, 2014 and 2015, however, members of our management team personally guaranteed the collection of certain markers receivables which provided credit comfort to us. We cannot assure you that the release of these guarantees will not affect the future recoverability of these advances, which could have a material adverse impact on our financial condition and results of operations.



Furthermore, gaming credit extended to VIP gaming patrons in Macau is typically unsecured and the collectability of receivables from them could be negatively affected by economic trends or conditions in the countries where they reside. Additionally, courts of many jurisdictions do not enforce gaming debts and we may encounter courts or other forums that refuse to enforce such gaming debts. Our inability to collect gaming debts could have a material adverse impact on our financial condition and results of operations.

**Local taxation may increase and current tax exemptions may not be extended.**

We are subject to the following local taxation:

- We are not subject to Hong Kong profits tax because we are an investment holding company and all of our operations are performed outside Hong Kong. Our subsidiaries are incorporated under the BVI Business Companies Act, 2004 (No. 16 of 2004) and exempted from payment of BVI taxes.
- The Promotion Entities in Macau are not subject to Macau Complementary tax, because, pursuant to the Gaming Promoter Agreements with the casino operators, gaming revenue is received net of taxes collected by the Macau government and paid directly by the casino operator on a monthly basis. No provision for Macau Complementary tax has been made. The Promotion Entities are subject to a tax on the amount of non-negotiable chips played by their VIP gaming patrons in the VIP gaming rooms, which is referred to as a “rolling tax”. The rolling tax is deducted and paid by the casino operator on a monthly basis. The rate of rolling tax is 0.01% on the rolling chip turnover of the VIP gaming rooms and the rolling tax is deducted as a cost of revenue. The original tax rate is a 5% withholding tax on the gross value of commissions and other remuneration paid by the casino operators to the gaming promoters. The Macau Chief Executive may reduce or cancel this tax exemption in the future by defining, in compliance with the law, what payments in kind are justified as forms of commission or remunerations to be exempted from taxation.
- Any dividends distributed by our Macau subsidiary to us or by the Promotion Entities to our subsidiaries may be subject to up to 12% of Complementary Tax, under the Macau Complementary Tax Law.

A loss of any of these exemption benefits or increases in tax rates or imposition of additional taxes may have a material adverse effect on our financial condition and results of operations.

**We are jointly liable for the activities of our employees and collaborators within the casino premises of concessionaires and could be held responsible if such persons violated the law.**

We are jointly liable for the activities of our employees and collaborators within the casino premises and for their compliance with applicable laws and regulations. Failure by us to fulfill our obligations under applicable regulations may result in the following consequences:

- the issue of a non-suitability report;
- refusal to grant a new gaming promotion license or to renew an existing one;
- suspension of the gaming promotion activities of gaming promoters upon notice by the concessionaire to the DICJ; or
- administrative liability arising out of violation of the Gaming Promoters Regulation without prejudice of contractual liability of the gaming promoter towards the concessionaire.

If we are subject to any such sanctions, our business, financial condition and results of operations may be materially and adversely affected.

**If we become directly subject to the recent scrutiny involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and/or defend the matter, which could harm our business operations, stock price and reputation and could result in a significant loss of your investment in us.**

U.S. listed companies with substantially all of their operations in China have been the subject of intense scrutiny by investors, financial commentators and regulatory agencies in recent years. Much of the scrutiny has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial reporting and, in many cases, allegations of fraud. As a result of the scrutiny, the publicly traded stock of many U.S.-listed China-based companies that have been the subject of such scrutiny decreased sharply in value. Many of these companies have been subject to shareholder lawsuits and/or SEC enforcement actions that are conducting internal and/or external investigations into the allegations. If we become the subject of any such scrutiny, regardless of the veracity of the allegations, we may have to expend significant time and resources to investigate such allegations and/or defend ourselves and our stock price could decline as a result of such allegations.

**Our insurance coverage may not be adequate to cover all potential losses, and our insurance costs could increase.**

Our labor insurance and insurance for our litigation risks and directors' indemnities have certain exclusions and may not be adequate to cover all possible losses. Furthermore, we cannot assure you that we will be able to renew our insurance policies in a timely manner, on comparable terms or at all. The cost of coverage may become so high that we may need to further reduce our policy limits or increase deductibles, or agree to additional exclusions from our coverage. There is also limited available insurance in Macau and our Macau insurance companies may need to secure reinsurance in order to adequately insure our operations. Failure to renew our insurance policies and obtain adequate coverage for our losses may materially and adversely affect our business, financial condition and results of operations.

Under our management agreement with Pak Si, Pak Si is liable to indemnify all losses that are incurred by their negligence or omission during the course of their employment with us. Such indemnification covers any losses relating to the management and operation of our VIP rooms, including loss of cash, cheques, cash chips and non-negotiable chips. Furthermore, Pak Si also takes responsibility for any damage to the facilities of our VIP rooms that is caused by them during their employment with us. Although we have the right to recover from Pak Si and Pak Si shall be liable to compensate us and make any repairs or restorations needed on the damaged facilities, Pak Si may lack the financial resources to do so, which could adversely affect our business, financial condition and results of operations.

#### **Risks Relating to the Gaming Industry in Macau**

**Gaming is a highly regulated industry in Macau and the gaming and licensing authorities may exercise significant control over our operations.**

Gaming is a highly regulated industry in Macau. Our operations are contingent upon our maintaining all regulatory licenses, permits, approvals, registrations, findings of suitability, orders and authorizations pursuant to Macau law.

In addition, the casinos' activities in Macau are subject to administrative review and approval by various agencies of the Macau government, including the DICJ, the Macau Judiciary Police, Health Department, Labor Bureau, Public Works Bureau, Fire Department, Financial Services Bureau (including the Tax Department), Macau Monetary Authority, Financial Intelligence Bureau and Macau government Tourism Office. We cannot assure you that the casino operators will be able to obtain all necessary approvals and licenses, and their failure to do so may materially and adversely affect our business and operations. Macau law permits redress to the courts with respect to administrative actions; such redress is, however, largely untested in relation to gaming industry regulatory issues.

Current laws, such as licensing requirements, tax rates and other regulatory obligations, could change or become more stringent, resulting in additional regulations being imposed upon the gaming promotion operations or an increase in competition in the gaming industry. For example, in September 2009, the Macau government set a cap on commission payments to gaming promoters of 1.25% of rolling chip volume, which has been enforced since December 2009. Any failure to comply with these regulations may result in the imposition of liabilities, fines and other penalties and may materially and adversely affect our operations.

On November 1, 2012, the Macau government raised the minimum age required for the entrance in casinos in Macau from 18 to 21, while allowing current casino employees to maintain their positions while in the process of reaching the minimum required age. This could adversely affect our ability and the ability of our business associates to engage sufficient staff for our operations in the future.

Under the existing legal framework, VIP gaming promoters must report suspicious transactions within 48 hours of becoming aware of such suspicious behavior. Failure to report suspicious transactions constitutes an administrative offence. Depending on the number of suspicious transactions reported, the DICJ may at any time instruct concessionaires or sub-concessionaires to enforce stricter control of suspicious transactions reporting. We didn't have suspicious transaction reported. We cannot assure you that this requirement will not be more strictly enforced in the future.

There are limited precedents interpreting and applying the laws of Macau and regulations concerning gaming. These laws and regulations are complex and a court or administrative or regulatory body may in the future interpret these laws and regulations in a manner that differs from our interpretation or issue new or modified regulations, which could have a material adverse effect on our business, financial condition and results of operations.

**Agreements for concessions and sub-concessions to operate casinos in Macau are for specific periods of time and may not be renewed upon their expiration. Also, the Macau government has the right to unilaterally terminate the concessions or sub-concessions in certain circumstances. Because we derive our rights from agreements with the casino operators, a termination of a casino operator's license to operate a casino will cause a termination of our business at that casino.**

The concession of SJM and the sub-concession of MGM Grand Paradise Limited will expire on March 31, 2020, unless extended pursuant to certain provisions of Macau law. The concession of Galaxy Casino, S.A. ("Galaxy"), the sub-concession of Venetian Macau, S.A. ("Venetian Macau"), the concession of Wynn Resorts (Macau), S.A. ("Wynn Macau") and the sub-concession of Melco Crown Gaming (Macau) Limited ("Melco Crown Gaming") will expire on June 26, 2022, unless extended pursuant to certain provisions of Macau law. Upon expiration of these concessions and sub-concessions, all casinos, gaming assets and equipment and ownership rights to the casino properties in Macau will revert to the Macau government without compensation to the casinos. Moreover, beginning on June 26, 2017, the fifteenth year of the concession of Galaxy, sub-concession of Venetian Macau, the concession of Wynn Macau and the sub-concession of Melco Crown Gaming, the Macau government may exercise its right to redeem the concessions or sub-concessions by providing the concessionaires or sub-concessionaires with at least one-year prior written notice. SJM has been subject to this right of redemption of the Macau government since April 1, 2009, the seventh year of SJM's concession. We cannot assure you that the concessionaires or sub-concessionaires will be able to renew or extend their concessions or sub-concessions on terms favorable to them or at all. If any of the concessions or sub-concessions are not renewed or extended upon their stated expiration date, or if the Macau government exercises its early redemption right, we will cease to generate any revenue from the affected casinos and our gaming promotion operations at the affected casinos will cease accordingly.

The Macau government has the right to unilaterally terminate the concession or sub-concession agreements upon the occurrence of certain events of default. The concession and sub-concession agreements contain various general covenants and other provisions with which the concessionaires or sub-concessionaires are required to comply. These include the obligations to submit periodic information to the Macau government, operate casinos in a fair and honest manner and maintain certain levels of insurance. Failure to comply with the terms and conditions of the concession or sub-concession agreements in a manner satisfactory to the Macau government could ultimately result in the termination of the concession or sub-concession agreements. The occurrence of any event of default may, and any termination of the concession or sub-concession agreements will, cause all of the casinos, gaming assets and equipment and ownership rights to the casino properties in Macau to be automatically transferred to the Macau government. If this occurs, we will cease to generate any revenue from the affected casinos.

**Conducting business in Macau involves certain economic and political risks relating to changes in Macau's and China's political, economic and social conditions.**

Conducting business in Macau involves certain risks such as risks relating to changes in Macau's and China's political, economic and social conditions, changes in Macau governmental policies, changes in Macau laws or regulations or their interpretation, changes in exchange control regulations, potential restrictions on foreign investment and repatriation of capital, measures that may be introduced to control inflation, such as interest rate increases, and changes in the rates or method of taxation. In addition, our operations in Macau are exposed to the risk of changes in laws and policies that govern operations of Macau-based companies. The PRC government may continue to adopt policy and regulatory measures aimed at curtailing the possibility of corruption in Macau's gaming industry. In addition to corruption charges against many top mainland officials, the campaign has deterred high rollers from visiting Macau. Therefore, we cannot be certain that the PRC government's anti-corruption policies and regulatory measures will not materially and adversely affect our business, financial condition, results of operations and prospects.

**The Macau government may decide to impose more stringent laws with respect to the practice of gaming promoters issuing gaming credit to VIP gaming patrons and any change in our operations to comply with such laws may result in a decrease in our revenue.**

The Gaming Credit Law governs the granting of gaming credit in Macau, and forbids the assignment or transfer, in any form, of the power to grant gaming credit. For the past 20 years, it has been customary practice in Macau that casinos issue gaming credit to VIP gaming promoters in the form of non-negotiable chips that can only be used in that gaming promoter's VIP gaming rooms. The non-negotiable chips may not be redeemed for cash, cash chips or other goods or services. The gaming promoters extend such gaming credit to VIP gaming patrons. However, if the Macau government in the future imposes a more stringent law governing the extension of gaming credit to VIP gaming patrons, we may be required to adjust our operations to comply with such law, and limit our ability to extend gaming credit which may reduce rolling chip turnover, which in turn may materially and adversely affect our business and results of operations.

**A weakening in economic and credit market conditions may adversely affect tourism and the profitability of our business.**

There can be no assurance that the recent difficult financial conditions in the global markets will improve or that government responses to these conditions will successfully address fundamental weakness in the global markets, restore consumer confidence or increase market liquidity. Weakness in the global economy or in the economy of China, where a significant number of gaming patrons reside and/or generate their income, may result in a reduction in the number of gaming patrons or the frequency of visits by these gaming patrons to our VIP rooms. Any reduction in demand for the gaming activities that we promote would reduce our revenue.

**China has imposed government restrictions on Chinese citizens travelling from mainland China to Macau and may continue to do so in the future. If China or other countries impose additional government restrictions on travel, the number of visitors to Macau could decline.**

We intend to take part in the promotion of additional VIP gaming rooms, based, in part, on our expectation of future visitor arrivals in Macau, particularly from China. According to the Direcç<sup>o</sup> dos Serviç<sup>os</sup> de Estatística e Censos (Statistics and Census Service) ("DSEC"), 2010, 2011, 2012, 2013, 2014 and 2015 tourists from mainland China accounted for approximately 53.0%, 57.7%, 60.9%, 63.5%, 67.4% and 66.5%, respectively, of all visitors to Macau. Since May 2008, the Chinese government has imposed restrictions on travel to Macau and may impose further restrictions in the future. In May and July 2008, the Chinese government adjusted its visa policy toward Macau and limited the number of visits that some mainland Chinese citizens may make to Macau in a given time period. In September 2008, it was publicly announced that mainland Chinese citizens without a Macau visa could no longer enter Macau from Hong Kong. If the number of visitors from China and elsewhere fails to increase as anticipated, we may not be able to source enough VIP gaming patrons to our VIP rooms to meet the minimum rolling chip turnover requirement of our VIP rooms, and our business, financial condition and results of operations may be materially and adversely affected.

**The level of visitor arrivals to Macau from China and elsewhere may decline due to, or travel to Macau may be disrupted by, natural disasters, outbreaks of disease, terrorist attacks, security alerts, military conflicts or other factors.**

Macau's subtropical climate and location on the South China Sea subject it to extreme weather conditions, including typhoons and heavy rainstorms. For example, in 2015, there were five typhoons that impacted areas within 800 km of Macau. Unfavorable weather conditions or other natural disasters such as earthquakes, tsunamis or major typhoons could severely disrupt transportation to Macau and prevent gaming patrons from travelling to Macau. Similarly, outbreaks of infectious diseases, such as H1N1, terrorist attacks, security alerts or military conflicts could have a negative impact on travel and leisure expenditures, including lodging, gaming and tourism. Any of these, or other factors such as riots or demonstrations, could have a negative impact on visitor arrivals to Macau from China and elsewhere.

**Consolidation of junket agents in recent years has led to increased bargaining power of junket agents, which could reduce our profits.**

Over the past several years, the Macau gaming industry has experienced a consolidation of junket agents. Although there is uncertainty as to whether such consolidation will become a trend in Macau, any consolidation in the Macau gaming market may provide junket agents with significant leverage and bargaining power, which could result in higher commissions paid to the junket agents, the loss of business to a competitor or the loss of our relationships with our junket agents. There have been recent instances of higher commission paid by other gaming promoters to junket agents in Macau. If we need to increase agent commission rates, our profits would be negatively affected.

**Macau's infrastructure may limit the development of its gaming industry.**

According to the DSEC, the year on year visitors arrival of Macau grew at 14.8% in 2010, 12.2% in 2011, 0.3% in 2012, 4.4% in 2013, 7.5% in 2014 and -2.6% in 2015. Accordingly, demands on the capacity of Macau's transportation infrastructure have also increased. To improve Macau's existing transportation infrastructure, the Macau government has announced a number of infrastructure projects to facilitate travel to and within Macau. These projects, which are in various stages of planning or development, include a further expansion of the Macau International Airport, construction of a light rail transit system, construction of two new tunnels linking the Macau peninsula and Taipa, construction of the Hong Kong-Zhuhai-Macau bridge and improved pedestrian walkways and border crossings. However, these projects may not be approved or completed in a timely fashion or at all and, if completed, may not be able to alleviate the growing transportation demand associated with the rapid expansion of Macau's gaming industry and the related recent increase in visitor levels to Macau. If Macau fails to adequately address the growing transportation demand, transportation infrastructure problems could limit the number of visitors arriving in Macau, which, in turn, could have a material and adverse effect on our business, financial condition and results of operations.

**Our gaming promotion operations could be adversely affected by restrictions on the export of the Renminbi.**

Casino operators in Macau are currently prohibited from accepting wagers in Renminbi, the currency of China. There are currently restrictions on the export of the Renminbi outside of mainland China, including to Macau. For example, Chinese travelling abroad are only allowed to take a total of RMB 20,000 in cash plus the equivalent of up to US\$5,000 of foreign currencies out of China. Further restrictions on the export of the Renminbi may impede the flow of gaming customers from China to Macau, inhibit the growth of gaming in Macau and negatively impact our operations.

**Unfavorable changes in currency exchange rates may cause fluctuations in the value of our investment in Macau.**

Our business transactions, assets and liabilities are principally denominated in Hong Kong dollars, our functional currency, with a small portion of our revenues denominated in Patacas. Our consolidated financial statements are presented in U.S. dollars, which is our reporting currency. The Hong Kong dollar is linked to the U.S. dollar and the exchange rate between these two currencies has remained relatively stable over the past several years. The Pataca, which is not a freely convertible currency, is linked to the Hong Kong dollar, and in many cases the two are used interchangeably in Macau. The exchange linkages of the Hong Kong dollar and Pataca, and the Hong Kong dollar and the U.S. dollar, are subject to potential changes due to, among other things, Chinese, Hong Kong and Macau governmental policies and international economic and political developments.

In the event of unfavorable Hong Kong dollar or Pataca exchange rate changes as against the U.S. dollar, our obligations that are denominated in U.S. dollars would increase in Hong Kong dollar and/or Pataca terms and our results of operations may be adversely affected.

### **Risks Related to Our Business Structure and Securities**

#### **As a result of our status as a foreign private issuer, publicly disseminated information about us may be limited.**

In accordance with the rules applicable to foreign private issuers, we are exempt from certain requirements under the Securities and Exchange Act of 1934, as amended (“Exchange Act”) relating to the furnishing and content of proxy statements and certain periodic reports. As a result, the publicly disseminated information available to our shareholders and others may not be as extensive as would be required if we did not have such status.

#### **We rely on the contractual arrangements, including profit interest agreements between our subsidiaries and the Promotion Entities, for our VIP gaming promotion business in Macau, which may not be as effective in providing operational control as direct ownership or enable us to derive economic benefits as through ownership of controlling equity interests.**

We have relied and expect to continue to rely on the contractual arrangements for our VIP gaming promotion business in Macau and the safeguarding of our interests. Although the contractual arrangements confer significant control and economic benefits and are enforceable under Macanese law, they may not be as effective in providing us with operational control as direct ownership or enabling us to derive economic benefits as through ownership of controlling equity interests. If we had direct ownership of the Promotion Entities, we would be able to exercise our rights as a shareholder. Therefore, the contractual arrangements may not be as effective in ensuring control over our operations in Macau as direct ownership would be and may not enable us to derive the same economic benefits as through ownership of a controlling equity interest.

#### **If the Macau government finds that the contractual arrangements that establish the structure for operating our gaming promotion business in Macau do not comply with Macau governmental restrictions on non-Macau companies directly operating a gaming promotion business in Macau, or if these restrictions or the interpretation of these restrictions change in the future, we could be subject to severe penalties or be forced to relinquish our interest in those operations.**

Current Macau laws do not allow non-Macau companies, such as us, to directly operate a gaming promotion business in Macau. Because of these restrictions, our corporate structure ensures that we do not have a direct ownership interest in the entities involved in the activities in which non-Macau companies’ participation is restricted. Consequently, our gaming promotion business is operated through certain contractual arrangements, which enable us to receive substantially all of the economic benefits and risks of the Promotion Entities and exercise effective control over the Promotion Entities. Our Macau legal advisers have advised that the corporate structure of the Promotion Entities and the contractual arrangements comply with all existing Macau laws. However, as there are uncertainties regarding the interpretation and application of Macanese laws and regulations, we cannot assure you that the Macau government will not determine that our corporate structure and the contractual arrangements do not violate Macanese laws, rules or regulations, or will not adopt any new regulations restricting non-Macau companies from being involved in the gaming promotion business through the contractual arrangements in Macau. If the applicable Macanese authorities invalidate these contractual arrangements for violation of Macanese law, they would have broad discretion to impose actions against us including: (i) revoking the Promotion Entities’ business and operation licenses; (ii) ordering us to discontinue or restrict our operations; (iii) restricting our right to collect revenues from the Prompter Companies; (iv) requiring us to restructure our operations and corporate structure in such a way as to compel us to establish new enterprises, re-apply operating licenses or relocate our business, staff or assets; (v) imposing additional conditions or requirements with which we may not be able to comply; or (vi) taking other regulatory or enforcement actions against us which could be harmful to our business, all of which in combination or isolation would adversely and materially affected our business operations or ability to consolidate the results of the Promotion Entities and substantially decrease the value of our Shares.

**If the Promotion Entities or their respective shareholders fail to perform their obligations under the contractual arrangements, we may have to incur substantial costs to enforce our rights.**

If the Promotion Entities or any of their shareholders terminate, or purport to terminate, or fail to perform their obligations under the contractual arrangements, we may have to incur substantial costs and resources to enforce our rights under the agreements, and rely on legal remedies under Macanese law, including seeking specific performance or injunctive relief and claiming damages, which may not be effective. For example, if the Promotion Entities breach their obligations under the respective profit interest agreements or their undertakings to act in a manner in line with the wishes of the Company, or if they were otherwise to act in bad faith towards us, then we may have to take legal action to compel them to perform their contractual obligations. In the event that we are unable to enforce these contractual arrangements, we may not be able to exert effective control over the Promotion Entities, and our ability to conduct our business may be adversely affected.

**We are a holding company and our subsidiaries' ability to pay dividends is dependent upon the earnings of IKGH's Promotion Entities and distributions by its subsidiaries.**

We are a holding company incorporated under the laws of the Cayman Islands. AGRL incorporated under the laws of the Hong Kong Special Administrative Region. All of our business operations are conducted through IKGH's subsidiaries and its Promotion Entities. They are currently engaged in the promotion of five major VIP gaming rooms and are entirely dependent upon their VIP gaming rooms for all of their cash flow. IKGH's ability to pay dividends to us is dependent upon the earnings of IKGH's Promotion Entities and the distributions of funds to IKGH by its subsidiaries, primarily in the form of dividends. The ability of IKGH's subsidiaries to make distributions to IKGH depends upon, among other things, the profits interest assigned to them. There are currently up to 12% withholding tax on dividends in Macau but no withholding taxes levied on dividends in Hong Kong or the Cayman Islands. Other factors such as cash flow conditions, restrictions on distributions contained in our subsidiaries' articles of association, withholding tax and other arrangements will also affect IKGH's subsidiaries' ability to make distributions to it. These restrictions could reduce the amount of distributions that IKGH will receive from its subsidiaries, which in turn would restrict IKGH's ability to fund operations and pay dividends on the shares.

**As our subsidiaries are located outside of the United States, we will be subject to a variety of additional risks that may negatively impact our operations. In addition, the laws applicable to AGRL will likely govern all of our material agreements and we may not be able to enforce our legal rights.**

Because AGRL is a Hong Kong company that operates through subsidiaries and VIP gaming promoters in Macau, we are subject to special considerations or risks associated with companies operating outside of the United States, including some or all of the following:

- rules and regulations or currency conversion or corporate withholding taxes on shareholders;
- tax issues, such as tax law changes and variations in tax laws as compared to the United States;
- currency fluctuations and exchange controls;
- challenges in collecting accounts receivable;
- cultural and language differences; and
- employment regulations.

If we are unable to adequately address these additional risks, our operations might suffer.

In addition, the laws of Hong Kong or Macau will likely govern almost all of the material agreements relating to our operations. We cannot assure you that AGRL will be able to enforce any of its material agreements or that remedies will be available in such jurisdictions. The systems of laws and the enforcement of existing laws in such jurisdictions may not be as certain in implementation and interpretation as in the United States. The inability to enforce or obtain a remedy under any of our future agreements could result in a significant loss of business, business opportunities or capital. Also, substantially all of our assets will be located outside of the United States and most of our officers and directors reside outside of the United States. As a result, it may not be possible for investors in the United States to enforce their legal rights, to effect service of process upon our directors or officers or to enforce judgments of United States courts predicated upon civil liabilities and criminal penalties of our directors and officers under U.S. federal securities laws.

**The shares issued in connection with the acquisitions of King’s Gaming, Bao Li Gaming and the Oriental VIP Room in L’Arc in Macau will increase the number of shares that will be available for resale in the public market.**

The ordinary shares issuable in connection with our acquisition of King’s Gaming upon the achievement of future incentive targets, the ordinary shares issuable in connection with our acquisition of Bao Li Gaming upon the achievement of future incentive targets, the ordinary shares issuable in connection with our acquisition of the Oriental VIP Room in L’Arc in Macau upon the achievement of future incentive targets will increase the number of shares available for resale and could have an adverse effect upon the market price of the ordinary shares.

**Our officers and directors have significant influence over us and their interests may differ from those of the public shareholders.**

As of March 10, 2016, our officers and directors hold 39.5% of the total outstanding shares of our Company. As a result of their substantial equity and voting interests, our officers and directors will, when acting together, have significant influence in, among other things, the election of a majority of our directors, including the collective ability to nominate directors; the appointment and change of our management; our legal and capital structure; and our day-to-day operations. They also enact influence over approving material mergers, acquisitions, dispositions and other business combinations, as well as approving any other material transactions and financings. These actions may be taken in many cases without the approval of the independent non-executive directors or other shareholders and the interests of our officers and directors may conflict with the interests of the public shareholders.

**We may be classified as a passive foreign investment company (“PFIC”), which could result in adverse U.S. federal income tax consequences to U.S. investors.**

In general, we will be treated as a PFIC for any taxable year in which either (1) at least 75% of our gross income (including our pro rata share of the gross income of certain 25% or more-owned corporate subsidiaries) is passive income or (2) at least 50% of the average value of our assets (including our pro rata share of the assets of certain 25% or more-owned corporate subsidiaries) is attributable to assets that produce, or are held for the production of, passive income. Passive income generally includes, without limitation, dividends, interest, rents, royalties, and gains from the disposition of passive assets. If we are determined to be a PFIC for any taxable year (or portion thereof) that is included in the holding period of a U.S. Holder (as defined in the section of this Annual Report captioned “Taxation—United States Federal Income Taxation—General” under Item 10.E.) of our ordinary shares, the U.S. Holder may be subject to increased U.S. federal income tax liability and may be subject to additional reporting requirements. Based on the composition (and estimated values) of the assets and the nature of our income and our subsidiaries during our 2014 taxable year, we do not believe that we will be treated as a PFIC for such year. However, because we have not performed a definitive analysis as to our PFIC status for our 2014 taxable year, there can be no assurance in respect to our PFIC status for our 2014 taxable year. There also can be no assurance in respect to our status as a PFIC for our current (2015) taxable year or any future taxable year. U.S. Holders of our ordinary shares are urged to consult their own tax advisors regarding the possible application of the PFIC rules. See the discussion in the section of this Annual Report under Item 10.E entitled “Taxation—United States Federal Income Taxation—U.S. Holders—Passive Foreign Investment Company Rules.”



**We may not make dividend payments at a similar level as in the past or at all in the future.**

Although we have authorized a semi-annual and an annual dividend, the form, frequency and amount of future dividends on the Shares will be at the discretion of the Board of Directors and will depend on factors such as the profitability, financial condition, business development requirements, future prospects and cash requirements of our Company. Moreover, dividend declaration and payment, as well as the amount of dividends, will also be subject to, amongst others, the requirements under our organizational documents and the Companies Law of the Cayman Islands, including the approval of our Board of Directors. Therefore, there can be no assurance that we will make dividend payments at a similar level as in the past or at all in the future.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

Our legal and commercial name is “Iao Kun Group Holding Company Limited.” We are a Cayman Islands exempted company. Our principal place of business is located at Alameda Dr. Carlos d’Assumpcao No.181-187, Centro Comercial do Grupo Brilhantismo 12 Andar T, Macau, telephone number 853-2872-3425. On February 2, 2010, we acquired all of the outstanding capital stock of AGRL, a Hong Kong company that, through “profit interest agreements” between its subsidiaries and affiliated companies known as Promotion Entities, receive the profit streams from gaming operations conducted by the Promotion Entities. In connection with the acquisition, we changed our name from “CS China Acquisition Corp.” to “Asia Entertainment & Resources, Ltd.” Prior to our acquisition of AGRL, we had no operating business. On September 30, 2013, we changed our name from “Asia Entertainment & Resources, Ltd.” to “Iao Kun Group Holding Company Limited.”

**Initial Public Offering**

On August 15, 2008, we consummated our initial public offering (“IPO”) of 4,800,000 units at \$6.00 per unit. On August 21, 2008, we consummated the closing of an additional 720,000 units that were subject to the underwriters’ over-allotment option. Each unit consisted of one ordinary share and two warrants, each entitling the holder to purchase one ordinary share at an exercise price of \$5.00 until August 10, 2013. Simultaneously with the consummation of IPO, we sold an aggregate of the 3,608,000 warrants at \$0.50 per warrant (for an aggregate purchase price of \$1,804,000) in a private placement to our founders. Gross proceeds from the IPO (including from the private placement of warrants and exercise of the underwriters’ over-allotment option) were \$34,924,000. We paid a total of \$1,324,800 in underwriting discounts and commissions (after deferring \$993,600 that was paid to the underwriters upon the consummation of our acquisition of AGRL) and for costs and expenses related to the IPO. After deducting the underwriting discounts and commissions and offering expenses, the total net proceeds to us from the IPO (including the over-allotment option and the private sale) were \$33,280,880, of which \$32,899,200 was deposited into the trust account and the remaining proceeds became available to be used to provide for business, legal and accounting due diligence on prospective business combinations and continuing general and administrative expenses.

Pursuant to the Warrant Agreement between the Company and Continental Stock Transfer and Trust Company, our ordinary share purchase warrants were redeemed for cash at the redemption price of \$0.01 per warrant on October 28, 2010. Management did not exercise its option to require the holders of the warrants to exercise warrants on a “cashless basis.” Accordingly, after 5:00 p.m. New York time on October 28, 2010, the warrants not exercised were no longer exercisable for ordinary shares and the holders only have the right to receive the redemption price.

**The Acquisition**

On October 6, 2009, we entered into a Stock Purchase Agreement (the “Purchase Agreement”) with AGRL and Spring Fortune, a British Virgin Islands company, that provided for the purchase by us from Spring Fortune of all of the outstanding capital stock of AGRL. The Purchase Agreement was subsequently amended on November 10, 2009, December 9, 2009, January 11, 2010, and April 18, 2011 and we acquired all of the outstanding capital stock of AGRL on February 2, 2010.

Pursuant to the Purchase Agreement, as amended, the aggregate consideration paid by us to Spring Fortune for the shares of AGRL stock was (a) 10,350,000 ordinary shares that were issued upon the closing of the acquisition to Spring Fortune, Kenworth Capital, Inc., a consultant of Spring Fortune, and Blum & Co., Inc. and Nuero International Company Limited, each a designee of Kenworth Capital, Inc. and (b) 4,210,000 ordinary shares that were issued upon the filing of the Annual Report on Form 20-F for the 2010 fiscal year. Of the upfront shares, 9,729,000 shares were issued to Spring Fortune and subsequently distributed to its shareholder and its shareholder's designees and an aggregate of 621,000 shares were issued to Kenworth Capital, Inc., Blum & Co., Inc. and Nuero International Limited.

In addition to the ordinary shares described above, Spring Fortune was entitled to receive ordinary shares for each of the years 2009, 2010, 2011, and 2012 in which AGRL has adjusted net income that equals or exceeds the target specified for such year in the Purchase Agreement, as amended (the "Incentive Target"), as follows:

<b>Year</b>	<b>Incentive Target</b>	<b>Incentive Share</b>
2009	\$16,000,000 to \$16,999,999	1,150,000
	\$17,000,000 to \$17,999,999	2,464,000
	\$18,000,000 to \$18,999,999	3,981,000
	\$19,000,000 to \$19,999,999	5,750,000
	\$20,000,000 and above	7,841,000
2010	\$36,800,000 to \$37,799,999	4,210,000
	\$37,800,000 to \$38,799,999	6,300,000
	\$38,800,000 to \$39,799,999	8,069,000
	\$39,800,000 to \$40,799,999	9,586,000
	\$40,800,000 to \$41,799,999	10,900,000
	\$41,800,000 and above	12,050,000
2011	\$65,000,000 and above	2,573,000
2012	\$78,000,000 and above	2,573,000

Also, for each of the years 2010, 2011 and 2012, Spring Fortune was entitled to receive 530,000 ordinary shares if AGRL has adjusted net income equal to or greater than \$60 million, \$78 million, and \$94 million, respectively.

AGRL's net income after taxes for 2009 was \$15,545,463. Accordingly, the Incentive Targets for 2009 were not met and no additional shares were issued with respect to that year. AGRL's net income after taxes for 2010 was \$41,810,004. Accordingly, the Incentive Targets for 2010 were met, and Spring Fortune and its affiliates were issued an aggregate of 12,050,000 ordinary shares with respect to that year; however, Spring Fortune did not earn the additional 530,000 ordinary shares for the year ended December 31, 2010. AGRL's net income after taxes for 2011 was \$80,144,002. Accordingly, the Incentive Targets for 2011 were met, and Spring Fortune and its affiliates were issued an aggregate of 2,573,000 ordinary shares with respect to that year; Spring Fortune also earned the additional 530,000 ordinary shares for the year ended December 31, 2011, so an aggregate of an additional 3,103,000 ordinary shares were issued to Spring Fortune and its affiliates. AGRL did not achieve the performance targets for the year ended December 31, 2012 and, as a result, no incentive shares were issued to AGRL.

#### **Acquisition of King's Gaming Promotion Limited**

On November 15, 2010, we consummated the transactions contemplated by that certain Profit Interest Purchase Agreement dated as of November 10, 2010 (the "King's Gaming Purchase Agreement") among us, King's Gaming, Mr. Mok and Mr. Wong (collectively, the "King's Gaming Seller"), whom collectively own 100% of the equity interests of King's Gaming, pursuant to which the Company acquired 100% of the profit interest in King's Gaming (the "King's Gaming Acquisition"). Mr. Wong is the brother of Vong Hon Kun, our Chief Operating Officer, and owned 4% of King's Gaming immediately prior to the acquisition.

Pursuant to the King's Gaming Purchase Agreement, King's Gaming sold to us the King's Gaming Profit Interest (as defined below) pursuant to a separate Profit Interest Agreement entered into between King's Gaming and Billion Boom International Limited, a company incorporated in the British Virgin Islands and our wholly owned subsidiary. The King's Gaming Profit Interest was assigned to us at the closing as of November 1, 2010. Following the closing, we have the right to restructure the management and organizational structure of King's Gaming. For purposes of the King's Gaming Purchase Agreement, "King's Gaming Profit Interest" means the right, title, interest and benefits in and to 100% of the net operating profit generated by King's Gaming at the VIP gaming room located at the Venetian Macao-Resort-Hotel located in Taipa, Macao. King's Gaming moved its VIP gaming room to Sands Cotai Central in February 2013.

We purchased the King's Gaming Profit Interest for an aggregate amount of up to (i) US\$36,000,000, of which US\$9,000,000 was paid at the closing, and (ii) 1,500,000 ordinary shares (the "King's Gaming Purchase Price"). The balance of up to US\$27,000,000 of the King's Gaming Purchase Price will be maintained as working capital at the cage of King's Gaming (and shall be the sole property of us until paid to the King's Gaming Seller in accordance with the terms of the King's Gaming Purchase Agreement) and shall be paid to the King's Gaming Seller in installments of US\$9,000,000 (each, an "Installment Payment"), subject to meeting a minimum Gross Profit (as defined below) requirement equal to US\$6,150,000 (the "Minimum Gross Profit Requirement") for each of the three fiscal years following the closing date commencing with fiscal year 2011, which shall be evidenced by the management prepared financial statements of King's Gaming approved by our audit committee. In the event King's Gaming fails to achieve the Minimum Gross Profit Requirement in any of the three fiscal years following the closing date, the Installment Payment shall be reduced by an amount equal to the product of (x) US\$9,000,000 and (y) the quotient obtained by dividing (A) the actual Gross Profit for such year, by (B) the Minimum Gross Profit Requirement.

In addition, as more fully set forth below, we were required to issue to the King's Gaming Seller (i) up to an aggregate of 1,500,000 ordinary shares in the event certain Gross Profit targets are achieved for each of the three years following the closing date (the "Earnout Shares"), (ii) up to an aggregate of 700,000 ordinary shares in the event certain Gross Profit targets are achieved for each of the seven years following the third anniversary of the closing date (the "Incentive Shares"), and (iii) additional ordinary shares in the event the Gross Profit targets for each of the ten years following the closing date are exceeded by at least US\$1,000,000 (the "Additional Incentive Shares"). The King's Gaming Seller is not entitled to any Additional Incentive Shares on a pro rata basis for multiples of less or greater than US\$1,000,000.

The Earnout Shares, the Incentive Shares and the Additional Incentive Shares shall be released and issued to the Seller as follows:

- a. In the event the Minimum Gross Profit Requirement for fiscal year 2011 is achieved, the Seller shall receive 500,000 Earnout Shares and for each US\$1,000,000 in which the Minimum Gross Profit Requirement for such year is exceeded, 10,000 Additional Incentive Shares.
- b. In the event the Gross Profit of US\$7,380,000 for fiscal year 2012 is achieved, the Seller shall receive 500,000 Earnout Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.
- c. In the event the Gross Profit of US\$8,860,000 for fiscal year 2013 is achieved, the Seller shall receive 500,000 Earnout Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.
- d. In the event the Gross Profit of US\$9,740,000 for the fiscal year 2014 is achieved, the Seller shall receive 100,000 Incentive Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.
- e. In the event the Gross Profit of US\$10,720,000 for fiscal year 2015 is achieved, the Seller shall receive 100,000 Incentive Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.

- f. In the event the Gross Profit of US\$11,790,000 for fiscal year 2016 is achieved, the Seller shall receive 100,000 Incentive Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.
- g. In the event the Gross Profit of US\$12,970,000 for fiscal year 2017 is achieved, the Seller shall receive 100,000 Incentive Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.
- h. In the event the Gross Profit of US\$14,260,000 for fiscal year 2018 is achieved, the Seller shall receive 100,000 Incentive Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.
- i. In the event the Gross Profit of US\$15,690,000 for fiscal year 2019 is achieved, the Seller shall receive 100,000 Incentive Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.
- j. In the event the Gross Profit of US\$17,260,000 for fiscal year 2020 is achieved, the Seller shall receive 100,000 Incentive Shares and for each US\$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares.

King's Gaming achieved approximately \$8.2 million of gross profit for the year ended December 31, 2011, and, accordingly, and the Seller was issued an aggregate of 520,000 Earnout Shares and Additional Incentive Shares.

King's Gaming did not meet its 2012, 2013, 2014 and 2015 gross profit target for the years ended December 31, 2012, 2013, 2014 and 2015. Accordingly, the Seller is not entitled to receive any Earnout Shares or Additional Incentive Shares for those periods.

#### **Acquisition of Bao Li Gaming Promotion Limited**

On September 12, 2012, we consummated the transactions contemplated by that certain Profit Interest Purchase Agreement dated as of September 5, 2012 (the "Bao Li Gaming Purchase Agreement") by and among the Company, Bao Li Gaming Promotion Limited, a Macau company ("Bao Li Gaming"), Mr. Lou Kan Kuong and Mr. Lei Kam Keong (each, individually, the "Bao Li Gaming Seller" and collectively, the "Bao Li Gaming Sellers"), whom collectively own 100% of the equity interests of Bao Li Gaming, pursuant to which we acquired 100% of the profit interest in Bao Li Gaming (the "Bao Li Gaming Acquisition").

Pursuant to the Bao Li Gaming Purchase Agreement, Bao Li Gaming sold the Profit Interest to the Company (as defined below) pursuant to a separate Profit Interest Agreement (the "Bao Li Gaming Profit Interest Agreement") entered into between Bao Li Gaming and Jubilee Dynasty Ltd., a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company ("Jubilee Dynasty"). The Bao Li Gaming Profit Interest was assigned to Jubilee Dynasty at the closing as of September 1, 2012. For purposes of the Bao Li Gaming Purchase Agreement, "Bao Li Gaming Profit Interest" means the right, title, interest and benefits in and to 100% of the net operating profit generated by Bao Li Gaming at the VIP gaming room located at the City of Dreams Macau at Crown Towers, City of Dreams, Estrada do Istmo, Cotai, Macau.

We purchased the Bao Li Gaming Profit Interest for US\$15,000,000. Additionally, if Bao Li Gaming's rolling chip turnover is at least US\$2.5 billion in each of the three years ending December 31, 2013, 2014 and 2015, in each such year it will receive an additional payment of US\$13 million and 625,000 ordinary shares of the Company. Bao Li Gaming will also be entitled to additional payments of US\$130,000 and 6,250 ordinary shares of the Company ("Incremental Earnout Payment") for each incremental US\$25,000,000 in rolling chip turnover achieved by Bao Li Gaming in excess of US\$2.5 billion. Notwithstanding the foregoing, the Company is not required to make any additional payments to Bao Li Gaming in the event that Bao Li Gaming's rolling chip turnover exceeds US\$5 billion in any year. As a result, the maximum Incremental Earnout Payment that Bao Li Gaming may be entitled to receive in any year would be US\$13,000,000 and 625,000 ordinary shares of the Company.

Bao Li achieved the rolling chip target for 2013, 2014 and 2015, and Earnout cash and Earnout Ordinary Shares earned and issued are as follows:

Year		Base Earnout Cash Payments	Base Earnout Shares Issued		Incremental Earnout Cash Payments	Incremental Earnout Shares Issued
2013	\$	13,000,000	625,000	\$	13,000,000	625,000
2014	\$	13,000,000	625,000	\$	8,320,000	400,000
*2015	\$	13,000,000	625,000	\$	520,000	25,000

\*It is anticipated that the cash payment and shares issuance for the 2015 earnout will be made in the second quarter of 2016.

#### Acquisition of Oriental VIP Room

On June 26, 2013, we entered into a profit interest purchase agreement (the "Oriental VIP Room Purchase Agreement") among us, as purchaser, Mr. Vong Veng Im, as seller, and Frontier Champion Limited, our wholly owned subsidiary, whereby we agreed to acquire, and Mr. Vong Veng Im agreed to dispose of, the right, title, interest and benefit in and to 100% of the net operating profit generated by Oriental VIP Room at the VIP gaming room located at level 1 of the Le Royal Arc Casino located in NAPE, Downtown Macau, pursuant to a separate profit interest agreement entered into between Frontier Champion and Mr. Vong Veng Im (the "Oriental VIP Room Profit Interest"). We closed the transactions contemplated by the Oriental VIP Room Purchase Agreement on June 26, 2013.

We purchased the Oriental VIP Room Profit Interest for an aggregate amount of US\$20,000,000, of which (i) US\$10,000,000 was paid on June 26, 2013 upon satisfaction or waiver of certain conditions pursuant to the Oriental VIP Room Purchase Agreement; and (ii) US\$10,000,000 was paid on December 13, 2013, within 3 Business Days of the satisfaction or waiver of certain conditions pursuant to the Oriental VIP Room Purchase Agreement. Should Mr. Vong Veng Im's network of junket agents generate at least US\$2.5 billion of rolling chip turnover during each of the 12 months periods ended June 30, 2014, 2015 and 2016, Mr. Vong Veng Im would be entitled to receive US\$13,000,000 in cash and 625,000 Ordinary Shares for each 12 month period. For each incremental US\$25,000,000 in rolling chip turnover in excess of US\$2.5 billion, the Company will pay an additional US\$130,000 and issue an additional 6,250 Ordinary Shares. Should Mr. Vong Veng Im achieve rolling chip turnover of at least US\$15 billion during the 36 month period ended June 30, 2016, then the Company will pay an additional US\$2,500,000 for every US\$1 billion in excess of US\$15 billion, up to a maximum of US\$12,500,000.

Pursuant to the Oriental VIP Room Purchase Agreement, Mr. Vong Veng Im had agreed to provide a personal guaranty, for so long as he is employed by the Company providing for the guaranty of all obligations of Oriental VIP Room and himself, including but not limited to any bad debts that his network of junket agents may have incurred or may incur in the future.

The Oriental VIP Room achieved the rolling chip target for 12 month periods ended June 30, 2015 and 2014 and Earnout cash and Earnout Ordinary Shares earned and issued are as follows:

Period ended		Base Earnout Cash Payments	Base Earnout Shares Issued/Earned		Incremental Earnout Cash Payments	Incremental Earnout Shares Issued/Earned
June 30, 2014	\$	13,000,000	625,000	\$	13,000,000	625,000
June 30, 2015	\$	13,000,000	625,000	\$	1,950,000	93,750

As of December 31, 2015, management does not expect the Oriental VIP Room will meet the June 30, 2016 rolling chip target and therefore has not recorded a liability for the June 30, 2016 earnout cash payment and share based payment.

## Australia

On May 15, 2015, we entered into agreements to acquire all of the profit interests of Mr. Lou Kan Kuong (“Mr. Lou”) for acting as a junket operator for the Crown Perth Casino in Perth, Australia and for the Crown Melbourne Casino in Melbourne, Australia for \$200 of consideration in total. Mr. Lou, who is currently an officer of IKGH, entered into agreements to act as a junket operator for the above two Casinos on June 24, 2013. We have started trial operations in the Australian casinos to gain a greater understanding of the preferences of our junket agents and VIP players and the logistics of the market. As of today, nominal revenues have been generated by the Australia operation, equal to our costs as we test this market. We receive a fixed percentage of the rolling chip turnover we generate at the Australian casinos and do not currently share in the win/loss results. The profit interests were acquired as an asset purchase for the historical costs of establishing the agreements between Mr. Lou and Australian Casinos as a related party transaction. We entered into the agreement to expand to overseas markets for our existing agent network in Macau.

### **B. Business Overview**

#### **THE MACAU GAMING INDUSTRY**

##### **Overview**

Macau is a Special Administrative Region of the PRC located on the Pearl River Delta on the southern border of Guangdong Province, one of China’s wealthiest and most urbanized provinces. It is approximately an hour away via high-speed ferry from Hong Kong, a tourism hub in Asia, and home to China’s only approved casino gaming region. Macau attracts visitors from Guangdong Province, which had a population of over 107 million in 2015, and from the rest of China, Taiwan, Japan, South Korea, Thailand, Malaysia, Singapore, Indonesia, India and the Philippines, which are all within a five hour flight from Macau and together with Hong Kong had a combined population of over 3.5 billion in 2015. According to the 12th Five-Year Plan (2011–2015) for National Economic and Social Development of the PRC, Macau is designated to be developed as a “world-class tourism and leisure center.”

According to the DSEC, visitors to Macau from mainland China and Hong Kong accounted for 66.5% and 21.3%, respectively, of arrivals in 2015. Total visitors to Macau from China grew at a CAGR of 5.9% from 2009 to 2015. Macau’s proximity to major population centers in Asia enhances its appeal as a popular gaming destination for foreign tourists. International visitation levels have also experienced rapid growth from 2003 to 2015. We expect to continue to benefit from the continued economic growth in China and other Asian countries.

We believe that Macau is the world’s largest and fastest growing gaming market in terms of gross gaming revenues. It is currently the only location in Greater China to offer legalized casino gaming. According to the DICJ, the Macau market generated US\$28.9 billion in gross gaming revenues in 2015, a 34.5% decrease from 2014.

##### ***Macau VIP Gaming Market***

VIP gaming rooms are well appointed suites generally located within a large casino that provide luxury accommodations and privacy exclusively for gambling by high-tier gaming patrons. VIP gaming has historically been the major component of Macau’s gaming industry. VIP gaming patrons are typically high-stakes gaming patrons who play VIP baccarat almost exclusively in dedicated VIP gaming rooms or designated casino areas. VIP gaming operations are generally less subject to seasonal variations than, and face limited competition from, mass market gaming operations and non-casino gaming activities.

VIP gaming patrons are usually brought to VIP gaming rooms by VIP gaming promoters. Marketing and promotion of VIP gaming rooms through this business model is implemented between concessionaires that are granted licenses to operate casinos and casino games in Macau (or sub-concessionaires that operate casinos and casino games under an administrative contract with a concessionaire) and their gaming promoters. Gaming promoters, particularly VIP gaming promoters, are incentivized to bring VIP gaming patrons to designated VIP gaming rooms by compensation systems based on the net-win of the VIP gaming rooms and/or the amount of non-redeemable chips sold in the VIP gaming rooms pursuant to contracts with a concessionaire or sub-concessionaire.

### Macau Mass Gaming Market

Since the granting of new concessions in 2002 and the Chinese government's implementation of the Facilitated Individual Travel Scheme ("FITS") by the Macau government, Macau's gaming industry has witnessed significant growth in mass market casino gaming operations. However, most mass market gaming patrons are not high-stakes gaming patrons. Mass market gaming patrons' desire to visit casinos may be influenced by a number of factors, such as the variety and quality of services and amenities offered, the ambience, promotions and diversity of games in the casinos, the location of and ease of transportation to the casinos, and the presence of other attractions and gaming-related facilities. Visits to casinos by mass market gaming patrons may also be negatively affected by a worsening economic environment while those by high-tier gaming patrons historically have been much less affected.

The following table summarizes certain information about Macau and its gaming market from 2009 to 2015:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<b>2009– 2015 CAGR</b>
<b>Macau</b>								
Gross gaming revenues <sup>(1)</sup> (in millions of US\$)	14,951	23,536	33,407	38,094	45,153	44,010	28,909	11.6%
VIP baccarat gross gaming revenues (in millions of US\$)	9,999	16,951	24,460	26,410	29,855	26,609	16,012	8.2%
Number of gaming tables <sup>(2)</sup>	4,770	4,791	5,302	5,485	5,750	5,711	5,957	3.8%
Total visitation (million) <sup>(3)</sup>	<u>21.8</u>	<u>25.0</u>	<u>28.0</u>	<u>28.1</u>	<u>29.3</u>	<u>31.5</u>	<u>30.7</u>	<u>5.9%</u>

Sources: The DICJ and the DSEC

Notes:

- (1) Excluding revenues derived from non-casino related gaming activities such as horse racing, greyhound racing, Chinese lottery, instant lottery and sports lottery.
- (2) As at December 31, of each of the years presented.
- (3) Visitor arrivals have excluded non-resident workers and students, but included arrivals at the Trans Border Industrial Park.

### Demand for Gaming and Gaming-Related Services

According to the DSEC, approximately 30.7 million visitors arrived in Macau in 2015, down by about 2.5% from 2014, of which approximately 20.4 million, or 66.5%, were from mainland China, as compared to 67.4% in 2014. Most VIP players in the VIP segment are sourced by a network of gaming promoters who work with various casino operators.

We believe that the increase in the number of gaming and gaming-related facilities is likely to continue Macau's transformation into a premier integrated gaming and tourism center. The completion of new world-class gaming and gaming-related facilities in Macau could attract a greater number of gaming patrons and potentially result in an increase in total gaming revenue in Macau.

The following public policies implemented by the Chinese government are expected to continue to have a positive influence on the development of the gaming industry of Macau:

*FITS.* Since July 2003, residents of selected areas of mainland China have been allowed to visit Macau and Hong Kong under FITS, whereby approval requirements are significantly reduced and the application process is expedited. Since the introduction of FITS, visitors to Macau from mainland China have outnumbered visitors from Hong Kong. FITS has continued to expand since was initially introduced and, at December 31, 2015, encompassed more than 49 cities, including Beijing, Chongqing, Guangzhou, Shanghai and Tianjin.

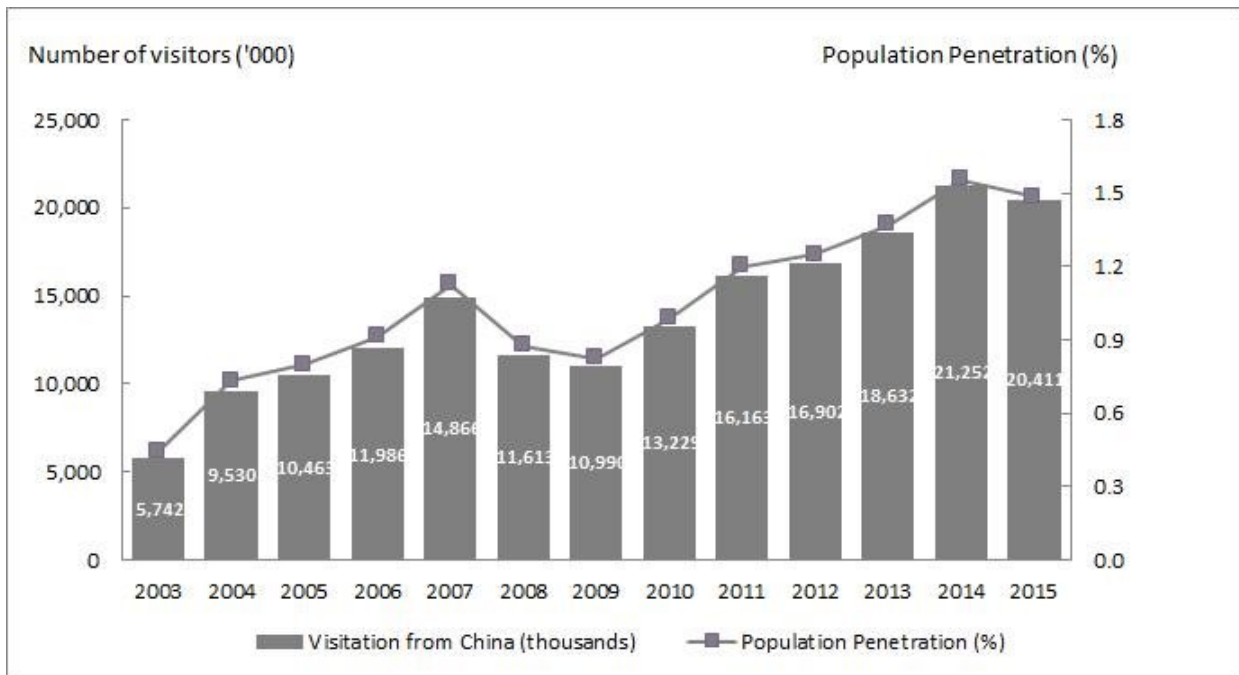
*Chinese Government Policy With Respect to Gaming.* Macau is the only region in China offering legal casino gaming and the Chinese government has strictly enforced its regulations prohibiting domestic gaming operations and discouraging unlicensed gaming operations along China’s borders.

*Chinese Government’s Relaxation of Foreign Exchange Controls.* The Chinese government has undertaken a number of measures to relax its controls on the national currency, *renminbi* . Currently, each PRC resident is allowed to carry a maximum of \$5,000 in a single trip abroad, and may charge spending on their credit cards or bank charge cards in Macau although recently increasing oversight of credit cards activities by the PRC government might slow down the spending.

The growth of Macau’s gaming industry has correlated positively with the continued economic growth and development of mainland China. IKGH believes that the emergence of the middle class in China represents a significant long-term growth opportunity for Macau’s gaming industry. However, there is no guarantee that the economic growth in China will continue at its historic pace.

The following diagram sets out the annual visitation to Macau from China from 2003 to 2015:

**Annual Visitation from China**



Sources: The DSEC and the National Bureau of Statistics of China

*Note:* The number of visitors to Macau in 2008 was revised by the DSEC and showed a significant drop compared to previous non-revised numbers due to a methodological change. From 2008, visitor arrivals have excluded non-resident workers and students, but included arrivals at the Trans Border Industrial Park. The number of visitors to Macau in 2008 based on the DSEC’s previous methodology was 30,185,740, an increase of 11.8% from 2007. Population penetration of a given year is the percentage of the number of visitors from China to Macau divided by the total population of China. Both VIP and mass-market gaming have benefited from the increasing number of visitors to Macau. We expect the strong growth rate will continue because of the following factors:

*Opening of New Casinos and Resorts.* The opening of new mixed-use developments, together with the entertainment business, sports events, conventions, exhibitions and trade shows that they will bring to Macau, will attract more regional visitors and visitors from outside the Asia-Pacific region.

*UNESCO World Heritage List.* The MSAR government has devoted substantial resources to marketing campaigns that promote Macau’s history, cultural heritage and hotel and convention facilities, aiming to turn Macau into a premier integrated gaming and tourism centre. On July 15, 2005, the United Nations Educational, Scientific and Cultural Organization (UNESCO) identified and inscribed the “Historic Centre of Macau,” comprising eight squares and twenty-two monuments, on its prestigious World Heritage List, pursuant to the terms of the Convention Concerning the Protection of the World Culture and Natural Heritage.

Macau is accessible by land, air and sea. Several airlines currently fly directly to Macau International Airport, operating direct routes to Macau from countries such as South Korea, Japan, Thailand, Malaysia, Singapore and the Philippines.



We believe that improved transportation to and within Macau will contribute to continued growth in visitation and gaming players. A number of infrastructure projects to facilitate travel have been recently completed or are in various stages of planning or development, such as the following:

- **Guangzhou-Zhuhai Highway.** The highway which opened in 2004 links Macau to Hengqin Island, a PRC government-mandated strategic new zone planned for development into a commercial, residential and resort destination.
- **Guangzhou-Zhuhai Intercity Mass Rapid Transit.** The mass rapid transit was opened in January 2011, which provides another convenient form of transport to Macau.
- **Guangzhou-Zhuhai Intercity Railway.** The high speed railway was partially opened in 2011 and was completed at the end of 2012. The high speed railway reduces travel time between Guangzhou and Zhuhai, from two hours to approximately 45 minutes.
- **Airport capacity upgrade.** With the continuous upgrade in the capacity and facilities of the Macau International Airport, the airport is expected to accommodate up to 7.1 million passengers by 2020, according to media reports.
- **Taipa Ferry Terminal.** Macau is expected to have a soft opening of a new ferry terminal, Taipa Ferry Terminal in Taipa Island, in addition to its two current ferry terminals in 2016. Currently, there are two ferry terminals located at the inner harbor and the outer harbor on the Macau Peninsula, and a temporary one on the city's Taipa Island in operation. The new terminal is expected to have 16 piers for boats with a capacity of up to 400 passengers and three piers for ships of 1,200 passenger berths. A heliport on the roof of the terminal is also expected to be constructed.
- **Macau Light Rail System.** The light rail system connecting the Macau Peninsula, Taipa and Cotai via 21 different stations is expected to be ready for use between 2017 and 2018, which is expected to improve connectivity.
- **Hong Kong-Zhuhai-Macau Bridge.** The bridge linking three areas will include a bridge with a total length of around 30 km, boundary crossing facilities, access roads and associated works. In January 2007, the local governments of Hong Kong, Zhuhai and Macau established the Hong Kong-Zhuhai-Macau Task Force to implement the project, which is expected to open in 2017. It will contribute to the reduction in road travel time from Hong Kong and/or Zhuhai to Macau.
- **Expansion of Border Gate.** The expansion of the border gate checkpoint in the Portas do Cerco area in northern Macau was completed at the end of 2012, increasing the capacity of the border from 300,000 people per day to more than 500,000 people per day.

#### ***Travel Restrictions on Chinese Citizens***

Since May 2008, the Chinese government has imposed restrictions on travel to Macau and may impose further restrictions in the future. In May and July 2008, the Chinese government readjusted its visa policy toward Macau and limited the number of visits that some mainland Chinese citizens may make to Macau in a given time period. In September 2008, it was publicly announced that mainland Chinese citizens with only a Hong Kong visa and not a Macau visa could no longer enter Macau from Hong Kong. In addition, in May 2009, China also began to restrict the operation of “below-cost” tour groups involving low up-front payments and compulsory shopping. Due to the popularity of these tours with mainland Chinese citizens, the number of visitors to Macau declined in 2009, but has since recovered. Further restrictions on travel from China or other countries to Macau or any increase in prices of tours to Macau as a result of new regulations on travel agencies or otherwise may reduce the number of visitors to Macau.

## ***Concessionaires and Sub-Concessionaires***

Six entities are currently authorized to operate casinos in Macau as either concessionaires or sub-concessionaires:

### *Concessionaires:*

- Sociedade de Jogos de Macau, S.A. (“SJM”);
- Galaxy Casino, S.A. (“Galaxy”); and
- Wynn Resorts (Macau), S.A. (“Wynn Macau”).

### *Sub-Concessionaires:*

- Venetian Macau, S.A. (“Venetian Macau”);
- Melco PBL Gaming (Macau) Limited (“Melco PBL”); and
- MGM Grand Paradise Limited (“MGM Grand Paradise”).

These concessionaires and sub-concessionaires have committed to invest in Macau pursuant to their respective concession and sub-concession contracts in order to develop projects such as casinos, hotels, convention facilities and facilities for retailing, dining, entertainment and recreation. IKGH believes that the substantial financial commitment by the concessionaires and sub-concessionaires will stimulate further revenue growth in Macau’s gaming and tourism industries.

As at December 31, 2015, SJM operated 20 of the 36 casinos in Macau, Galaxy operated 6 casinos, Venetian Macau operated 4 casinos, Melco PBL operated 4 casinos and Wynn Macau and MGM Grand Paradise each operated 1 casino (Source: DICJ).

Galaxy was awarded a gaming concession in 2002 and opened its six casinos between 2004 and 2012. Galaxy entered into a sub-concession with Venetian Macau in December 2002. Venetian Macau currently operates four casinos in Macau, which opened in 2004, 2007, 2008 and 2012.

Wynn Macau was also awarded a concession in 2002 and opened its casino in September 2006. Wynn Macau entered into a sub-concession with Melco PBL in 2006. Melco PBL operates four casinos, of which its latest, the City of Dreams project located on the Cotai Strip, opened in 2009, and the others opened in 2007, 2008 and 2015.

SJM was awarded its concession in March 2002 and currently operates 20 casinos. SJM entered into a sub-concession with MGM Grand Paradise on April 19, 2005. MGM Grand Paradise opened its casino in December 2007.

With the development of Macau’s gaming market, some of the concessionaires and sub-concessionaires have increased their investments in gaming and gaming-related facilities. For example, construction on Macau Studio City resumed in 2012 and the resort opened in fourth quarter of 2015. The Galaxy Macau Phase 2 opened in mid-2015 and Phases 3 and 4 are expected to open in 2017. The Wynn Macau also announced in June 2012 that the construction of its first integrated resort in Cotai is expected to be completed in 2016. MGM Grand Paradise’s second property in Macau, the first in Cotai, made significant headway in February 2013 and is now expected to open in 2016 and in October 2012, the Macau government awarded a land grant to SJM in Cotai, and construction on this property is expected to be completed in 2017. Sands China expects to complete The Parisian in Cotai during 2016.

## **VIP Gaming Promoters**

The gaming promoter system began in Las Vegas in the mid-1950s. In those days, casino operators would hire representatives to fill a plane with qualified patrons. Typically, the patrons might receive free airfare, free hotel accommodations, free meals and free shows in exchange for their commitment to gamble a specific number of hours per day at an explicit average bet size. The casinos believed that the patrons would lose more than their out of pocket expenses for bringing, housing and feeding them. Today, promoters function in a very similar way in Las Vegas, with the number of free items a patron receives based on the number of chips that patron turns over.

## **VIP Gaming Promotion in Macau**

Unlike in Las Vegas, the gaming promoter system in Macau developed to promote VIP gaming operations. A VIP gaming room is an individual room within a casino specifically designed and designated for VIP room gaming patrons' usage only. A VIP gaming room has its own cage, which functions as a financial vehicle between the casino and the VIP gaming promoter. All properties of the VIP gaming room belong to the casino, the dealers and the gaming managers are employees of the casino, and the gaming operations of a VIP gaming room are run by the casino. In effect, only the marketing efforts have been contracted out to the VIP gaming promoters, which efforts include the making of loans to agents and collaborators. Unlike in Las Vegas, in Macau, it is this VIP room gaming segment, not the mass market, that is driving the growth of its gaming industry. For 2015, VIP gaming operations in Macau amounted to \$16 billion or 55.4% of the gross revenue from casino games.

Initially, U.S. companies operating in Macau did not emphasize the importance of VIP gaming rooms. However, these U.S. companies quickly realized the importance of VIP gaming rooms, as demonstrated by disclosures contained in the prospectuses of a number of companies operating casinos in Macau, including Melco Crown Entertainment Limited, SJM Holdings Limited, Wynn Macau, Limited, and Sands China Ltd. Such disclosures indicate that the various casino operators rely on VIP gaming promoters to generate revenue. Because VIP gaming promoters play such an important role in the Macau gaming industry, they are heavily regulated by the government.

The gaming promoter system in Macau was developed to promote VIP gaming operations. A VIP gaming promoter enters into a gaming promoter agreement (sometimes referred to as junket representative agreements) with the concessionaire or sub-concessionaire pursuant to which the VIP gaming promoter agrees to provide promotional services to the concessionaire or sub-concessionaire in consideration for a commission or other forms of remuneration, including, for example, a share of net-win or percentage of rolling chip turnover from the VIP gaming room, fees and allowances. The VIP gaming promoters then enter into arrangements with collaborators and junket agents who have the direct relationship with the gaming patrons and are relied upon by the VIP gaming promoters to direct gaming patrons to their VIP gaming rooms. A concessionaire or sub-concessionaire may enter into gaming promoter agreements with multiple VIP gaming promoters for operating at a single casino, all in competition with each other.

Under the gaming promoter agreements, VIP gaming promoters are required to purchase non-negotiable chips from the concessionaires/sub-concessionaires and provide them to VIP gaming patrons. The gaming promoter agreement may be terminated by (i) mutual agreement, or (ii) if any party to the agreement cannot carry out its obligations under the agreement and this results in a material breach of the terms of the agreement. In addition, the agreement is voidable upon the death or deregistration of the VIP gaming promoter or the bankruptcy of any party to the agreement. Unless an agreement is terminated or notice is served by a party thirty days prior to the date on which the agreement expires, the agreement will be automatically renewed for a period of one to five years until the end of the term of the concessionaires or sub-concessionaires' concessions.

### ***Rolling Chip Turnover***

Rolling chip turnover is used by casinos to measure the volume of VIP gaming room business transacted and represents the total amount of non-negotiable chips purchased. Bets are wagered with "non-negotiable chips" and winning bets are paid out by casinos in so-called "cash" chips. "Non-negotiable chips" are specifically designed for VIP gaming patrons to allow casinos to calculate the commission payable to VIP gaming promoters. Commissions are paid based on the total amount of "non-negotiable chips" purchased by each gaming patron. VIP gaming promoters therefore require the gaming patrons to "roll," from time to time, their "cash chips" into "non-negotiable" chips for further betting so that they may receive their commissions (hence the term "rolling chip turnover"). Through the VIP gaming promoters "non-negotiable chips" can be converted back into cash at any time. Betting using rolling chips, as opposed to using cash chips, is also used by the DICJ to distinguish between VIP table revenue and mass market table revenue.

## **Compensation Methods**

Commissions paid to VIP gaming promoters are calculated on a monthly basis. Generally, the different compensation methods provide VIP gaming promoters with the ability to diversify their commission base to balance short-term volatility. Until August 2012, our VIP gaming promoters received all of their commissions based on chip commission calculated by reference to monthly rolling chip turnover. In this arrangement, the casino bears the risk of losses from the gaming operations.

Gaming wins are generally expressed in terms of “net-win,” which is the difference between wins and losses from gaming to the casino operator. Win rates for VIP gaming promoters are generally expressed as the net-win as a percentage of rolling trip turnover and depend upon a number of factors, some beyond their control. In addition to the element of chance inherent in gaming, win rates are also affected by factors such as the skill, experience and financial resources of the gaming patrons, the mix of games played and the amount of time spent at the gaming tables and the volume of bets placed by the gaming patrons. Win rates may differ greatly over short time periods, such as from quarter to quarter, resulting in volatility in periodic results of VIP game promoters. Effective from September 1, 2012, our Promotion Entities have shifted their remuneration model to a revenue sharing model.

In July 2009, all concessionaires and sub-concessionaires in Macau entered into an agreement among themselves to cap gaming promoter commissions. Under this agreement, commission payments to gaming promoters based on rolling chip turnover cannot exceed 1.25% of rolling chip volumes. The cap became effective on December 1, 2009. The agreement sets forth standards for what constitutes a commission to gaming promoters, including all types of payments, either monetary or otherwise, that are made to gaming promoters such as food and beverage, hotel and other services and allowances. The amendment also imposes obligations on gaming promoters, concessionaires and sub-concessionaires to report regularly to the DICJ and permits the imposition of fines or other sanctions for noncompliance with the commission cap or the monthly obligations to report and detail the amount of commissions paid to gaming promoters.

## **Credit Arrangements**

The parties involved in VIP gaming frequently enter into various credit arrangements, the ultimate goal of which are to provide credit to the gaming patrons for their gaming activities. Thus, casino concessionaires and sub-concessionaires may grant credit to VIP gaming promoters who, in turn, may extend credit to the junket agents who have the direct relationships with the players. Such credit facilities may or may not be secured, depending upon the creditworthiness of the borrowers and the relationship between the lender and borrower. In relatively rare circumstances, the VIP gaming promoters may extend credit directly to the players.

## **OUR GAMING OPERATIONS**

IKGH operates through eight wholly owned subsidiaries that were incorporated in the British Virgin Islands, listed in the table below. The principal business activities of the subsidiaries are to hold profit interest agreements with the Promotion Entities that assign the profit streams from the gaming related businesses of the Promotion Entities to the subsidiaries.

<u>Subsidiaries</u>	<u>Date of Incorporation</u>
Foxhill Group Limited ( Foxhill ) +	February 15, 2007
Kasino Fortune Investments Limited ( Kasino Fortune )	February 16, 2007
Well Mount International Limited ( Well Mount ) +	November 1, 2007
Link Bond International Limited ( Link Bond ) +	November 1, 2007
Billion Boom International Limited ( Billion Boom )	November 1, 2007
Super Number Limited ( Super Number )	April 11, 2011
Jubilee Dynasty Ltd. ( Jubilee Dynasty )	May 18, 2012
Frontier Champion Limited ( Frontier )	May 28, 2013
Robust South Limited ("Robust") *	February 12, 2015
Yuwang Limited ("Yuwang")	March 11, 2015
Sino Hero Enterprises Limited ("Sino Hero")	March 16, 2015
Bliss Time Enterprises Limited ("Bliss")*	March 30, 2015
Brave Ring Limited ("Brave") *	March 30, 2015
Yong Kang Holdings Limited ("Yong") *	April 21, 2015
Prospect Jade Limited ("Prospect") *	April 22, 2015

\* The subsidiary is currently inactive.

+ The subsidiary had been inactive and the subsidiary was dissolved in November 2015. Each of these subsidiaries had nominal activity, primarily consisting of organizational and administrative expenses. The dissolution of the subsidiaries did not have a significant impact on the consolidated financial statements.

Kasino Fortune, Billion Boom, Super Number, Sino Hero, Yuwang and Jubilee Dynasty are each a party to a profit interest agreement with a VIP gaming promoter and Frontier is a party to a profit interest agreement with a VIP gaming collaborator, as described below.

The major shareholders and management of IKGH's VIP gaming promoters are members of IKGH's management team who operate the VIP gaming promoters for the benefit of IKGH. These individuals, Messrs. Lam Man Pou, Vong Hon Kun, Lam Chou In, Lou Kan Kuong and Mok Chi Hung have extensive experience in the gaming business and long personal and business relationships among each other, some beginning as early as 1990. See the section entitled "Information About the Directors and Executive Officers" under Item 6.A. herein.

The following companies are the Promotion Entities:

VIP Gaming Promotion Entities	Date Formed	Location	Subsidiary holds 100% of Profit Interest	Effective date of profit interest agreement
Sang Heng Gaming Promotion Company Limited ( Sang Heng )**	March 28, 2007	Star World Hotel and Casino Downtown Macau	Kasino Fortune	February 2, 2010
King's Gaming Promotion Ltd. ( King's Gaming )**	April 15, 2008	Sands Cotai Central Cotai, Macau	Billion Boom	November 10, 2010
Sang Lung Gaming Promotion Company Limited ( Sang Lung )**	March 28, 2011	Galaxy Macau Resort, Macau	Super Number	May 15, 2011
Bao Li Gaming Promotion Ltd. ( Bao Li )**	November 3, 2009	City of Dreams Hotel & Casino Cotai, Macau	Jubilee Dynasty	September 1, 2012
Mr. Lam Chou In (Collaborator) ***		Le Royal Arc Casino Downtown, Macau	Frontier Champion	July 1, 2013
Mr. Lou Kan Kuong (Crown Australia Junket Operator) ****		Crown Perth Casino in Perth, Australia and Crown Melbourne Casino in Melbourne, Australia	Sino Hero and Yuwang	May 16, 2015

\*\* This is a Promoter Company in Macau.

\*\*\* According to Macau laws, a collaborator needs to enter into an agreement with a licensed gaming promoter and register with the Gaming Inspection and Coordination Bureau of the Macau SAR.

\*\*\*\* On May 15, 2015, the Company entered into agreements to acquire all of the profit interests of Mr. Lou Kan Kuong (“Mr. Lou” or the “Crown Australia Junket Operator”) promotion activities at the Crown Perth Casino in Perth, Australia and at the Crown Melbourne Casino in Melbourne, Australia with the consideration of \$200 in total. Mr. Lou, who is currently an officer of Lao Kun, entered into agreements to act as a junket operator for the above two casinos on June 24, 2013. The profit interests were acquired as an asset purchase for the historical costs of establishing the agreements between Mr. Lou and Australian casinos as a related party transaction. The Company entered into the agreement to expand to overseas markets for its existing agent network in Macau.

To carry out their promotional activities, IKGH’s VIP gaming promoters, L’Arc Collaborator and the Crown Australian Junket Operator have a team of over 1,550 junket agents who have direct relationships with VIP gaming patrons, a significant percentage of whom are mainland Chinese nationals. Junket agents compete among themselves for VIP gaming patrons primarily through personal service. The VIP gaming promoter pays commissions to its junket agents based on the rolling chip turnover of each individual junket agent.

Part of day-to-day management and operation of the VIP gaming rooms is contracted by the VIP gaming promoter to a management company that is responsible for hiring and managing all staff needed for the operation. This includes local managers and executives to provide supervision, finance and cage personnel, public relations, drivers and other service staff (waiters, cleaners, etc.). The VIP gaming promoters have entered into such agreements with Pak Si Management and Consultancy Limited (“Pak Si”), owned by Ms. Tam Lai Ching, Mr. Vong’s sister-in-law, pursuant to which total expenses for Pak Si’s services were \$4,798,000, \$7,156,950 and \$6,807,018 during the years ended December 31, 2015, 2014 and 2013, respectively. Effective January 1, 2015, the monthly payments were revised for Sang Heng and Sang Lung from \$142,000 to \$103,000 each, and effective January 1, 2016, the monthly payments were revised for Bao Li, King’s Gaming and the Oriental VIP Room from \$65,000 to \$52,000 each. Pak Si must pay all salaries, benefits and other expenses of operation out of such amounts. Aggregate number of Pak Si staff for our 5 Promotion Entities, including managerial and operational personnel, is approximately 60 people. Such agreements are for one-year terms and renewed in January of each year.

IKGH’s VIP gaming rooms are primarily focused on high-stakes baccarat. In 2015, baccarat accounted for approximately 88.4% of total Macau casino winnings. Through August 31, 2012, the IKGH VIP gaming promoters at the Galaxy Star World Hotel Casino, Galaxy Macau Resort, and Venetian Resort Hotel in Macau were paid on the basis of 1.25% of rolling chip turnover. Since then, they have been paid on a revenue sharing model pursuant to which they receive a percentage of gaming wins before expenses; if there are losses during the relevant period, the Promotion Entities will reimburse the casino operators and L’Arc Promoter in accordance with the gaming promoter agreement and collaborator agreement respectively. IKGH’s VIP gaming promoters’ quarterly gross win rate as a percentage of rolling chips turnover has ranged between approximately 2.2% and 4.2% for the period from January 1, 2011 to December 31, 2015.

#### ***Profit Interest Agreements***

Current Macau laws do not allow non-Macau companies such as IKGH to directly operate a gaming promotion business in Macau. Consequently, IKGH’s gaming promotion business is operated through a series of contractual arrangements, including profits interest agreements, that enable IKGH to receive substantially all of the economic benefits of IKGH’s Promotion Entities and exercise effective control over those Promotion Entities.

Pursuant to these arrangements, each promotion entity enters into an agreement with the casino operator or a gaming promoter to promote a VIP gaming room in the casino. These agreements provide that each of the promotion entities receives a commission of the type described above. Each of the promotion entities then enters into a profit interest agreement with an IKGH subsidiary, providing for the assignment to the subsidiary of 100% of the profits derived by the promotion entity from its operation of the VIP gaming room. The manner of calculation of the profit is set out in an exhibit to the profit interest agreement. Sang Heng, King's Gaming, Sang Lung, Bao Li Gaming, L'Arc Collaborator and Crown Australia Junket Operator profit interest agreements to which the IKGH subsidiaries are party provided that the assignments were effective on February 2, 2010 (the date of the consummation of our acquisition of AGRL), November 1, 2010, July 1, 2011, September 1, 2012, July 1, 2013 and May 15, 2015, respectively.

## **Competition**

There are a large number of VIP gaming promoters in Macau and competition among them is intense. They first compete at the level of obtaining gaming promoter agreements with concessionaires and sub-concessionaires. Then, because concessionaires and sub-concessionaires frequently enter into gaming promoter agreements with a number of VIP gaming promoters to promote VIP gaming rooms in the same hotel, they compete against each other in efforts to attract gaming patrons to their own VIP gaming rooms through their arrangements with junket agents and collaborators. Finally, they compete with VIP gaming promoters who operate in other hotels in which they don't have a presence.

However, with the slowdown of Gaming revenues in Macau, VIP gaming promoters and collaborators with less financial resources have/will cease operations or become targets for acquisition. The VIP gaming sector consolidates into fewer VIP gaming promoters with more capital and secured financial resources.

## **Our Strategies and Future Plans**

Our goal is to become one of the leading VIP gaming promoters in Macau by implementing the following strategies:

- **Further expand and strengthen our relationship with junket agents**

Junket agents are integral to the continued growth of our VIP player base and repeated business. We plan to continue to expand our network of junket agents to attract and source more VIP players, which will increase the rolling chip turnover in our VIP Rooms and spread the win/loss rates, which in turn lowers the volatility of our operating results. Towards that end, we have introduced a variety of incentives to increase the competitiveness of junket agent remuneration, including allowing certain non-credit junket agents to share our overall win/loss based on their proportionate contribution of our total rolling chip turnover in addition to receiving a fixed rate commission. Furthermore, we intend to expand our junket agent network by selectively pursuing strategic acquisitions and through referrals from our existing junket agents.

Furthermore, we aim to strengthen our existing relationship with junket agents who have proven track record of rolling chip turnover and marker repayment to improve our operating results. Our senior management and cage managers will continue to meet with the junket agents at the respective VIP gaming rooms, at least on a monthly basis, to evaluate their rolling chip turnover, commission level and repayment history, and to gather market intelligence based on which we adjust our business strategies from time to time.

- **Steady expansion of business with prudent financial discipline**

In light of the tightened credit environment in the PRC, we endeavor to adopt a prudent approach in the extension of gaming credit to gaming patrons to achieve quality growth and financial stability. We intend to attract more non-credit junket agents who do not require gaming credit from us which we expect will increase our market presence and lower our credit risks.

Towards that end, we plan to continue to implement various initiatives to increasingly prioritize and enhance cooperation with non-credit junket agents. We introduced additional incentives to attract and retain non-credit agents by paying them a higher commission rate and encouraging them to participate in our super agent program.

- **Expand our VIP room offerings and provide quality services to VIP gaming patrons**

Leveraging our financial position as a NASDAQ listed company, we plan to continue expanding our presence in the Macau VIP gaming market into the Cotai Strip and optimize our service offerings through strategic acquisition of VIP gaming room operations which complement our existing VIP room portfolio, establishing new VIP gaming room operations at casinos where we already have a presence, or establishing new VIP gaming room operations at new locations by collaborating with additional concessionaires in Macau.

We aim to promote at least one VIP gaming room operated by each of the six concessionaires and sub-concessionaires to provide our VIP players a wider choice and to cater to their varying gaming and entertainment preferences. In addition, we plan to further improve the functionality of our existing VIP rooms and will expand the service team at each of our VIP rooms to provide services to our VIP gaming patrons. We believe this will increase the overall rolling chip turnover and improve our operating results.

- **Further enhance our brand name**

We recognize the importance of enhancing our reputation and improving our brand awareness, which we believe can further increase our profitability and strengthen the relationships with various parties that we work with. We will continue to promote and develop our “Iao Kun” brand built on a proven track record and market-wide recognition in the Macau VIP gaming segment. We intend to intensify our marketing campaigns through major media channels, including social media, in the near future. For instance, in 2014 we placed commercials on billboards and taxi side doors in Macau.

## **Marketing**

Our sales and marketing channels consist of our network of junket agents, the collaborators as well as our management team. Junket agents and the collaborators typically maintain relationships with VIP players they bring to our VIP rooms by arranging the VIP players’ transportation, accommodations, food and entertainment. As of December 31, 2015, we had established a network of over 1,550 junket agents. Direct business VIP players are mostly VIP players whom our management team served when they were acting as junket agents before they joined our Group and have built long-term relationships with over the years.

Until January 1, 2013, we provided allowances to our agents to encourage them to provide complimentary tickets, entertainment and hotel accommodation to the VIP players they bring, which in turn incentivized the VIP players to play in our VIP Gaming Rooms. The amount expensed from such allowances provided to junket agents for the year ended December 31, 2012 was US\$6.7 million. The expenses are offset by allowances earned based upon a percentage of Rolling Chip Turnover and issued as credits by the casino operators or are paid on a monthly basis. Since January 1, 2013, we have been paying higher commission to junket agents in lieu of such allowances.

## **GOVERNMENT REGULATION**

The operation of casino games or other games authorized by the Macau government is subject to general administrative, civil and criminal laws and to the specific gaming laws. Law No. 16/2001 (the “Macau Gaming Law”) established the legal framework and the principal rules for the operation of casino games and sets out the regulatory framework for casino operations in Macau.

Article 52 of the Macau Gaming Law provides that the government is responsible for further supplementing the Macau Gaming Law with necessary regulations to control and monitor the operations of the casino business. These supplementary regulations, including but not limited to the Gaming Credit Law, Law on Illicit Gaming and Gaming Promoters Regulation, govern the operation of gaming rooms and the activities of all major participants in the casino business in Macau. In order to better address the needs of the existing concession regime and to facilitate the modernization of the gaming industry in Macau, the Macau government and its Legislative Assembly have been revising the existing gaming regulations and are expected to enact new legislation or amend existing legislation to strengthen the legal framework on gaming activities.



## **DICJ**

The DICJ is the primary regulator and supervisory institution of Macau's gaming industry.

Among other requirements, concessionaires and sub-concessionaires are required to submit to the DICJ for record or inspection all significant documentation and periodic reports regarding their business and operation, as well as all matters requiring the Macau government's approval or authorization as required by laws and/or the concession or sub-concession contracts, as applicable (such as changes in shareholding structure, control, directorship and key employees, gaming equipment and other matters related to the operation of casino games).

In addition, the DICJ is responsible for assessing the taxes and other amounts payable by concessionaires and sub-concessionaires to the Macau government. The DICJ continuously monitors concessionaires' and sub-concessionaires' daily operations and tabulation of net-win generated from casino games including casino table games and slot machines through various control procedures conducted in the casinos.

## **Macau Gaming Commission**

The Macau Gaming Commission was created by the Chief Executive's Dispatch No. 120/2000 on 4 July 2000, which was further amended by Dispatch No. 38/2010. The Gaming Commission is a specialized commission that directly reports to and presided over by the Chief Executive of the Macau government. It is responsible for formulating policies and facilitating the development of Macau's gaming operations and relevant regulatory framework.

## **Macau Gaming Law**

The Macau Gaming Law established the legal framework and principal rules for the operation of casino games in Macau. The main objectives of the Macau Gaming Law are (i) concessionaires and sub-concessionaires carry on adequate operation of casino games or other forms of gaming, (ii) parties involved in the operation, management and supervision of casino games or other forms of gaming function adequately and undertake respective responsibilities, (iii) operation of casino games or other forms of gaming is performed in a just and honest manner without criminal influences and (iv) Macau's public interests relating to special gaming tax and other contributions are well protected by maintaining effective controls and procedures. It further sets forth principal rules for the concession regime and provides for obligations of the concessionaires including submitting their accounts and records and special gaming tax to the Macau government.

The Macau Gaming Law further sets forth principal rules for the concession regime and obligations of the concessionaires and sub-concessionaires. The concession regime restricts the operation of casino games to private companies incorporated in Macau that have concessions granted by the Macau government pursuant to the concession contracts and applicable gaming laws and regulations. Pursuant to the Macau Gaming Law, the Macau government granted concessions to SJM, Wynn Macau and Galaxy under an international public tender. It is provided under the concession contracts that the concessionaires are prohibited from entering into sub-concessions without the authorization of the Macau government. The Macau government has authorized three sub-concessions, one by Galaxy to Venetian Macau, one by SJM to MGM Grand Paradise and one by Wynn Macau to Melco Crown Gaming. The Macau government has stated in public announcements that only three sub-concessions will be permitted.

## **Gaming Credit Law**

Law No. 5/2004, enacted on 14 June 2004 (the “Gaming Credit Law”) governs the granting of gaming credit in Macau and authorizes the (i) concessionaires, (ii) sub-concessionaires and (iii) VIP gaming promoters who enter into a contract with a concessionaire or sub-concessionaire to grant gaming credit. Pursuant to the Gaming Credit Law, the granting of gaming credit is limited to the following three circumstances: (i) a concessionaire or a sub-concessionaire as a creditor may grant gaming credit to a VIP gaming patron as a borrower; (ii) an authorized gaming promoter as a creditor may grant gaming credit to a gaming patron as a borrower; or (iii) a concessionaire or a sub-concessionaire as a creditor may grant gaming credit to an authorized gaming promoter as a borrower. It also forbids the assignment or transfer in any form of the power to grant gaming credit. The Gaming Credit Law thus effectively prohibits the assignment of the gaming creditors’ position. However, for the past 20 years, it has been customary practice in Macau that casinos issue gaming credit to VIP gaming promoters in the form of non-negotiable chips that can only be used by VIP gaming patrons in that casinos’ VIP gaming rooms. The VIP gaming promoters then extend such gaming credit, or their own gaming credit, to VIP players either directly or through their collaborators in the form of non-negotiable chips. Junket agents may also borrow the non-negotiable chips at cage of the VIP gaming room and transfer the non-negotiable chips to other gaming patrons. Therefore, the credits extended by VIP gaming promoters to junket agents at the cage are actually gaming credit extended to the VIP players under the Gaming Credit Law. Our Macau legal advisors have advised us that there is no legal restriction on the transfer of the non-negotiable chips (whether obtained as gaming credit or purchased with cash from the gaming promoters or their designated collaborators) between VIP gaming patrons, provided the non-negotiable chips are not lent from one VIP patron to the other with an intent of economic advantage. The Gaming Credit Law provides for the obligations of the credit grantors towards the DICJ and the scope of the DICJ’s supervision. Specifically, the granting of gaming credit is enforceable as a civil debt pursuant to Article 4 of the Gaming Credit Law. Therefore, debts arising from credit for casino gaming extended by gaming promoters can be judicially enforced in Macau courts.

## **Law on Illicit Gaming**

Law No. 8/96/M, enacted on 22 July 2002 (the “Law on Illicit Gaming”) prohibits all forms of operation, promotion or assistance to gaming outside the authorized areas, as well as any fraudulent gaming in authorized areas, or any unlicensed granting of loans or gaming credits to gaming patrons.

## **The Gaming Promoters Regulation**

Macau Administrative Regulation No. 6/2002 (as amended by Macau Administrative Regulation No. 27/2009) (the “Gaming Promoters Regulation”) restricts gaming promotion operation to licensed corporate entities, commercial partnerships or individuals that are registered as entrepreneurs with the Finance Department of Macau and meet the relevant requirements promulgated by the DICJ.

## **Administrative Regulation No. 27/2009**

In July 2009, all concessionaires and sub-concessionaires in Macau entered into an agreement among themselves to cap gaming promoter commissions. Under this agreement, commission payments to gaming promoters based on rolling chip turnover cannot exceed 1.25% of rolling chip volume, which is the aggregate amount of non-negotiable chips wagered in the VIP gaming rooms in a given period.

As a result of the amendments made to the Gaming Promoters Regulation by the Administrative Regulation 27/ 2009 dated August 10, 2009, the Secretary of Economy and Finance of the Macau government now has the authority to issue a dispatch implementing the 1.25% gaming promoter commission cap, as agreed between all concessionaires and sub-concessionaires.

The commission cap became effective on December 1, 2009. The amendments set forth standards for what constitutes a commission to VIP gaming promoters, including all types of payments, either monetary or otherwise, that are made to VIP gaming promoters such as food and beverage, hotel and other services and allowances. The amendments also impose obligations on VIP gaming promoters, concessionaires and sub-concessionaires to report regularly to the DICJ and impose fines or other sanctions for non-compliance with the commission cap or the monthly obligations to report and detail the amount of commissions paid to VIP gaming promoters.

## **Compulsory Licensing And Registration Requirements For VIP Gaming Promoters**

As required by the DICJ pursuant to the Gaming Promoters Regulation, gaming promoters in Macau are required to obtain and maintain gaming promotion licenses. A letter of intent from a concessionaire or sub-concessionaire who intends to work with the gaming promoter is typically required in order to obtain a gaming promoter license. After obtaining their gaming promoter license, gaming promoters would enter into a contract with the concessionaire or sub-concessionaire. Gaming promoters are required to be registered with at least one concessionaire or sub-concessionaire, unless otherwise restricted by the contract.

In order to obtain a license for gaming promotion, the applicant must submit its application for suitability assessment by the DICJ, which includes assessment of the suitability of the gaming promoters' key employees. When the gaming promoter is a commercial partnership or a company, the suitability of the gaming promoter's directors and shareholders holding 5% or more of the share capital is also assessed. Suitability must be maintained for as long as the gaming promoter remains active. A gaming promoter license is valid until December 31 in the year it is granted and can be renewed each year upon submission of an application to the DICJ. The renewal application includes a signed declaration by the legal representative of the relevant concessionaire that it is the intention of the concessionaire to work with such gaming promoter in the following year. Gaming promoters that are sole proprietors are subject to compulsory assessment of their suitability every three years, and gaming promoters that are commercial partnerships or companies are subject to compulsory assessment every six years. Extraordinary suitability assessments may also be conducted by the DICJ.

Concessionaires and sub-concessionaires are jointly liable to the Macau government for the activities conducted by the gaming promoters, gaming promoters' employees and collaborators within their respective casino premises. Gaming promoters are jointly liable for the activities of their employees and collaborators within the casino premises of concessionaires and sub-concessionaires and for their compliance with applicable laws and regulations. Failure by the gaming promoters or the concessionaires or sub-concessionaires to fulfil their major obligations under the Gaming Promoters Regulation may result in the following consequences:

- the issue of a non-suitability report;
- refusal to grant a new gaming promotion license or to renew an existing license;
- upon notice by the concessionaire or sub-concessionaire to the DICJ, suspension of gaming promotion activities; and
- administrative liability arising out of violation of the Gaming Promoters Regulation without prejudice of contractual liability of the gaming promoter towards the concessionaire.

### **Major Obligations Of Gaming Promoters**

VIP gaming promoters in Macau are required by to fulfill the following obligations:

- to register with concessionaires or sub-concessionaires and operate under the terms agreed in a written contract submitted to the DICJ (including, in particular, the amount and payment method of commissions or other agreed remunerations, the nature of their activities in the casinos, including the designation of any gaming rooms or other premises within the casinos, the amounts and forms of required securities and guarantees and the waiver indicating that concessionaires or sub-concessionaires and gaming promoters agree to submit to the exclusive jurisdiction of the Macau courts and defer to Macau Laws);
- to execute written contracts with their collaborators and submit copies of such contracts to the DICJ;
- to submit annually, through concessionaires or sub-concessionaires, a list containing the identification of their chosen collaborators for the following year, and copies of their identification documents and no criminal record certificates or equivalent documents to the DICJ for approval;
- to comply with laws and regulations relating to gaming promoters and gaming promoter related announcements and instructions issued by the DICJ;
- to accept auditing carried out by the DICJ and the Finance Department of Macau;

- to make all books and records available for the inspection and review by the DICJ and the Finance Department of Macau and provide any additional information and materials upon their request;
- to perform all contractual obligations, especially obligations to gaming patrons;
- to comply with the reasonable instructions issued by the concessionaires or sub-concessionaires to the extent that such instructions do not interfere with the gaming promoters' autonomy;
- to perform all contractual obligations stipulated in the written contracts with concessionaires or sub-concessionaires; and
- to comply with all legal and regulatory requirements required by the laws and regulations of Macau.

### **Anti-Money Laundering Regulations**

Macau has been a member of the Asia/Pacific Group on Money Laundering ("APG") since 2000. As a member of APG, Macau undertook, between 1990 and 2004, to implement the 40 recommendations and nine special recommendations of the Financial Action Task Force on Money Laundering ("FATF"), an inter-governmental body created in 1989 to develop and promote policies to combat money laundering and terrorist financing. As at July 24, 2007, the APG and Offshore Group of Banking Supervisors ("OGBS"), in their "Mutual Evaluation Report on Macau, China Against the FATF 40 Recommendations (2003) and 9 Special Recommendations," determined that, despite non-compliance with Special Recommendation 9 relating to cross-border declaration and disclosure, Macau had demonstrated a strong commitment towards implementing laws and institutional bodies to enhance its compliance with international anti-money laundering standards. The Legislative Assembly of Macau approved a new anti-money laundering law on March 23, 2006 to combat money laundering by further strengthening the record-keeping and reporting requirements relating to suspicious activities.

The following are the pertinent laws and regulations relating to the anti-money laundering regulations in Macau that have recently been enacted:

*Law No. 2/2006, Published in Macau Official Gazette No. 14 of 3 April 2006.* This law requires casino operators, concessionaires, sub-concessionaires, gaming promoters and other entities such as financial institutions, insurance companies, exchange houses, money remittance companies and professionals to assist the Macau government in its efforts to combat money laundering activities. Corporate entities and associations are responsible and liable for money laundering when the crime is committed in their name and corporate interest by either (i) their corporate bodies or representatives or (ii) a person under their authority, when the crime became possible by virtue of an unlawful breach of the vigilance or control duties pending on such corporate entity.

*Section 34 of the Macau Gaming Law.* This section imposes a duty on the external auditors of the concessionaires, sub-concessionaires and managing companies of gaming operations to inform the DICJ and the Finance Department about any facts that may give rise to a suspicion of that entity, the members of that relevant corporate body or their employees of being involved in money laundering.

*Section 30 of the Gaming Promoters Regulation.* This section provides that the concessionaires and sub-concessionaires must inform the relevant authorities about any fact indicating gaming promoters and their collaborators are involved in acts of money laundering.

*Regulation 7/2006.* This regulation sets out a number of preventive measures in respect of money laundering and terror financing, establishes identification and verification systems and prescribes sanctions for noncompliance with these provisions. It sets forth a list of authorities that are responsible for monitoring money laundering activities in different professional and business sectors. The DICJ is responsible for monitoring money laundering activities in the gaming industry and oversees the activities of the concessionaires and sub-concessionaires, their gaming service providers and gaming promoters. This regulation also requires the concessionaires and sub-concessionaires, their gaming service providers and gaming promoters to request their respective contracting parties, clients and gaming patrons (collectively, the "Contracting Parties") to provide identification documents when they are presented with transactions which, due to their nature, complexity, amounts, volume or other unusual features, are suspicious. If any of the Contracting Parties is suspected as acting for or on behalf of another entity, that other entity shall also be identified. All identification documents shall be kept by the concessionaires and sub-concessionaires, their gaming service providers, and gaming promoters for five years and all such transactions shall be recorded in writing with particulars of the nature and purpose of the transaction, the amount involved and the method of payment used. The relevant transaction may not proceed if the requirements for identification documents and written records of the transaction are not satisfied.

A breach of the provisions of Regulation 7/2006 may attract fines. Where the benefit derived from the prohibited activity exceeds half of the relevant fine limit, such limit shall increase to double the amount of such benefit. The sanctions under Regulation 7/2006 are without prejudice to criminal liability (if any) with respect to the offenses under Law No. 2/2006.

### **Complementary tax**

Income received in Macau is taxable under Macau's Complementary Tax provisions, irrespective of the beneficiary being an individual or a corporation, its particular line of business, its nationality or domiciliation, without prejudice to the particular deductions and allowances each taxpayer enjoys.

Companies are required to declare their annual profit and such profit is subject to Complementary Tax. If dividend is declared, taxable profit is based on taxable profit (after dividends have been paid). Law No. 17/2012 (the 2013 Budget Law) extends the exempted portion of income to MOP200,000 and determines that the excess of taxable income be taxed at the relevant brackets (9% from MOP200,000 to MOP300,000 and 12% on the excess). These measures implemented through the 2013 Budget Law are extraordinary and there can be no assurances that the exemption limit will increase, decrease or stay at its present level.

These rates apply to the declared taxable profit (gross income less allowable deductions) from all income generating sources, except professional tax and property income, taxed separately under different regulations. Accordingly, dividends received by individuals or corporate shareholders constitute income for the purposes of complementary tax and, likewise, will be subject to the above complementary tax. The Company has not recorded income taxes applicable to undistributed earnings of Macau VIP rooms because it is the present intention of management to reinvest the undistributed earnings indefinitely in Macau.

Non-Macau residents and companies not incorporated in Macau that do not conduct business activities in Macau will usually not be registered with the Macau Financial Services Bureau as taxpayers and therefore will not submit their income tax returns in Macau. The accuracy of income statements may be challenged by the Macau taxation authorities, which will then compute the amounts due on the basis of prior results or estimations. In such event, appeals are available for unsatisfied parties.

### ***Environmental Regulations***

All organizations in Macau have to comply with the environmental principles of the environmental protection policy according to the Macau Ordinance, namely in respect of noise, pollution and construction nuisance. IKGH does not believe that it is in violation of any environmental laws.

### ***Labor and Safety Regulations***

Pursuant to Macau laws and regulations, Macau employers must register their employees under the mandatory Social Security Fund, make social security contributions for each of its employees and contract insurance to protect the rights and interests of their employees in the event of working accident and/or professional disease. IKGH believes that it is in compliance with all such regulations.

## New Smoking Regulations in Macau

The Macau Legislative Assembly has approved a new Smoking Prevention and Tobacco Control law. Under this new law, smoking is not permitted on casino premises except for a separated area of up to 50% of the casino which is open to the public and complies with other requirements to be determined. Casinos had to comply with the smoking ban by January 1, 2013.

## SEASONALITY

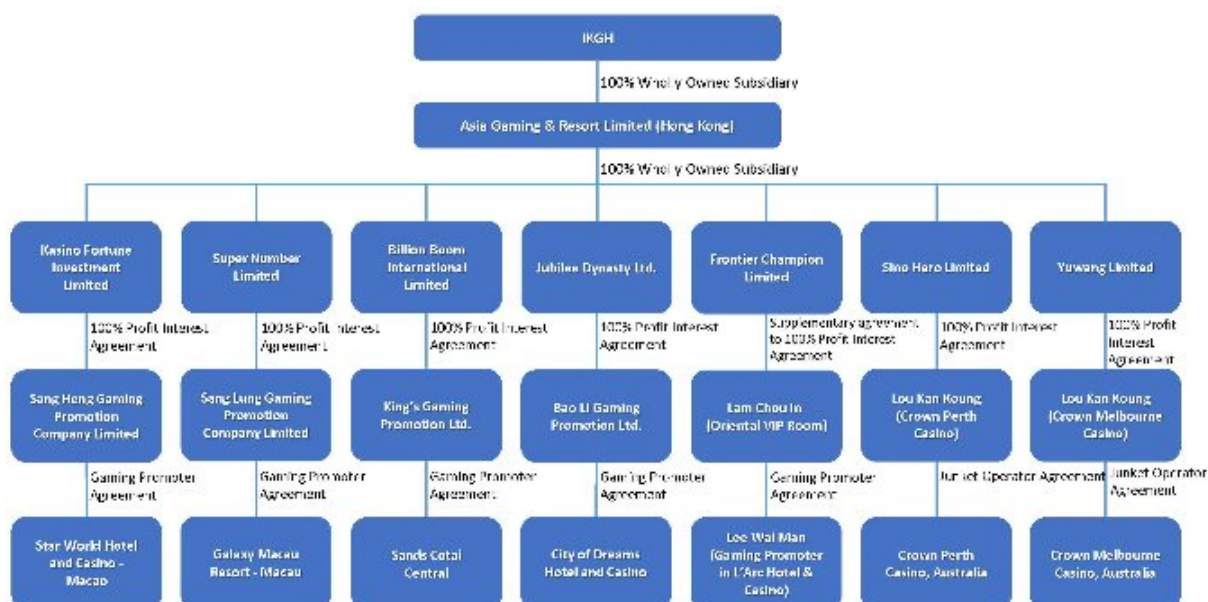
Typically, holiday periods in China, such as the New Year, the National Day, the Labour Day and the Mid-Autumn Festival, when many people in China take vacations, show peaks in gambling activity.

## LEGAL PROCEEDINGS

We are not involved in any legal proceedings that are anticipated to have a significant effect on our business, financial position, results of operations or liquidity, nor are we aware of any proceedings that are pending or threatened that may have a significant effect on our business, financial position, results of operations or liquidity. From time to time, we are subject to legal proceedings and claims in the ordinary course of business, certain of which would be covered by insurance. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

### C. Organizational Structure

The following diagram illustrates our corporate structure and the relationships with IKGH's Promotion Entities that are currently active:



\* Sang Heng Gaming Promotion Company Limited, Sang Lung Gaming Promotion Company Limited, Bao Li Gaming Promotion Limited, King's Gaming Promotion Limited, Collaborator (Lam Chau In) and Crown Australia Joint Operator (Lou Kan Koug) are treated as Variable Interest Entities of IKGH, their financial results are consolidated into the Group's financial statements. The Promotion Entities engage a company named Pak Si Management and Consultancy Limited for provision of administrative services to the VIE gaming rooms.

#### D. Property, plant and equipment

We lease an office suite located at Alameda Dr. Carlos D' Assumpcao, No: 181-187, Centro Comercial, c/o Grupo Brilhantismo, 12 Andar T, Macau, which we use for our administrative offices. Rent is approximately \$2,965 per month.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

##### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements about our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known and unknown factors.

You should read the following management discussion and analysis ("MD&A") in conjunction with the audited consolidated financial statements and related footnotes thereto included in this annual report. All capitalized terms in this MD&A that are not defined shall have the meaning ascribed to them in the Notes to the Consolidated Financial Statements included herewith.

#### OVERVIEW

We are a Cayman Islands company listed on the NASDAQ. We conduct VIP gaming promotion business at five VIP gaming rooms located in major casinos in Macau and two major casinos in Australia through the Promotion Entities, which include the Promoter Companies, the Collaborator (who are licensed gaming promoters and DICJ registered gaming collaborator) in Macau and Junket Operator in Australia. The principal business activities of our subsidiaries are to hold profit interest agreements with the Promotion Entities that confer upon us the right to enjoy all the economic benefits of the Promotion Entities, and exercise effective control over the structure, the underlying assets and net worth of the Promotion Entities. Since September 1, 2012, we have generated revenue by sharing a pre-determined percentage of the net gaming win/loss of the VIP Rooms with the respective casino operators and L'Arc Promoter in Macau. Prior to that, except for the MGM Iao Kun VIP room, which was under a revenue sharing model with the casino, we generated revenue by receiving a pre-determined fixed rate commission of not more than 1.25% of the rolling chip turnover in the VIP Rooms from the casino operators in Macau. Revenue from VIP operations in Australia is based upon a mutually-agreed percentage of the rolling chip turnover. Virtually all of the Promotion Entities' revenue is ultimately generated by VIP players who are brought to the VIP Rooms by our management team and junket agents.

#### BASIS OF PRESENTATION

The Financial Information has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for annual financial reporting.

#### SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

(All figures are in thousands except earnings (loss) per share)

##### Statements of operations data

	<u>For the year ended</u> <u>December 31, 2015</u>	<u>For the year ended</u> <u>December 31, 2014</u>	<u>For the year ended</u> <u>December 31, 2013</u>
<b>Revenue</b>	\$ 105,002	\$ 233,823	\$ 236,850
<b>Expenses</b>			
Commission to junket agents	(76,980)	(188,448)	(182,639)
Selling, general and administrative expenses	(18,352)	(26,506)	(21,486)
Special rolling tax	(642)	(1,663)	(1,705)
Impairment of goodwill	(17,757)	-	-
Amortization of intangible assets	(16,369)	(16,365)	(13,187)
<b>Operating (loss) income before change in fair value of contingent consideration</b>	(25,098)	841	17,833
Change in Fair value of Contingent Consideration for the acquisitions	30,216	(60,919)	(12,446)
<b>Net income (loss) income before tax</b>	5,118	(60,078)	5,387
Income tax expense	—	—	—
<b>Net income (loss) for the year attributable to Ordinary Shareholders</b>	5,118	(60,078)	5,387
<b>Other comprehensive income (loss) after tax</b>	89	65	(77)
<b>Total comprehensive income (loss) for the year attributable to Ordinary Shareholders</b>	\$ 5,207	\$ (60,013)	\$ 5,310
<b>Net earnings (loss) per share</b>			
Basic	\$ 0.08	\$ (0.99)	\$ 0.10
Diluted	\$ 0.08	\$ (0.99)	\$ 0.10





**Balance sheet data**

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Current assets	\$ 176,853	\$ 201,573
Non-current assets	\$ 105,888	\$ 140,068
Current liabilities	\$ 64,996	\$ 83,089
Non-current liabilities	\$ -	\$ 47,294
Total shareholders' equity	\$ 217,745	\$ 211,258

**Cash flow data**

	<u>For the year</u> <u>ended December 31,</u> <u>2015</u>	<u>For the year</u> <u>ended December 31,</u> <u>2014</u>	<u>For the year</u> <u>ended December 31,</u> <u>2013</u>
Net cash provided by operating activities	\$ 29,883	\$ 60,602	\$ 37,906
Net cash used in investing activities	(3)	(291)	(20,127)
Net cash used in financing activities	(37,966)	(56,929)	(30,845)
Net (decrease) increase in cash and cash equivalents	<u>\$ (8,086)</u>	<u>\$ 3,382</u>	<u>\$ (13,066)</u>

**SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION****Macau's gaming and tourism markets**

Our business is and will be influenced most significantly by the growth or decline of the gaming and tourism markets in Macau. Rapid growth in the Macau gaming market commenced with the decision to grant new gaming concessions by the Macau Government in late 2001, and this growth has been facilitated by a number of drivers and initiatives which include, among others, favorable population demographics and economic growth across each of our Asian tourism source markets, substantial capital investment made by concessionaires in the development of branded and diversified destination resort properties, and the demonstrated commitment by central and local governments to improve or develop infrastructure connecting Macau with the rest of greater China. From 2008 to 2015, gross gaming revenues in Macau increased at a compound annual growth rate ("CAGR") of 11.21% and the number of hotel guests staying in Macau increased at a CAGR of 4.36%, according to the Gaming Inspection and Coordination Bureau ("DICJ") and the Direcção dos Serviços de Estatística e Censos (Statistics and Census Service) ("DSEC"), respectively. In 2011, 2012, 2013, 2014 and 2015, gross gaming revenues in Macau reached US\$33.4 billion, US\$38.0 billion, US\$45.2 billion, US\$44.1 billion and \$28.9 billion, respectively, according to the DICJ. In the years ended December 31, 2011, 2012, 2013, 2014 and 2015, the total number of hotel guests staying in Macau was approximately 12.9 million, 13.6 million, 14.3 million, 14.6 million and 14.3 million, respectively, according to the DSEC.

The total number of visitors to Macau increased at a CAGR of 4.26% from 2008 to 2015 according to the DSEC. From 2011 to 2015, there were approximately 28.0 million, 28.1 million, 29.3 million, 31.5 million and 30.7 million visitors to Macau, respectively, according to the DSEC. A majority of these visitors come from Greater China. Stable progress in the economic expansion of the domestic economy in China and further development of policy measures designed to advance economic cooperation between the Pearl River Delta, Hong Kong and Macau are key to the future development of our business opportunities. Starting from the first quarter of 2015, the number of visitors to Macau, particularly visitors from China's Guangdong province (where most of our visitors come from), began to decline significantly due to the tightening of Chinese government policies and regulatory factors, such as visa restrictions and restrictions on credit card usage, which also greatly impacted the overall gross gaming revenues in Macau.

According to the DICJ, gross gaming revenues in Macau increased by 13.4% from 2011 to 2012, increased by 18.6% from 2012 to 2013, decreased by 2.5% from 2013 to 2014, and significantly decreased by 34.3% from 2014 to 2015, primarily due to the decline in revenue growth (as a percentage of total gross gaming revenue) of VIP baccarat since 2012, which accounted for 73.2%, 69.3%, 66.1%, 60.5% and 55.4% of total gross gaming revenue in Macau in 2011, 2012, 2013, 2014 and 2015, respectively. Such decline was primarily a result of slower economic growth in parts of mainland China, the on-going anti-corruption campaign in mainland China, as well as the continued tightening of government policies (including visa restrictions and restrictions on credit card usage) by the Chinese government in recent years. The continued economic slowdown in mainland China will likely adversely affect the Macau gaming industry and our results of operations.

### **Our credit extension policies**

The availability of cage capital and our credit extension policies have significant impact on our revenue. Our cage capital mainly consists of retained earnings, lines of credit from casino operators and temporary credit from certain shareholders. As of December 31, 2015, we had an aggregate of US\$57.6 million in total available lines of credit from casino operators in Macau and Australia, and the casino operators may extend temporary credit in excess of this amount to us from time to time.

In light of the decreasing trend of VIP baccarat, the casino game offered in the VIP Rooms, as well as the slower growth of China's economy; the on-going anti-corruption campaign and the continued tightening of government policies in recent years, we have adopted a prudent approach in the extension of gaming credit since May 2012 by (i) tightening gaming credit to VIP gaming patrons; and (ii) taking steps to closely monitor the collection of outstanding markers. As a result, our total rolling chip turnover since 2012 were adversely impacted. While our efforts to monitor the collection of outstanding markers have successfully mitigated our risk of bad debt, we have experienced a lengthening of the collection period on certain markers, though they remain within our collection policy of 180 days.

To effectively mitigate the adverse impact such tightening of credit had on our operating results, we have been pursuing strategic acquisitions to enlarge our junket agent base, similar to the Bao Li Acquisition in 2012 and the Oriental VIP Room Acquisition in 2013. In addition, we believe that VIP Gaming Promoters and Collaborators with fewer financial resources than we have will either cease operations or be targets for acquisition as the VIP Gaming sector consolidates into fewer, more financially secure VIP Gaming Promoters. As a result of our conservative extension of credit, we believe we are well positioned to expand our operations as part of this consolidation. While we have not identified specific VIP Gaming Promoters and Collaborators for acquisition, we continue to evaluate the sector and the potential expansion opportunities including overseas.

We have offered higher fixed commission rates to non-credit agents (agents that we do not extend credit to) since January 2013 and implemented a super-agent program in September 2012, which provides certain non-credit agents an option to participate in sharing our overall win/loss each month based on their proportionate contribution of our total rolling chip turnover of the previous month in addition to receiving a fixed rate commission. We intend to continue such initiatives in an effort to attract a higher proportion of non-credit agents who have the financial resources to purchase non-negotiable chips from us rather than relying on gaming credit extended by us, which in turn increases the number of VIP players and rolling chip turnover without additional credit risk.

## **Our network of junket agents**

Virtually all our revenue is ultimately generated by VIP players brought to the VIP Rooms by junket agents. With the decreasing trend of VIP gaming in Macau, the competition for services provided by junket agents has increased. Our network of junket agents, our ability to maintain good relationships with them and our ability to continue to develop relationships with new junket agents will continue to have a significant impact on our results of operations.

## **Our revenue model**

### Macau

Beginning September 1, 2012, we changed our remuneration model from a fixed rate commission of not more than 1.25% of rolling chip turnover to a revenue sharing model where we currently share 40% to 45% of the net gaming win/loss before expenses with the respective casino operators and L'Arc Promoter in Macau. In respect of the Oriental VIP Room, we elected to pay a fixed amount of table rental to the L'Arc Promoter in exchange for a higher percentage of net gaming win/loss. Beginning in September 2015, we are no longer paying a table rental fee and our percentage of net gaming win/loss was reduced.

Such a shift in revenue model was affected primarily taking into consideration the following:

- the industry trend of shifting from a fixed rate commission model to a revenue sharing model, which is currently the standard model of compensating gaming promoters and is believed to be preferred by the concessionaires who prefer a less volatile earnings stream provided by the revenue sharing model;
- depending on the win/loss of the VIP Rooms, we may generate higher revenue under a revenue sharing model;
- our expansion into five VIP gaming rooms following the acquisitions in 2012 and 2013 provided us with more tables and enabled us to spread the risk of fluctuation in our operating results;
- our increased cage capital;
- a revenue sharing model gains us access to additional casinos which operate exclusively under such model; and
- a revenue sharing model increases our competitiveness in attracting non-credit agents.

Our operating results under the revenue sharing model directly correlate with the win/loss rate in the VIP Rooms and are therefore subject to greater fluctuation as compared to a fixed rate commission model. As a result, our short-term results may be materially affected by the win/loss variances in the VIP Rooms and may not be indicative of our future performance. As a result of the shift in revenue model, our revenue as a percentage of rolling chip turnover changed from 1.26% in 2011, to 1.30% in 2012, 1.39% in 2013, 1.41% in 2014, and to 1.63% in 2015. However, according to Union Gaming, the generally expected win rate for VIP baccarat, the table game played at the VIP Rooms, is between 2.7% to 3.0% and our quarterly win rates from January 1, 2011 to December 31, 2015 ranged from 2.18% to 4.19%.

Since our change in revenue model, we have increased commission payments to non-credit agents and have allowed super-agents to participate in sharing our overall win/loss, which contributed to an overall higher percentage of commission paid to junket agents in relation to rolling chip turnover. As our network of non-credit agents and super-agent program expand, we expect a higher percentage of commission to junket agents in relation to rolling chip turnover.

### Australia

On May 15, 2015, we entered into agreements to acquire all of the profit interests of Mr. Lou Kan Kuong ("Mr. Lou") for acting as a junket operator for the Crown Perth Casino in Perth, Australia and for the Crown Melbourne Casino in Melbourne, Australia for \$200 of consideration in total. Mr. Lou, who is currently an officer of IKGH, entered into agreements to act as a junket operator for the above two Casinos on June 24, 2013. We have started trial operations in the Australian casinos to gain a greater understanding of the preferences of our junket agents and VIP players and the logistics of the market. As of today, nominal revenues have been generated by the Australia operation, equal to our costs as we test this market. We receive a fixed percentage of the rolling chip turnover we generate at the Australian casinos and do not currently share in the win/loss results. The profit interests were acquired as an asset purchase for the historical costs of establishing the agreements between Mr. Lou and Australian Casinos as a related party transaction. We entered into the agreement to expand to overseas markets for our existing agent network in Macau.

## **Hong Kong Stock Exchange Listing**

During 2014, the Hong Kong Stock Exchange decided to no longer proceed with their review of our listing application for the time being and consequentially the Company has elected not to continue with the application process at this time. With such a decision the management of the Company can allocate its resources to explore further business expansion opportunities, including but not limited to finding VIP rooms in new locations and strategic investments, in order to maximize the shareholders' return in due course.

## **Goodwill Impairment**

Goodwill is recorded when the purchase price for an acquisition exceeds the estimated fair value of the net tangible and identified intangible assets acquired. The Company currently has only one reporting unit which is the gaming promotion business mainly located in Macau. Current operations in Australia are managed under the same reporting unit as Macau. As our international business expands, we may have additional reporting units.

The Company has adjusted the rolling chip turnover guidance to reflect the decline in revenue of the VIP gaming business in Macau. During the year ended December 31, 2015, the Company has been actively exploring alternatives to diversify the source of revenue in overseas markets. These results, along with changes in the competitive marketplace led to a shift in strategic direction and reduced future revenue and profitability expectations for the business. As a result of these changes in strategy and expectations, the Company forecasted reductions in rolling chip turnover growth rates and lower future cash flows used to estimate the fair value of the business unit, which resulted in an impairment charge for goodwill recorded in the consolidated financial statements.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amount of revenues and expenses during the reporting periods. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with U.S. GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements, included in Item 18, Financial Statements and Supplementary Data, of this Annual Report on Form 20-F. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Except where noted, we have not made any material changes to the accounting methodologies for the areas described below.

### *Allowance for doubtful accounts to marker receivable*

The Company regularly evaluates the allowance for uncollectible marker receivables based on a specific review of junket agent accounts as well as management's prior experience with collection trends in the casino industry and current economic and business conditions. We recognize an allowance for doubtful accounts in an amount equal to anticipated future write-offs. Management believes that an allowance for uncollectible markers receivable is not necessary under current conditions; however, unexpected, significant deterioration in any of the factors mentioned above or in general economic conditions could materially change these expectations.

### *Long-Lived Assets*

Long-lived assets other than goodwill are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the sum of the estimated future cash flows is less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which is based on estimated discounted cash flows. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. The impairment loss would be measured on a location by location basis by comparing the fair value of the asset with its carrying amount. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated over the remaining useful life of that asset.

The assumptions and estimates used to determine future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by various factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our forecasts for future expansion development. Based on our impairment assessment, no impairment has been recognized.

### *Goodwill*

Goodwill is recorded when the purchase price for an acquisition exceeds the estimated fair value of the net tangible and identified intangible assets acquired. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. The Company currently has only one reporting unit, the gaming promotion business in Macau.

We perform an annual impairment assessment in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. If this assessment concludes that it is more likely than not that the fair value is more than its carrying value, goodwill is not considered impaired and we are not required to perform the two-step goodwill impairment test. Qualitative factors considered in this assessment include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit.

If the impairment assessment concludes that it is more likely than not that the fair value is less than its carrying value, we perform the first step of the goodwill impairment test, which compares the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform additional analysis. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the goodwill impairment test to determine the implied fair value of the reporting unit's goodwill. If we determine during the second step that the carrying value of a reporting unit's goodwill exceeds its implied fair value, we record an impairment loss equal to the difference.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. Our goodwill impairment test uses a weighting of the income and the market approaches to estimate reporting unit's fair value.

We used a probability-weighted discounted cash flow (“DCF”) technique, a variation of the income approach, in the valuation process of the reporting unit, considered as a whole. Under this method, forecasted net cash flow (“NCF”) of our business was developed and then discounted to the present value at a discount rate commensurate with the risks involved in the ultimate realization of those returns. This income approach employs the following key projection estimates: (i) rolling chip turnover (“RCT”) and/or expected growth rates in RCT; (ii) win rates; (iii) operating costs and operating profit; (iv) NCF; and, (v) the determination of an appropriate discount rate (i.e., a rate of return) based on the reporting unit's deemed weighted average cost of capital (“WACC”). The WACC considers observable market rates and yields and comparable company return data. As the name implies, probability-weighted DCF analysis involves the development of several forecasted NCF scenarios that are then probability-weighted to yield an overall indication of reporting unit value. Assumptions used in DCF analysis gave consideration to historical financial and operating data, various internal estimates, and economic and market data as derived from a variety of external sources. These estimates are developed as part of our routine short-term management procedures and long-range strategic planning process. In addition, we test the reasonableness of the assumption inputs and outcomes of our DCF analysis against available comparable market data.

Under the market approach, the fair value of a business unit is derived by reference to the Company's market capitalization at the valuation date (i.e., its stock market price per share times the number of common shares outstanding). In the appraisal process, the predominate weight was afforded to the DCF approach reflecting its greater relevancy and reliability as an indicator of fair value.

For the annual impairment assessment in 2015, performed in June 2015, considering the operation results with decreasing total rolling chips turnover and the decrease of market capitalization during the first half of 2015, we performed the first step of goodwill impairment test and determined and concluded that the carrying value of our reporting unit exceeded the estimated fair value. As of June 30, 2015, we have completed our annual impairment assessments and concluded that goodwill was impaired.

#### *Contingent Purchase Price Obligations for Acquisitions*

Contingent purchase price liability was recognized for the estimated acquisition fair value of the contingent consideration based on the probability of the achievement of the Gross Profit targets or the achievement of the rolling chip turnover targets at the acquisition date. Any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in the Company's estimate of the gross profit or rolling chip turnover expected to be achieved, will be recognized in earnings in the period that estimated fair value changes.

On a quarterly basis, Management evaluates contingent purchase price liability for each acquisition assuming probability-weighted gross profit or rolling chip turnover targets are achieved over the earn-out period. The Company also utilizes the Monte Carlo Method to determine the average simulated share prices which are used to determine the estimated contingent liabilities for shares to be earned. A change in the fair value of the acquisition-related contingent consideration could have a material impact on the Company's statement of operations and financial position in the period of change in estimate. Fluctuations in the market value of the Company's Ordinary Shares and subsequent performance will cause the fair value to increase or decrease and the resulting change will be recognized in earnings. Contingent purchase price liability is described in Note 9, 10 and 11 of the Notes to Consolidated Financial Statements.

### **CERTAIN STATEMENTS OF OPERATIONS ITEMS**

#### **Revenue from VIP gaming promotion operations**

Our source of revenue is primarily commissions received from the casino operators and the L'Arc Promoter from VIP gaming promotion operations in Macau. We have started trial operations in Australia and believe the operations will contribute to future revenues. We also received a small amount of service revenue which is disbursement income from junket agents for providing transportation, accommodation, food and beverage and other complimentary services to them starting in 2013. The profits derived from our VIP gaming promotion operations depend on the gaming volumes and win rate in the VIP Rooms. Revenue from VIP gaming promotion operations in Macau is recorded based on our share of the gaming win/loss, and prior to September 2012, primarily as a fixed percentage of rolling chip turnover in the VIP gaming rooms. Our Australian operations are based upon a fixed percentage of rolling chip turnover.

### Commission to junket agents

We pay commissions to junket agents typically based on their rolling chip turnover. We do not pay commissions with respect to direct business VIP players sourced by our management team. We implemented a super-agent program in September 2012 which allowed certain non-credit agents to participate in sharing overall win/loss with us in addition to receiving a fixed rate commission. During the years ended December 31, 2015, 2014 and 2013, the junket agents who participated in such super-agent program received more commissions than they would have under the fixed rate commission model.

### Selling, general and administrative expenses

Selling, general and administrative expenses consist of legal and professional fees, management salaries and director fees, management fees associated with the administration of the VIP gaming rooms, staff costs (excluding directors' remuneration), VIP room operating costs and other expenses.

The following table sets out the breakdown of our selling, general and administrative expenses for the periods indicated. (All figures are in thousands.)

	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
Legal and professional fees	\$ 1,125	\$ 1,324	\$ 2,391
Management salaries and director fees	2,440	2,776	2,452
Management fees	4,798	7,157	6,807
Staff costs excluding directors' remuneration	3,994	2,309	1,746
VIP room operating costs	2,402	5,205	2,218
Other <sup>(1)</sup>	3,431	4,698	3,560
Hong Kong Listing Expenses	162	3,037	2,312
Total	<u>\$ 18,352</u>	<u>\$ 26,506</u>	<u>\$ 21,486</u>

Note:

(1) Other mainly includes entertainment expenses, investor relations fees, advertising expenses and overseas travelling expenses by management.

### Changes in the Management and Board of Directors

Effective as of May 1, 2015:

- Vong Hon Kun, formerly the Chief Operating Officer of IKGH, has been promoted to Chief Executive Officer of IKGH, and remains a director of IKGH.
- Lam Chou In, formerly an Operating Officer of IKGH, has been promoted to Chief Operating Officer of IKGH and has been appointed to the Board of Directors.
- Yip Cheuk Fai has been named the Chief Financial Officer of IKGH and has been appointed to the Board of Directors.
- Kwok Chi Chung has been appointed to IKGH's Board of Directors as an independent director and is serving on IKGH's Audit and Nominating Committees.

- The appointments were made due to the resignations of Leong Siak Hung from his position as Chief Executive Officer and a director of IKGH, Raymond Li Chun Ming from his position as Chief Financial Officer and a director of IKGH, and George Chui Vai Hou as a director of IKGH. Mr. Leong continued as a consultant of IKGH until the end of 2015, when the contract expired. Each has resigned for personal and/or medical reasons and not because of any disagreements with IKGH.

## RESULTS OF OPERATIONS

### *For the Year Ended December 31, 2015 Compared to the year ended December 31, 2014*

The following table sets forth certain information regarding our results of operations for the year ended December 31, 2015 and 2014 (all figures are in \$ thousands except ratios and percentages).

	<b>Year Ended December 31, 2015</b>	<b>Year Ended December 31, 2014</b>	<b>% change from 2014 to 2015</b>
Revenue from VIP gaming promotion	\$ 105,002	\$ 233,823	(55)%
Commission to junket agents	\$ 76,980	\$ 188,448	(59)%
Selling, general and administrative expenses	\$ 18,352	\$ 26,506	(31)%
Operating (loss) income before change in fair value of contingent consideration	\$ (25,098)	\$ 841	(3,084)%
Percentage of operating (loss) income before change in fair value of contingent consideration/Revenue from VIP gaming promotion	(23.90)%	0.36%	

### **Non-GAAP Financial Results**

The following Non-GAAP financial results for the year ended December 31, 2015 and 2014 are used by management to evaluate our financial performance prior to the deduction of amortization of intangible assets, impairment of goodwill and change in fair value of contingent consideration related to the acquisitions of King's Gaming, Bao Li Gaming and Oriental VIP Room (all figures are in \$ thousands except ratios and percentages) (see Non-GAAP Financial Measures).

	<b>Year Ended December 31, 2015</b>	<b>Year Ended December 31, 2014</b>	<b>% change from 2014 to 2015</b>
Non-GAAP income before amortization of intangible assets, impairment of goodwill and change in fair value of contingent consideration	\$ 9,029	\$ 17,206	(48)%
Percentage of Non-GAAP income before amortization of intangible assets, impairment of goodwill and change in fair value of contingent consideration/Revenue from VIP gaming promotion	8.6%	7.36%	

### **Rolling Chip Turnover Ratios**

Rolling Chip Turnover is used by casinos to measure the volume of VIP gaming room business transacted and represents the aggregate amount non-negotiable chips exchanged by VIP gaming patrons. Bets are wagered with “non-negotiable chips” and winning bets are paid out by casinos in so-called “cash” chips. If a player continues to make bets, they have to change the cash chips to non-negotiable chips.



Rolling Chip Turnover ratios are calculated as percentages of Rolling Chip Turnover, and represent the changes in revenue, expenses and income in comparison to the change in gaming volume which investors and management use to assess the operating efficiencies of the Promotion Entities.

The following table sets forth certain information regarding our results relating to our Rolling Chip Turnover and certain performance ratios for the year ended December 31, 2015 and 2014 (all figures are in \$ thousands except for ratios and percentages).

	Year Ended December 31, 2015	Year Ended December 31, 2014	% change from 2014 to 2015
Rolling Chip Turnover	\$ 6,422,339	\$ 16,627,093	(61.4)%
Revenue from VIP gaming promotion/Rolling Chip Turnover	1.63%	1.41%	16.3%
Commission to junket agents/Rolling Chip Turnover	1.20%	1.13%	5.8%
Gross margin (Revenue less commissions and special rolling tax)/Rolling Chip Turnover	0.43%	0.26%	62.2%
Selling, general and administrative expenses/Rolling Chip Turnover	0.29%	0.16%	79.3%
Operating (loss) income before change in fair value of contingent consideration/Rolling Chip Turnover	(0.39)%	0.01%	(7,826.2)%

Below is a quarterly analysis of the win rate in our VIP gaming rooms from January 1, 2013 to December 31, 2015:

Period	Win Rate %
Q1 2013	3.29%
Q2 2013	3.06%
Q3 2013	3.18%
Q4 2013	2.39%
Q1 2014	3.60%
Q2 2014	2.18%
Q3 2014	2.51%
Q4 2014	3.95%
Q1 2015	4.19%
Q2 2015	2.73%
Q3 2015	3.91%
Q4 2015	3.42%

Revenue from VIP gaming promotion operations was US\$105.0 million for the year ended December 31, 2015, as compared to US\$233.9 million for the year ended December 31, 2014, representing a decrease of 55%, whereas revenue as a percentage of rolling chip turnover increased from 1.41% for the year ended December 31, 2014 to 1.63% in 2015, representing an increase of 16.3%. Such increases were primarily a result of a win rate of 3.59% for the year ended December 31, 2015, which is above the statistical average win rate range, compared to a win rate of 2.98% for the year ended December 31, 2014.

During 2015, we experienced a significant decrease in our Rolling Chip Turnover compared to 2014. Our Rolling Chip Turnover was \$6.4 billion and \$16.6 billion in 2015 and 2014, respectively, a 61.4% decrease. Our Rolling Chip Turnover was significantly impacted by:

- a higher than the statistical average win rate which may result in lower Rolling Chip Turnover;

- potential players being deterred by a variety of factors including increased oversight of credit cards that many gamblers use to access funds in Macau;
- a lack of demand from high rollers and less visits to Macau primarily due to recent anti-corruption enforcement by the PRC government; and
- our tightening policy to provide gaming credit as a result of lengthened collection periods on certain markers, which remain within our collection policy of 180 days.

The commission paid to junket agents decreased by US\$111.5 million, or 59%, to US\$77.0 million for the year ended December 31, 2015, as compared to the year ended December 31, 2014, primarily as a result of significantly lower Rolling Chip Turnover compared to the prior period. The commission paid to junket agents as a percentage of rolling chip turnover was 1.20% for the year ended December 31, 2015, up from 1.13% for the year ended December 31, 2014, an increase of 5.8%. Beginning in January 2013, we began an upward adjustment in commission rates to stay competitive in the Macau VIP gaming industry and to compensate our junket agents for no longer providing any complimentary hotel and casino services to them, as well as higher commission paid to non-credit agents and super-agents. The increase in the commission paid to junket agents as a percentage of Rolling Chip Turnover was primarily a result of the high win rate and super-agent participation in our revenue sharing program.

Selling, general and administrative expenses decreased by US\$8.2 million, or 31%, to US\$18.4 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Staff costs increased by US\$1.4 million as a result of a decrease in executive compensation offset by an increase in the number of employees and decreased management fees of US\$2.4 million due to directly hiring employees to reduce our reliance on Pak Si. VIP gaming room operating costs and other costs decreased by US\$4.0 million during the year ended December 31, 2015 as a result of the reduced number of junket agents and VIP players visiting Macau. As a result of no longer pursuing a listing on the Hong Kong Stock Exchange, the listing expenses were US\$0.2 million during the year ended December 31, 2015 compared to US\$3.0 million recorded in the prior period. We do not anticipate additional listing costs.

The special rolling tax decreased by US\$1.0 million, or 61.4%, to US\$0.6 million for the year ended December 31, 2015 from the year ended December 31, 2014 as a result of the decrease in rolling chip turnover. The percentage of the special rolling tax to revenue from VIP gaming promotion remained consistent in a range of 0.6% to 0.7% for the years ended December 31, 2015 and 2014.

Amortization of intangible assets for the years ended December 31, 2015 and 2014 remained consistent.

We performed an assessment to test our goodwill for impairment as of June 30, 2015 and determined that the goodwill was impaired as of June 30, 2015 and recorded an impairment charge of US\$17.8 million during the year ended December 31, 2015. There was no impairment of goodwill recognized during the year ended December 31, 2014.

Operating loss before change in the fair value of contingent consideration payables was US\$25.1 million for the year ended December 31, 2015, as compared to operating income of US\$0.8 million for the year ended December 31, 2014, representing an increase in net loss of 3,084%, primarily as a result of a significant decrease in revenues as a result of lower Rolling Chip Turnover and a one-time charge of impairment of goodwill.

There was a decrease in the fair value of the contingent consideration liability in respect of the Bao Li Acquisition and Oriental VIP Room Acquisition of US\$30.2 million, primarily resulting from the acquired networks of junket agents achieving lower rolling chip turnover results than forecasted at December 31, 2014. Bao Li Gaming met its rolling chip target for the year ended December 31, 2015 and as a result it has earned its contingent consideration which will no longer be estimated and measured. We previously estimated that the Oriental VIP Room would significantly outperform its base earnout rolling chip turnover target. We revised our estimates to assume that it would not meet the base earnout rolling chip target. There was no fair value change of the contingent consideration payable in respect of the King's Gaming acquisition for the year ended December 31, 2015 as the forecasted gross profit level of King's Gaming resulted in no additional earn-out shares expected to be earned by the King's Gaming seller. As required by U.S. GAAP, any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the gross profit and rolling chip turnover expected to be achieved, will be recognized in earnings in the period that estimated fair value changes. A change in the fair value of the acquisition-related contingent consideration could have a material impact on our statement of operations and financial position.

As a result of the above, we had net income of US\$5.1 million for the year ended December 31, 2015 versus a net loss of \$60.1 million for the year ended December 31, 2014.

Basic and diluted earnings per share for the year ended December 31, 2015 was US\$0.08 based upon the weighted average share counts of 62,116,749 and 62,292,834, respectively.

#### Year ended December 31, 2014 Compared to the Year ended December 31, 2013

The following table sets forth certain information regarding our results of operations for the years ended December 31, 2014 and 2013 (all figures are in thousands except ratios and percentages).

	Year Ended December 31, 2014	Year Ended December 31, 2013	% change from 2013 to 2014
Revenue from VIP gaming promotion	\$ 233,823	\$ 236,850	(1)%
Commission to junket agents	\$ 188,448	\$ 182,639	3%
Selling, general and administrative expenses	\$ 26,506	\$ 21,486	23%
Operating income after amortization of intangible assets and before change in fair value of contingent consideration	\$ 841	\$ 17,833	(95)%
Percentage of operating income after amortization of intangible assets and before change in fair value of contingent consideration/Revenue from VIP gaming promotion	0.36%	7.53%	

#### Non-GAAP Financial Results

The following Non-GAAP financial results for the years ended December 31, 2014 and 2013 are used by management to evaluate our financial performance prior to the deduction of amortization of intangible assets and change in fair value of contingent consideration related to the acquisitions of King's Gaming, Bao Li Gaming and Oriental VIP Room (all figures are in thousands except ratios and percentages) (see Non-GAAP Financial Measures.)

	Year Ended December 31, 2014	Year Ended December 31, 2013	% change from 2013 to 2014
Non-GAAP income before amortization of intangible assets and change in fair value of contingent consideration	\$ 17,206	\$ 31,020	(45)%
Percentage of Non-GAAP income before amortization of intangible assets and change in fair value of contingent consideration/Revenue from VIP gaming promotion	7.36%	13.10%	

## Rolling Chip Turnover Ratios

Rolling Chip Turnover is used by casinos to measure the volume of VIP gaming room business transacted and represents the aggregate amount non-negotiable chips exchanged by VIP gaming patrons. Bets are wagered with “non-negotiable chips” and winning bets are paid out by casinos in so-called “cash” chips. If a player continues to make bets, they have to change the cash chips to non-negotiable chips.

Rolling Chip Turnover ratios are calculated as percentages of Rolling Chip Turnover, and represent the changes in revenue, expenses and income in comparison to the change in gaming volume which investors and management use to assess the operating efficiencies of the Promotion Entities.

The following table sets forth certain information regarding our results relating to our Rolling Chip Turnover and certain performance ratios for the years ended December 31, 2014 and 2013 (all figures are in thousands except for ratios and percentages).

	Year Ended December 31, 2014	Year Ended December 31, 2013	% change from 2013 to 2014
Rolling Chip Turnover	\$ 16,627,093	\$ 17,048,596	(2)%
Revenue from VIP gaming promotion/Rolling Chip Turnover	1.41%	1.39%	1%
Commission to junket agents/Rolling Chip Turnover	1.13%	1.07%	6%
Gross margin (Revenue less commissions and special rolling tax)/Rolling Chip Turnover	0.26%	0.31%	(15)%
Selling, general and administrative expenses/Rolling Chip Turnover	0.16%	0.13%	26%
Operating income after amortization of intangible assets and before change in fair value of contingent consideration/Rolling Chip Turnover	0.01%	0.10%	(95)%

Below is a quarterly analysis of the win rate in our VIP gaming rooms from January 1, 2013 to December 31, 2014:

Period	Win Rate %
Q1 2013	3.29%
Q2 2013	3.06%
Q3 2013	3.18%
Q4 2013	2.39%
Q1 2014	3.60%
Q2 2014	2.18%
Q3 2014	2.53%
Q4 2014	3.95%

Revenue from VIP gaming promotion operations was US\$234 million for the year ended December 31, 2014, as compared to US\$237 million for the year ended December 31, 2013, representing an decrease of 1.3%, whereas revenue as a percentage of rolling chip turnover increased from 1.39% for the year ended December 31, 2013 to 1.41% in 2014, representing an increase of 1.2%. Such increases were primarily a result of (i) a win rate of 2.98% for the year ended December 31, 2014, which is within the statistical average win rate range, compared to a win rate of 2.97% for the year ended December 31, 2013; (ii) slower revenue growth of VIP baccarat as consistent with the overall growth of gaming revenue in Macau; and (iii) the economic downturn and tightening of credit in mainland China, where the majority of our VIP gaming patrons come from. The reduction in amounts of gaming credit we make available to VIP gaming patrons adversely impacted the growth in our total rolling chip turnover since 2012. If the Chinese economy improves and demonstrates sustainable momentum, we may consider relaxing our credit extension policy.

During the fourth quarter of 2014, we experienced a significant decrease in our Rolling Chip Turnover compared to the same period in 2013. Our Rolling Chip Turnover in the fourth quarter was \$2.9 billion and \$4.4 billion in 2014 and 2013, respectively, a 34% decrease. Our Rolling Chip Turnover was significantly impacted by:

- a higher than the statistical average win rate, which results in lower Rolling Chip Turnover;
- certain players are being deterred by a variety of factors including tighter visa policies for mainland Chinese visitors, increased oversight of credit cards that many gamblers use to access funds in Macau, and new smoking restrictions at casinos;
- a lack of demand from high rollers primarily due to recent anti-corruption enforcement act by PRC government; and
- our tightening policy to provide gaming credit.

The commission paid to junket agents increased by US\$5.8 million, or 3.2%, to US\$188 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013, primarily as a result of our network of non-credit agents and super-agents program expand compared to the prior period. The commission paid to junket agents as a percentage of rolling chip turnover was 1.13% for the year ended December 31, 2014, up from 1.07% for the year ended December 31, 2013, an increase of 5.8%. Beginning in January 2013, we began an upward adjustment in commission rates to stay competitive in the Macau VIP gaming industry and to compensate our junket agents for no longer providing any complimentary hotel and casino services to them from January 2013 as well as higher commission paid to non-credit agents and super-agents and a decrease in the percentage of revenue generated from direct business where we do not pay commission.

Selling, general and administrative expenses increased by US\$5 million, or 23.4%, to US\$26.5 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. Selling, general and administrative expenses as a percentage of rolling chip turnover was 0.16% for the year ended December 31, 2014, up from 0.13% for the year ended December 31, 2013, representing an increase of 26.5% due to the increased expenses described below. Staff costs increased by US\$0.6 million as a result of an increase in the number of employees and increased management fees of US\$0.3 million due to the full year of operations of the Oriental VIP Room. We continue to directly hire employees to reduce our reliance on Pak Si and our monthly management fees have been reduced accordingly. Legal and professional fees decreased by US\$1.1 million from the year ended December 31, 2013 to the year ended December 31, 2014; the costs were higher in 2013 primarily related to the acquisition of the Oriental VIP Room in June 2013. VIP gaming room operating costs increased by US\$3 million during the year ended December 31, 2014 as a result of the additional gaming table rental costs for the Oriental VIP Room. We pay a monthly rent of US\$0.4 million for gaming tables in the Oriental VIP Room to the L'Arc Promoter. Hong Kong Exchange listing fee expenses increased by US\$0.7 million. We do not currently anticipate additional listing fees as a result of the Hong Kong Exchanges decision to no longer proceed with the Company's listing application.

The special rolling tax decreased by US\$0.04 million, or 2.5%, to US\$1.7 million for the year ended December 31, 2014 from the year ended December 31, 2013 as a result of the decrease in rolling chip turnover. The percentage of the special rolling tax to revenue from VIP gaming promotion remained 0.7% in the year ended December 31, 2014 and 2013.

Amortization of intangible assets for the year ended December 31, 2014 was US\$16.4 million as compared to US\$13.2 million as a result of a full year of amortization expense for the intangible assets acquired in the Oriental VIP Room acquisition, completed in June 2013.

Operating income, after amortization of intangible assets and before change in the fair value of contingent consideration payables was US\$0.8 million for the year ended December 31, 2014, as compared to operating income of US\$18 million for the year ended December 31, 2013, representing a decrease of 95%, primarily as a result of (i) decrease in revenues as a result of lower average win rate; (ii) an increase in commission expense to junket agents; and (iii) an increase in selling, general and administrative expenses.

There was an increase to the fair value of the contingent consideration liability in respect of the Bao Li Acquisition and Oriental VIP Room acquisition of US\$60.9 million, primarily resulting from the acquired networks of junket agents achieving better rolling chip turnover results than forecasted at the time of the acquisitions in September 2012 and June 2013 and revisions to the forecasted results in the remaining years of the purchase period to meet or exceed the rolling chip turnover targets. There was no fair value change of the contingent consideration payable in respect of the King's Acquisition for the year ended December 31, 2014 as the forecasted gross profit level of King's resulted in no additional earn-out shares expected to be earned by the King's seller. As required by U.S. GAAP, any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the gross profit and rolling chip turnover expected to be achieved, will be recognized in earnings in the period that estimated fair value changes. A change in the fair value of the acquisition-related contingent consideration could have a material impact on our statement of operations and financial position.

As a result of the above, a decrease in our operation results by US\$65.5 million from net income of US\$5.4 million for the year ended December 31, 2013 down to a net loss of US\$(60.1) million for the year ended December 31, 2014.

Basic and diluted loss per share for the year ended December 31, 2014 was US\$0.99 based upon the weighted average share count of 60,781,915.

### Non-GAAP Financial Measures

Our calculation of Non-GAAP income (operating income before amortization of intangible assets, impairment of goodwill and change in fair value of contingent consideration) and Non-GAAP EPS differs from EPS based on net income because it does not include amortization of intangible assets, impairment of goodwill and change in fair value of contingent consideration. We use this information internally in evaluating our operations and believe this information is important to investors because it provides users of our financial information with additional useful information in evaluating operating performance for the periods and is more consistently comparable to the prior periods. Notwithstanding the foregoing, Non-GAAP income and EPS should not be considered an alternative to, or more meaningful than, net income and EPS as determined in accordance with GAAP. The following is a reconciliation of our net income to Non-GAAP income and GAAP EPS to our Non-GAAP EPS:

	<b>For the Year Ended December 31, 2015</b>	<b>For the Year Ended December 31, 2014</b>	<b>For the Year Ended December 31, 2013</b>
Net Income (Loss) attributable to ordinary shareholders	\$ 5,117,769	\$ (60,077,935)	\$ 5,387,502
Amortization of intangible assets	16,369,467	16,365,034	13,187,006
Impairment of goodwill	17,757,113	-	-
Change in fair value of contingent consideration	(30,215,735)	60,918,569	12,445,789
Non-GAAP income (before amortization of intangible assets, impairment of goodwill and change in fair value of contingent consideration)	<u>\$ 9,028,614</u>	<u>\$ 17,205,668</u>	<u>\$ 31,020,297</u>
<b>Weighted Average Shares Outstanding</b>			
Basic	<u>62,116,749</u>	<u>60,781,915</u>	<u>53,030,405</u>
Diluted	<u>62,292,834</u>	<u>61,002,086</u>	<u>53,210,572</u>

	For the Year Ended December 31, 2015		For the Year Ended December 31, 2014		For the Year Ended December 31, 2013	
	Basic	Fully Diluted	Basic	Fully Diluted	Basic	Fully Diluted
Net Income (Loss) per share attributable to ordinary shareholders	\$ 0.08	\$ 0.08	\$ (0.99)	\$ (0.99)	\$ 0.10	\$ 0.10
Amortization of intangible assets	0.26	0.26	0.27	0.27	0.25	0.25
Impairment of goodwill	0.29	0.29	-	-	-	-
Change in fair value of contingent consideration	(0.49)	(0.49)	1.00	1.00	0.23	0.23
Non-GAAP earnings per share (before amortization of intangible assets, impairment of goodwill and change in fair value of contingent consideration)	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.28	\$ 0.58	\$ 0.58

## TAXATION

### Cayman Islands

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gain tax. In addition, payment by us to our shareholders is not subject to withholding tax in the Cayman Islands.

### United States

We are not incorporated nor do we engage in any trade or business in the United States and are, therefore, not subject to United States federal income taxes.

### Hong Kong

We are not subject to Hong Kong profits tax because all of our operations are performed outside Hong Kong, and Hong Kong adopts a territorial tax regime under which only Hong Kong-sourced income is subject to the profit tax.

### British Virgin Islands

All of our BVI subsidiaries are incorporated under the BVI Business Companies Act, 2004 (No. 16 of 2004) and are exempt from payment of BVI taxes.

### Macau

The Promoter Companies, Sang Heng, King's Gaming, Bao Li and Sang Lung, and L'Arc Collaborator are not subject to Macau Complementary Tax, because their gaming revenue is received net of taxes collected by the Macau Government which are paid directly by the casino operators on a monthly basis. As a result, no provision for Macau Complementary Tax has been made.

The exemption from Macau Complementary Tax, however, does not apply to the dividends to be distributed by the Company's Macau subsidiaries. We are, therefore, subject to Macau Complementary Tax at a progressive rate of up to maximum of 12% for dividends we receive from our Macau subsidiaries. Accordingly, we are required to recognize deferred tax liabilities for taxable temporary differences associated with its investments in Macau subsidiaries except where we will be able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

During the reporting period, no liability was recognized in respect of these differences because we were in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The Promotion Entities in Macau are subject to special rolling tax which is deducted and withheld by each casino operator and L'Arc Promoter on a monthly basis. The rate of special rolling tax is 0.01% on the rolling chip turnover of the VIP gaming room, and the special rolling tax is deducted as a cost of operation.

#### **Australia**

The Junket Operator in Australia is currently not subject to Goods and Services Tax ("GST") and any income tax in Australia.

### **LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2015, our total available cage capital was US\$174 million, consisting of markers receivable of US\$171 million and cash and cash chips on hand of US\$3 million.

As of December 31, 2015, we had a total cash and cash equivalents balance of US\$3 million, compared to cash and cash equivalents of US\$11 million as of December 31, 2014. The decrease is mainly as a result of significantly lower Non-GAAP net income, lower extension of credit and longer collection period for markers receivable, increased utilization of line of credit and increased shareholder loans offset by the reduced payments for the settlement of the outstanding consideration for the acquisitions of the Bao Li Gaming and the Oriental VIP Room in 2015 and no additional payments for King's Gaming. Our credit risk is primarily attributable to markers receivable.

As of December 31, 2015, we had available lines of credit of US\$57.6 million from casino operators in Macau and Australia excluding temporary credits, of which US\$42 million was outstanding as of December 31, 2015. If the casino operators decide not to renew the lines of credit in any given month, our rolling chip turnover may be reduced as a result of reduced credit extended to our VIP gaming patrons. As a result, our gaming revenue from the casino operators and L'Arc Promoter and our net operating income could also be reduced.

As of December 31, 2015, we had interest free loans from shareholders of US\$2.8 million which are temporary credit extended to us from time to time as part of our cage capital to meet additional gaming credit demand by our VIP gaming patrons.

Our expected sources of repayment of the lines of credit extended by the casino operators and our shareholders are the repayment of markers receivable from our VIP gaming patrons as well as receivables due from the casino operators and L'Arc Promoter.

In June 2011, we adopted a share repurchase plan, or the 2011 Repurchase Plan, to purchase up to two million of shares on the open market at prices to be determined by our management. We purchased an aggregate of 26,300 shares for an aggregate purchase price of US\$0.1 million under the 2011 Repurchase Plan, which expired on June 30, 2012. The shares repurchased under the 2011 Repurchase Plan have been retired and the purchase price was allocated to ordinary shares and additional paid in capital. In 2012, we repurchased an aggregate of 1,273,947 shares for an aggregate purchase price of US\$4.2 million pursuant to the 2012 Repurchase Plan. In the first three months of 2013, we repurchased the remaining 726,053 shares available under the 2012 Repurchase Plan for an aggregate purchase price of US\$2.7 million. The shares have been retired and the purchase price was allocated to ordinary shares and additional paid in capital. In March 2013, the Board of Directors established the 2013 Repurchase Plan, which authorized us to purchase up to four million shares on the open market at prices to be determined by our management. During the year ended December 31, 2013 we repurchased an aggregate of 732,900 shares for an aggregate purchase price of US\$2.3 million pursuant to the 2013 Repurchase Plan. During the year ended December 31, 2014, we repurchased an aggregate of 1,415,300 shares for an aggregate purchase price of US\$4.2 million pursuant to the 2013 Repurchase Plan. The shares repurchased under the 2013 Repurchase Plan were retired and the purchase price was allocated to ordinary shares and additional paid in capital. There were no shares repurchased during the year ended December 31, 2015. The 2013 Repurchase Plan remains effective until terminated by our officers, who are authorized to discontinue such plan at any time in their discretion.



## Working capital

We believe that we have sufficient working capital available for the next twelve months.

## Cash flow

Historically, we have financed our working capital and other capital requirements primarily through cash generated from our operations and shareholder loans. The following table sets forth a summary of our cash flows for the periods indicated. (All figures are in thousands.)

	<u>For the year ended December 31, 2015</u>	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2013</u>
Net cash provided by operating activities	\$ 29,883	\$ 60,602	\$ 37,906
Net cash used in investing activities	(3)	(291)	(20,127)
Net cash used in financing activities	(37,966)	(56,929)	(30,845)
Net (decrease) increase in cash and cash equivalents	<u>\$ (8,086)</u>	<u>\$ 3,382</u>	<u>\$ (13,066)</u>

### Cash flow generated from operating activities

The decrease in net cash provided by operating activities for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily due to a decrease in the amount of markers receivable collected as a result of lower outstanding markers receivable as well as lengthened collection times for markers receivable and offset by increased utilization of our lines of credit. Other fluctuations in cash from operating activities were due primarily to miscellaneous timing differences.

### Cash flow used in investing activities

The decrease in net cash used in investing activities for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily due to an insignificant purchase of property and equipment in 2015.

### Cash flow used in financing activities

The decrease in net cash used in financing activities for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily due to (1) no Ordinary Shares were repurchased in 2015; and (2) reduced payments (in total) for contingent consideration paid for the acquisitions of King's Gaming, Bao Li Gaming and the Oriental VIP Room in 2015 as compared to 2014.

### Future sources and uses of cash

We generally funded our operations from cash generated from operating activities.

We expect that our future liquidity and capital requirements will be affected by:

- capital requirements related to prior and future acquisitions;
- cash flow from prior and future acquisitions;
- working capital requirements;
- dividend distributions;
- repurchase of outstanding shares;
- funds raised through the issuance of our securities; and
- earnings accumulated and reinvested.

#### Off-Balance Sheet Arrangements

None.

#### Contractual Obligations

We have the following long term debt, capital lease obligations, operating lease obligations, purchase obligations or other long term liabilities as of December 31, 2015:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Shareholder Loans	\$ 2,827,584	\$ 2,827,584	\$ -	\$ -	\$ -
Operating Lease Obligations	14,240	14,240	-	-	-
Management Agreements	4,334,030	4,334,030	-	-	-
Employment Agreements	2,944,651	1,283,793	1,660,858	-	-
Contingent Consideration	14,228,500	14,228,500	-	-	-
	<u>\$ 24,349,005</u>	<u>\$ 22,688,147</u>	<u>\$ 1,660,858</u>	<u>\$ -</u>	<u>\$ -</u>

#### Other Events

On March 4, 2016, the Company issued a press release announcing 2015 financial results. A copy of the press release is attached as Exhibit 99.1 to the Form 6-K filed on March 7, 2016.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and senior management

Our board of directors consists of nine (9) directors divided into three classes, each of which serves for a term of three years, with only one class of directors being elected in each year. All of the current directors other than João Manuel Santos Ferreira, Yeung Lun Allan, Peter Li, Yip Cheuk Fai, Lam Chou In and Kwok Chi Chung were initially elected by the shareholders at the time of the acquisition of AGRL. João Manuel Santos Ferreira and Yeung Lun Allan were initially appointed by the existing directors on April 7, 2010. Peter Li was initially elected by the shareholders at our 2011 annual meeting on December 13, 2011. Yip Cheuk Fai, Lam Chou In and Kwok Chi Chung were initially appointed by the existing directors in May 2015. The directors serve as follows:

- in the class to stand for reelection in 2016: Lam Man Pou, Vong Hon Kun and Kwok Chi Chung;
- in the class to stand for reelection in 2017: Peter Li, Yip Cheuk Fai and Yeung Lun Allan; and
- in the class to stand for reelection in 2018: Lam Chou In, James R. Preissler and João Manuel Santos Ferreira.

Our executive officers are:

<b>Name</b>	<b>Position</b>
Lam Man Pou	Chairman and Chief Marketing Officer
Vong Hon Kun	Chief Executive Officer
Yip Cheuk Fai	Chief Financial Officer
Lam Chou In	Chief Operating Officer
Sylvia Lee	Executive Vice President

Our executive officers other than Ms. Lee also hold the same positions with AGRL.

The following pages set forth the names, ages and director start dates of the directors and director nominees, their respective principal occupations or brief employment history for the past five years and the names of other publicly-held companies of which each serves or has served as a director during the past five years.

**Lam Man Pou**, age 52, has been the chairman and chief marketing officer and a director of the Company since February 2010 and has been the chairman, chief marketing officer and a director of Asia Gaming & Resort Limited, or AGRL, since its inception in May 2007. He is responsible for the overall direction and development of the Company, its subsidiaries and VIP gaming promoters. He is also responsible for developing the Company's and its VIP gaming promoters' marketing programs. Mr. Lam is a citizen of Macau, China and has been involved in the gaming industry in Macau for over 25 years. He had served as junket agent for various VIP gaming rooms in SJM casinos and Waldo Casino before setting up his own gaming promotion business in May 2006. From May 2006 to early July 2007, he was the sole proprietor of Sang Heng and Spring. From March 1990 to May 2002, Mr. Lam was a junket agent for the Casinos of Sociedade de Turismo e Diversoes de Macau, S.A. From June 2002 through May 2005, Mr. Lam was a junket agent for Casino New Century. From July 2004 through May 2006 Mr. Lam was a junket agent for Waldo Casino. He is a member of the Macau Gaming Industry General Association of Administrators and VIP Gaming Promoters. Mr. Lam's business address is Alameda Dr. Carlos D' Assumpcao No: 181-187, Centro Comercial c/o Grupo Brilhantismo, 12 Andar T, Macau.

**Vong Hon Kun**, age 50, has served as the chief executive officer of the Company since May 2015 and a director of the Company since February 2010. He has also served as chief operating officer of the Company from February 2010 to May 2015 and the chief operating officer and a director of AGRL since its formation. As chief executive officer, he was responsible for the direct general administration of the Company and the Company's strategic planning and expansion. Mr. Vong is a citizen of Macau, China. Mr. Vong has spent over 25 years in the gaming industry and had served as junket agent for various VIP gaming rooms in SJM casinos and Waldo Casino before joining Lam Man Pou for promoting gaming business in May 2006. From July 1990 to May 2002, Mr. Vong was a junket agent for the Casinos of Sociedade de Turismo e Diversoes de Macau, S.A. From June 2002 through May 2005, Mr. Vong was a junket agent for Casino New Century. From July 2004 through May 2005 Mr. Vong was a junket agent for Waldo Casino. Before he joined the gaming industry, Mr. Vong had worked as a civil servant for six years. He is a member of the Macau Gaming Industry General Association of Administrators and VIP Gaming Promoters. Mr. Vong's business address is Alameda Dr. Carlos D' Assumpcao No: 181-187, Centro Comercial c/o Grupo Brilhantismo, 12 Andar T, Macau.

**Yip Cheuk Fai**, age 36, has been the chief financial officer and a director of the Company since May 2015 and is responsible for the accounting and finance of the Company. Mr. Yip has over 10 years of experience in merger and acquisition transactions, corporate finance, auditing and accounting and company secretary practice. Mr. Yip was previously the chief financial officer and secretary of China Huitong Finance Holdings Limited. Prior thereto, Mr. Yip was project director/business development director of Power Capital Global Limited; corporate controller, China division of Vimecto NV; finance manager for Prosperity Minerals Holdings Limited. He previously served as an auditor for Deloitte Touche Tohmatsu and as an audit assistant for Moore Stephens CPA, Hong Kong. Mr. Yip graduated from the Hong Kong Polytechnic University with a Bachelor of Arts in Accountancy and currently is a Fellow member of The Association of Chartered Certified Accountants and Fellow member of Hong Kong Institute of Certified Public Accountants. Mr. Yip's business address is Alameda Dr. Carlos D' Assumpcao No: 181-187, Centro Comercial c/o Grupo Brilhantismo, 12 Andar T, Macau.

**Lam Chou In**, age 47, has been the chief operating officer and a director of the Company since May 2015. Mr. Lam was previously an operating officer of the Company since February 2010 and is also a significant shareholder. As chief operating officer, Mr. Lam was responsible for the day to day operations of the Company, client relationships and client development, and for the supervision of the Company's agent network. Mr. Lam has over 20 years of experience in the gaming industry and prior to joining the Company served as a senior manager at various VIP rooms at SJM's casinos. He is a member of the Macau Gaming Industry General Association of Administrators and Promoters. Mr. Lam's business address is Alameda Dr. Carlos D' Assumpcao No: 181-187, Centro Comercial c/o Grupo Brilhantismo, 12 Andar T, Macau.

**Kwok Chi Chung**, age 60, has been a director of the Company since May 2015. Mr. Kwok joined the Macau Judiciary Police in 1985 and was appointed the first chief coordinator of its Gaming-related Crimes Division in March 2003, where he was responsible for the prevention and investigation of crimes in Macau casinos. In September 2006, Mr. Kwok became the first head of the Macau Judiciary Police's Gaming-related and Economic Crimes Investigation Department where he managed the Gaming-related Crimes Division, Economic Crimes Division and Anti-Money Laundering Division until his retirement in August 2010. In November 2014, he was appointed as an independent director at Jimei International Entertainment Group Ltd, a listed company in Hong Kong (HKG: 1159). Mr. Kwok is also currently the president of the Association of Gaming & Entertainment Promoters of Macau, the president of the Macau General Federation of Security Practitioners and the vice chief supervisor of the Macau Gaming Industry General Association of Administrators and Promoters. Mr. Kwok graduated from Huaqiao University with a Bachelor's degree in law in 2002 and obtained a Master's degree in economic law from Huaqiao University in 2006.

**James R. Preissler**, age 44, has served as a director of CS China Acquisition Corp. (“CS China”), the Company’s corporate predecessor, from June 2008 and served as chief financial officer and secretary of the Company from June 2008 until the Company’s acquisition of AGRL on February 2, 2010. Since November 2006, Mr. Preissler has served as a managing partner of Panthera Capital Group, an advisory firm for Chinese companies. From November 2004 until November 2006, Mr. Preissler served as the chief financial officer and secretary for China Unistone Acquisition Corp., a blank check company that subsequently merged with a target in China to form Yucheng Technologies (Nasdaq: YTEC), a provider of financial technologies and solutions to banks in China. Mr. Preissler has served as an investment advisor to Yucheng Technologies since its merger in November 2006. From March 2003 until September 2005, Mr. Preissler served as the associate director of research for Majestic Research, a New York-based independent research boutique firm focused on proprietary research for hedge funds and institutional investors. From March 2002 to February 2003, he served as a head of the digital media research group of Investec, an investment bank specializing on mid-cap growth companies in the United States and Europe. Mr. Preissler received a Bachelor of Arts degree from Yale University and currently holds Series 7, 24, 63, and 79 securities licenses. Mr. Preissler’s business address is 50 Old Route 25A, Fort Salonga, New York.

**João Manuel Santos Ferreira**, age 62, has served as a director of the Company since April 7, 2010. Mr. Ferreira is an attorney at law in Macau. From 1996 to July 2008, he was a practicing solicitor at the Macau Jurisdiction Court. From 1975 to 1996, he served in various positions with Macau public departments, including the Macau Inspection Gaming Bureau (DICJ), where he was a Gaming Inspector from 1989 to 1996. He holds a Bachelor’s degree in law from the University of Macau. Mr. Ferreira’s business address is Suite G, 2/F, 26 Rua Dr. Pedro Jose Lobo, Macau.

**Yeung Lun Allan**, age 59, has served as a director of the Company since April 7, 2010. Since 1982, Mr. Yeung has had extensive experience in the manufacturing industry in China. Since June 2008, he has been the operation manager of Yen Hing Leather Works Factory, which operates a manufacturing plant of 3,500 employees in Dongguang, China. From 1982 to 1985, he was with Sun Chung Precision Metal Industry Limited, where he was General Manager at the time he left that company. From 1995 to March 2007, as general manager or deputy general manager, he managed 5 other manufacturing plants in China having thousands of employees. From April 2007 to March 2009, he was an assistant operations manager for High-Tech Industrial (HK) Ltd. Mr. Yeung holds a Bachelor’s degree in Electrical Engineering from Aichi Institute of Technology in Japan. Mr. Yeung’s business address is 27/F, Yen Sheng Centre, 64 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

**Peter Li**, age 51, has served as our director since December 2011. Mr. Li served as a director of CS China from June 2008 until the Company’s acquisition of AGRL on February 2, 2010. Mr. Li is currently chief financial officer of Hollysys Automation Technologies (NASDAQ: HOLI), a leading automation technology and product provider to industrial, rail, and nuclear sectors in China. Mr. Li is an independent director and audit committee chairman for China Valves Technology, Inc. (NASDAQ: CVVT) and Yuhe International Inc.(PK.YUII). Prior to working at Hollysys, Mr. Li was CFO of Yucheng Technologies (NASDAQ: YTEC), a leading IT service provider to banking industry in China. Mr. Li was Internal Controller with Lenovo, a leading PC maker in China, before he joined Yucheng Technologies. Mr. Li graduated from Beijing Foreign Studies University with a B.A. and received a Master of Education from University of Toronto. Mr. Li is a Certified General Accountant in Ontario, Canada.

**Sylvia Lee**, age 51, became our executive vice president in April 2010. She served as the president, chief financial officer and secretary of CS China from its inception until June 2008 and as a director of the Company from February to April 2010. Ms. Lee is a founding member, and has served as the vice chairman and chief financial officer of CS Capital USA since August 2004. She has also been a director of SK Development since May 2006. Ms. Lee is a founding member and has been the executive vice president of Lee Holdings Company, Inc. since August 1989. From November 1994 to January 2001, Ms. Lee served as the president and was a co-founder of Unique Domain, Inc., an interior design firm and furniture trade showroom chain store in Florida. From June 1993 to September 1997, Ms. Lee was a member and also served as the treasurer of the Arts and Design Village Development Council of Buena Vista, Inc., a non-profit organization which had helped revitalize the mid-town Miami area and the Miami Design District. From August 1989 to August 1995, Ms. Lee served as the vice president of City Homes, Inc. Ms. Lee received a Master of Science degree. from Florida International University and a Bachelor of Arts degree from the University of Hawaii. Ms. Lee’s business address is 4100 N.E. Second Avenue, Suite 318, Miami, Florida 33137.

There are currently no family relationships among our directors and executive officers.

## **B. Compensation**

### **Compensation Committee Interlocks and Insider Participation**

No member of our compensation committee has at any time been our officer or employee, or our subsidiaries. No interlocking relationship exists between our board of directors or compensation committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

During the last fiscal year, none of our officers and employees, and none of our former officers participated in deliberations of our Board of Directors or our compensation committee concerning executive officer compensation.

### **Benchmarking of Cash and Equity Compensation**

We believe it is important when making compensation-related decisions to be informed as to current practices of similarly situated publicly held companies. We expect to stay apprised of the cash and equity compensation practices of publicly held companies in the gaming industry through the review of such companies' public reports and other resources. It is expected that any companies chosen for inclusion in any benchmarking group would have business characteristics comparable to us, including revenues, financial growth metrics, stage of development, employee headcount and market capitalization. While benchmarking may not always be appropriate as a stand-alone tool for setting compensation due to the aspects of our business and objectives that may be unique to us, we generally believe that gathering this information will be an important part of our compensation-related decision-making process.

### **Compensation Components**

*Base Salary*. Generally, we set executive base salaries for our executives and those of AGRL at levels comparable with those of executives in similar positions and with similar responsibilities at comparable companies. We seek to maintain base salary amounts at or near the industry norms while avoiding paying amounts in excess of what we believe is necessary to motivate executives to meet corporate goals. Base salaries will generally be reviewed annually, subject to terms of employment agreements, and we will seek to adjust base salary amounts to realign such salaries with industry norms after taking into account individual responsibilities, performance and experience.

*Incentive Bonuses*. We may design and utilize cash incentive bonuses for our executives and those of AGRL to focus them on achieving key operational and financial objectives within a yearly time horizon. It is expected that such bonuses will be based on the standards include objective standards for job specific matters and subjective standards based on diligence, improvement of skills and company loyalty, decisiveness and an appropriate service mind-set. Improvement over the prior year is considered highly important. No cash bonuses have been granted to date.

*Equity-Based Awards*. We may also use equity-based awards, such as stock options and stock grants, as part of our compensation packages. As of the date of this annual report, we have not adopted any plans or policies regarding such awards. As part of her annual compensation, Sylvia Lee, our executive vice president, receives \$20,000 of our ordinary shares, as further described under “—Officer Compensation; Employment Agreements” below.

## Officer Compensation; Employment Agreements

The following table sets forth all compensation paid to our executive officers (not including amounts paid in connection with their services as directors, which is described below) during 2015:

<b>Name and Principal Position</b>	<b>Fees Earned or Paid in Cash (US\$)</b>	<b>Ordinary Shares (US\$) (1)</b>	<b>Total (US\$)</b>
Lam Man Pou, Chairman and Chief Marketing Officer	201,223	-	201,223
Vong Hon Kun, Chief Executive Officer (2)	221,861	-	221,861
Yip Cheuk Fai, Chief Financial Officer	125,672	-	125,672
Lam Chou In, Chief Operating Officer	196,063	-	196,063
Sylvia Lee, Executive Vice President	30,000	20,000	50,000
Leong Siak Hung, Former Chief Executive Officer (3)	92,872	-	92,872
Raymond Li Chun Ming, Former Chief Financial Officer (3)	77,393	-	77,393

(1) Our board of directors determined that the valuation price of our ordinary shares with respect to the 2015 equity compensation was \$1.37.

(2) Promoted from chief operating officer to chief executive officer in May 2015.

(3) Resigned as an executive officer in April 2015.

AGRL has employment agreements with three of its executive officers. The following table sets forth certain information about these employment agreements as of December 31, 2015.

<b>Officer</b>	<b>Position</b>	<b>Termination Date</b>	<b>Annual Salary</b>
Lam Chou In	Chief Operating Officer	April 30, 2018	\$ 201,197
Vong Hon Kun	Chief Executive Officer*	April 30, 2018	\$ 232,150
Yip Cheuk Fai	Chief Financial Officer	April 30, 2018	\$ 154,787

\*Promoted from chief operating officer to chief executive officer in May 2015 and signed a new three-year employment agreement.

Each officer is entitled to paid vacation in accordance with AGRL's policies. Each officer is also entitled to reasonable use of company-provided automobiles, with the officer to be reimbursed for all reasonable expenses related to the use and operation of such automobiles. However, no automobiles are currently being provided and we currently have no plan in place to provide automobiles.

The employment agreements provide that the executive, during a period of five years following the termination of his employment shall not compete with AGRL or solicit any of its employees.

The agreements contain provisions prohibiting the executives, during their respective terms of employment, from selling, hypothecating or otherwise transferring more than 20% of any ordinary shares that may be transferred to them by Spring Fortune from shares it received or receives as a result of the acquisition. If an executive's employment is terminated for any reason prior to the expiration of the employment term, or if the executive breaches the confidentiality and non-competition and non-solicitation provisions of his employment agreement, the executive is obligated to transfer and assign to us all securities then held by him and all rights to receive securities in the future, which securities will be canceled.

## Director Compensation

All of our directors presently receive annual compensation of \$30,000 in cash and \$20,000 in our ordinary shares, valued at the average of the closing prices of the ordinary shares over the three-month period preceding the end of each fiscal year. The directors of the Company are entitled to receive an aggregate of 131,382 ordinary shares for fiscal 2015. The chairman of the audit committee receives additional annual cash compensation of \$10,000 and the other members of the audit committee each receive additional annual cash compensation of \$5,000. The chairman of the compensation and nominating committees each receive additional annual cash compensation of \$5,000 and the other members of these committees each receive additional annual cash compensation of \$3,000. Each director receives \$1,000 for each board or committee meeting that he or she attends (whether in person or telephonically) that is at least an hour in duration and \$500 for each board or committee meeting he or she attends that is less than an hour in duration.

The following table sets forth information regarding compensation provided to our directors for their service on the board of directors in 2015.

<b>Name</b>	<b>Fees Earned or Paid in Cash (US\$)</b>	<b>Ordinary Shares (1) (US\$)</b>	<b>Total (US\$)</b>
Yeung Lun Allan	38,000	20,000	58,000
Lam Man Pou	30,000	20,000	50,000
Vong Hon Kun	30,000	20,000	50,000
Manuel Santos Ferreira	38,000	20,000	58,000
Peter Li	38,000	20,000	58,000
James R. Preissler	40,000	20,000	60,000
Lam Chou In (2)	20,000	13,333	33,333
Yip Cheuk Fai (2)	23,333	13,333	36,666
Kwok Chi Chung (2)	25,333	13,000	38,333
Raymond Li Chun Ming (3)	11,667	6,667	18,334
George Chui Vai Hou (3)	12,667	6,667	19,334
Leong Siak Hung (3)	10,000	6,667	16,667

- (1) Our board of directors determined that the valuation price of our ordinary shares with respect to the 2015 directors' equity compensation was \$1.37.
- (2) Appointed as a director in May 2015.
- (3) Resigned as a director in April 2015.

## Incentive Plan

On December 13, 2011, our shareholders approved the Iao Kun Group Holding Company Limited 2011 Omnibus Securities and Incentive Plan (the "2011 Incentive Plan"). The purpose of the 2011 Incentive Plan is to assist us to attract, retain and provide incentives to key management employees and nonemployee directors of, and nonemployee consultants, to us and our affiliates, and to align the interests of such employees, nonemployee directors and nonemployee consultants with those of our shareholders. Awards under the 2011 Incentive Plan are limited in the aggregate to 200,000 ordinary shares. As of the date of this Annual Report, there are 28,200 ordinary available for issuance under the 2011 Incentive Plan. We plan to issue 145,980 ordinary shares for the equity portion of 2015 compensation upon approval of a shareholders meeting for a revised Incentive Plan and approval from the Board of Directors.



## Incentive Plan

In November 2015, our shareholders approved the Iao Kun Group Holding Company Limited 2015 Omnibus Equity Incentive Plan (the “2015 Incentive Plan”). The purpose of the 2015 Incentive Plan is to assist us to attract, retain and provide incentives to key management employees and nonemployee directors of, and nonemployee consultants, to us and our affiliates, and to align the interests of such employees, nonemployee directors and nonemployee consultants with those of our shareholders. Awards under the 2015 Incentive Plan are limited in the aggregate to 500,000 ordinary shares (exclusive of awards previously issued and outstanding under the Iao Kun Group Holding Company Limited 2011 Omnibus Securities and Incentive Plan). As of the date of this Annual Report, there are 416,470 ordinary shares available for issuance under the 2015 Incentive Plan.

### General Description of the 2015 Incentive Plan

The following is a summary of the material provisions of the 2015 Incentive Plan and is qualified in its entirety by reference to the complete text of the 2015 Incentive Plan, a copy of which is attached as an exhibit hereto.

*Administration* . The 2015 Incentive Plan is administered by a committee (the “Committee”) designated by the Board of Directors, which shall consist solely of two (2) or more Directors who are each (i) “outside directors” (“Outside Directors”) within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), (ii) “non-employee directors” within the meaning of Rule 16b-3 (“Non-Employee Directors”) and (iii) “independent” for purposes of any applicable listing requirements; provided, however, that the Board of Directors or the Committee may delegate to a committee of one or more members of the Board of Directors who are not (x) Outside Directors, the authority to grant awards to eligible persons who are not (A) then “covered employees” within the meaning of Section 162(m) of the Code and are not expected to be “covered employees” at the time of recognition of income resulting from such award, or (B) persons with respect to whom the Company wishes to comply with the requirements of Section 162(m) of the Code, and/or (y) Non-Employee Directors, the authority to grant awards to eligible persons who are not then subject to the requirements of Section 16 of the Exchange Act. Our Compensation Committee serves as this Committee. If a member of the Committee shall be eligible to receive an award under the Plan, such Committee member shall have no authority hereunder with respect to his or her own award. Among other things, the Committee has complete discretion, subject to the terms of the 2015 Incentive Plan, to determine the employees, non-employee directors and non-employee consultants to be granted an award under the 2015 Incentive Plan, the type of award to be granted, the number of ordinary shares subject to each award, the exercise price under each option and base price for each SAR (as defined below), the term of each award, the vesting schedule for an award, whether to accelerate vesting, the value of the ordinary shares underlying the award, and the required withholdings, if any. The Committee is also authorized to construe the award agreements, and may prescribe rules relating to the 2015 Incentive Plan.

*Grant of Awards; Shares Available for Awards* . The 2015 Incentive Plan provides for the grant of awards which are distribution equivalent rights, non-qualified share options, performance shares, performance units, restricted shares, restricted share units, share appreciation rights (“SARs”), tandem share appreciation rights, unrestricted shares or any combination of the foregoing, to key management employees and nonemployee directors of, and nonemployee consultants of, the Company or any of its subsidiaries (each a “participant”). We have reserved a total of 500,000 shares for issuance as or under awards to be made under the 2015 Incentive Plan. To the extent that an award lapses, expires, is canceled, is terminated unexercised or ceases to be exercisable for any reason, or the rights of its holder terminate, any shares subject to such award shall again be available for the grant of a new award. The 2015 Incentive Plan shall continue in effect, unless sooner terminated, until the tenth (10th) anniversary of the date on which it is adopted by the Board of Directors (except as to awards outstanding on that date). The number of shares for which awards which are options or SARs may be granted to a participant under the 2015 Incentive Plan during any calendar year is limited to 50,000.

Future new hires, non-employee directors and additional non-employee consultants would be eligible to participate in the 2015 Incentive Plan as well. The number of awards to be granted to officers, non-employee directors, employees and non-employee consultants cannot be determined at this time as the grant of awards is dependent upon various factors such as hiring requirements and job performance.

*Options* . The 2015 Incentive Plan now authorizes the issuance of only nonqualified share options (and not incentive share options). The term of each option shall be as specified in the option agreement; provided, however, that, no option shall be exercisable after the expiration of ten (10) years from the date of its grant.

The price at which an ordinary share may be purchased upon exercise of an option shall be determined by the Committee; provided, however, that such option price (i) shall not be less than the fair market value of an ordinary share on the date such option is granted, and (ii) shall be subject to adjustment as provided in the 2015 Incentive Plan. The Committee or the Board of Directors shall determine the time or times at which or the circumstances under which an option may be exercised in whole or in part, the time or times at which options shall cease to be or become exercisable following termination of the option holder's employment or upon other conditions, the methods by which such exercise price may be paid or deemed to be paid, the form of such payment, and the methods by or forms in which ordinary shares will be delivered or deemed to be delivered to participants who exercise options.

*Restricted Share Awards* . A restricted share award is a grant or sale of ordinary shares to the participant, subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee or the Board may impose, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee or the Board of Directors may determine at the date of grant or purchase or thereafter. Except to the extent restricted under the terms of the 2015 Incentive Plan and any agreement relating to the restricted share award, a participant who is granted or has purchased restricted shares shall have all of the rights of a shareholder, including the right to vote the restricted shares and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee or the Board of Directors). During the restricted period applicable to the restricted shares, subject to certain exceptions, the restricted shares may not be sold, transferred, pledged, hypothecated, or otherwise disposed of by the participant.

*Unrestricted Share Awards* . Pursuant to the terms of the applicable unrestricted share award agreement, a holder may be awarded (or sold) ordinary shares which are not subject to restrictions, in consideration for past services rendered thereby to us or an affiliate or for other valid consideration.

*Restricted Share Units Awards* . The Committee shall set forth in the applicable restricted share unit award agreement the individual service-based vesting requirement which the holder would be required to satisfy before the holder would become entitled to payment and the number of units awarded to the Holder. Such payment shall be subject to a "substantial risk of forfeiture" under Section 409A of the Code. At the time of such award, the Committee may, in its sole discretion, prescribe additional terms and conditions or restrictions. The holder of a restricted share unit shall be entitled to receive a cash payment equal to the fair market value of an ordinary share, or one (1) ordinary share, as determined in the sole discretion of the Committee and as set forth in the restricted share unit award agreement, for each restricted share unit subject to such restricted share unit award, if and to the extent the applicable vesting requirement is satisfied. Such payment shall be made no later than by the fifteenth (15th) day of the third (3rd) calendar month next following the end of the calendar year in which the restricted share unit first becomes vested.

*Performance Unit Awards* . The Committee shall set forth in the applicable performance unit award agreement the performance goals and objectives (and the period of time to which such goals and objectives shall apply) which the holder and/or the Company would be required to satisfy before the holder would become entitled to payment, the number of units awarded to the holder and the dollar value or formula assigned to each such unit. Such payment shall be subject to a "substantial risk of forfeiture" under Section 409A of the Code. At the time of such award, the Committee may, in its sole discretion, prescribe additional terms and conditions or restrictions. The holder of a performance unit shall be entitled to receive a cash payment equal to the dollar value or formula assigned to such unit under the applicable performance unit award agreement if the holder and/or the Company satisfy (or partially satisfy, if applicable under the applicable performance unit award agreement) the performance goals and objectives set forth in such performance unit award agreement. If achieved, such payment shall be made no later than by the fifteenth (15th) day of the third (3rd) calendar month next following the end of the Company's fiscal year to which such performance goals and objectives relate.

*Performance Share Awards* . The Committee shall set forth in the applicable performance share award agreement the performance goals and objectives (and the period of time to which such goals and objectives shall apply) which the holder and/or the Company would be required to satisfy before the holder would become entitled to the receipt of ordinary shares pursuant to such holder's performance share award and the number of ordinary shares subject to such performance share award. Such payment shall be subject to a "substantial risk of forfeiture" under Section 409A of the Code and, if such goals and objectives are achieved, the distribution of such ordinary shares shall be made no later than by the fifteenth (15th) day of the third (3rd) calendar month next following the end of the Company's fiscal year to which such goals and objectives relate. At the time of such award, the Committee may, in its sole discretion, prescribe additional terms and conditions or restrictions. The holder of a performance share award shall have no rights as a shareholder of the Company until such time, if any, as the holder actually receives ordinary shares pursuant to the performance share award.

*Distribution Equivalent Rights* . The Committee shall set forth in the applicable distribution equivalent rights award agreement the terms and conditions, if any, including whether the holder is to receive credits currently in cash, is to have such credits reinvested (at fair market value determined as of the date of reinvestment) in additional ordinary shares or is to be entitled to choose among such alternatives. Such receipt shall be subject to a "substantial risk of forfeiture" under Section 409A of the Code and, if such award becomes vested, the distribution of such cash or ordinary shares shall be made no later than by the fifteenth (15th) day of the third (3rd) calendar month next following the end of the Company's fiscal year in which the holder's interest in the award vests. Distribution equivalent rights awards may be settled in cash or in ordinary shares, as set forth in the applicable distribution equivalent rights award agreement. A distribution equivalent rights award may, but need not be, awarded in tandem with another award, whereby, if so awarded, such distribution equivalent rights award shall expire, terminate or be forfeited by the holder, as applicable, under the same conditions as under such other award. The distribution equivalent rights award agreement for a distribution equivalent rights award may provide for the crediting of interest on a distribution rights award to be settled in cash at a future date (but in no event later than by the fifteenth (15th) day of the third (3rd) calendar month next following the end of the Company's fiscal year in which such interest was credited and vested), at a rate set forth in the applicable distribution equivalent rights award agreement, on the amount of cash payable thereunder.

*Share Appreciation Rights* . A SAR provides the participant to whom it is granted the right to receive, upon its exercise, the excess of (A) the fair market value of an ordinary shares subject to the SAR on the date of exercise, less (B) the base value under the SAR, (C) multiplied by the number of ordinary shares subject to the SAR, as determined by the Committee or the Board. The base value of a SAR shall not be less than the fair market value of an ordinary share on the date of grant. If the Committee grants a share appreciation right which is intended to be a tandem SAR, additional restrictions apply.

*Recapitalization or Reorganization* . Subject to certain restrictions, the 2015 Incentive Plan provides for the adjustment of ordinary shares underlying awards previously granted if, and whenever, prior to the expiration or distribution to the holder of ordinary shares underlying an award theretofore granted, the Company shall effect a subdivision or consolidation of the ordinary shares or the payment of an ordinary share dividend on ordinary shares without receipt of consideration by the Company. If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise or satisfaction, as applicable, of a previously granted award, the holder shall be entitled to receive (or entitled to purchase, if applicable) under such award, in lieu of the number of ordinary shares then covered by such award, the number and class of shares and securities to which the holder would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the holder had been the holder of record of the number of ordinary shares then covered by such award. The 2015 Incentive Plan also provides for the adjustment of shares underlying awards previously granted by the Board of Directors in the event of changes to the outstanding ordinary shares by reason of extraordinary cash dividend, reorganization, mergers, consolidations, combinations, split ups, spin offs, exchanges or other relevant changes in capitalization occurring after the date of the grant of any award, subject to certain restrictions.

*Amendment and Termination*. The 2015 Incentive Plan shall continue in effect, unless sooner terminated pursuant to its terms, until the tenth (10th) anniversary of the date on which it is adopted by the Board of Directors (except as to awards outstanding on that date). The Board of Directors may terminate the 2015 Incentive Plan at any time with respect to any shares for which awards have not theretofore been granted; provided, however, that the 2015 Incentive Plan's termination shall not materially and adversely impair the rights of a holder with respect to any award theretofore granted without the consent of the holder. The Board of Directors shall have the right to alter or amend the 2015 Incentive Plan or any part hereof from time to time; provided, however, that without the approval by a majority of the votes cast at a meeting of shareholders at which a quorum representing a majority of the ordinary shares of the Company entitled to vote generally in the election of directors is present in person or by proxy, no amendment or modification of the 2015 Incentive Plan may (i) materially increase the benefits accruing to holders, (ii) except as otherwise expressly provided in the 2015 Incentive Plan, materially increase the number of ordinary shares subject to the 2015 Incentive Plan or the individual award agreements, (iii) materially modify the requirements for participation, or (iv) amend, modify or suspend certain repricing prohibitions or amendment and termination provisions as specified therein. In addition, no change in any award theretofore granted may be made which would materially and adversely impair the rights of a holder with respect to such award without the consent of the holder (unless such change is required in order to cause the benefits under the 2015 Incentive Plan to qualify as "performance-based" compensation within the meaning of Section 162(m) of the Code or to exempt the 2015 Incentive Plan or any Award from Section 409A of the Code).

#### ***Certain U.S. Federal Income Tax Consequences of the 2015 Incentive Plan***

The following is a general summary of the U.S. federal income tax consequences under current tax law to the Company, were it subject to U.S. federal income taxation on a net income basis, and to participants under the 2015 Incentive Plan who perform services for the Company and who are individual citizens or residents of the United States for U.S. federal income tax purposes ("U.S. participants") of non-qualified share options, SARs, restricted shares, performance shares, performance units, restricted share units, dividend equivalent rights and unrestricted shares. It does not purport to cover all of the special rules that may apply, including special rules relating to limitations on the ability of the Company, to deduct certain compensation for U.S. federal income tax purposes, special rules relating to deferred compensation, golden parachutes, participants subject to Section 16(b) of the Exchange Act and the exercise of a share option with previously-acquired ordinary shares of the Company. This summary does not address the application of the passive foreign investment company rules of the Code to U.S. participants, which are discussed generally in Item 10.E below. In addition, this summary does not address the foreign, state or local income or other tax consequences, or any U.S. federal non-income tax consequences, inherent in the acquisition, ownership, vesting, exercise, termination or disposition of an award under the 2015 Incentive Plan or ordinary shares issued pursuant thereto. Participants are urged to consult their own tax advisors concerning the tax consequences to them of an award under the 2015 Incentive Plan or ordinary shares issued pursuant thereto.

A U.S. participant generally does not recognize taxable income upon the grant of an option. Upon the exercise of a non-qualified share option, the participant generally recognizes ordinary income in an amount equal to the excess, if any, of the fair market value of the ordinary shares acquired on the date of exercise over the exercise price therefor, and the Company would be entitled to a deduction for such amount at that time. If the U.S. participant later disposes the ordinary shares acquired under a non-qualified share option, the U.S. participant generally recognizes a long-term or short-term gain or loss, depending upon the period for which the ordinary shares were held thereby. A long-term capital gain generally is subject to more favorable tax treatment than ordinary income or a short-term capital gain. The deductibility of capital losses is subject to certain limitations.

A U.S. participant who receives a grant of restricted ordinary shares or who purchases restricted ordinary shares, which ordinary shares, in either case, are subject to a substantial risk of forfeiture and certain transfer restrictions, generally does not recognize income on the receipt of the grant or the purchased restricted ordinary shares and generally recognizes ordinary compensation income at the time the restrictions lapse in an amount equal to the excess, if any, of the fair market value of the shares at such time over any amount paid by the U.S. participant for the ordinary shares. Alternatively, the U.S. participant may elect to be taxed upon receipt of the restricted ordinary shares based on the value of the ordinary shares at the time of receipt. The Company generally would be entitled to deduct such amount at the same time as ordinary compensation income is required to be included by the U.S. participant and in the same amount. Dividends received with respect to restricted ordinary shares generally are treated as compensation, unless the U.S. participant elects to be taxed on the receipt (rather than the vesting) of the restricted ordinary shares.

A U.S. participant generally does not recognize income upon the grant of an SAR. The U.S. participant recognizes ordinary compensation income upon the exercise of the SAR equal to the increase in the value of the underlying ordinary shares, and the Company generally would be entitled to a deduction for such amount.

A U.S. participant generally does not recognize income on the receipt of a performance share award, performance unit award, restricted share unit award, unrestricted share award, or dividend equivalent right award until a payment is received under the award. At such time, the U.S. participant recognizes ordinary compensation income equal to the amount of any cash payments and the fair market value of any ordinary shares received, and the Company generally would be entitled to deduct such amount at such time.

### **Indemnification**

Cayman Islands law provides that a corporation may indemnify its directors and officers as well as its other employees and junket agents against judgments, fines, and amounts paid in settlement and expenses, including attorneys' fees, in connection with various proceedings, except where there has been fraud or dishonesty or willful neglect or willful default. Our Second Amended and Restated Memorandum and Articles of Association provide that each member of our board of directors, officer and agent shall be indemnified out of our assets against any liability incurred by him or her as a result of any act or failure to act in carrying out his or her functions other than such liability (if any) that he or her may incur by his or her own fraud or willful default and that no such director, agent or officer shall be liable to us for any loss or damage in carrying out his or her functions unless that liability arises through the fraud or willful default of such director, officer or agent. Our Second Amended and Restated Memorandum and Articles of Association do not eliminate any of our director's fiduciary duties. The inclusion of the foregoing provision may, however, discourage or deter shareholders or management from bringing a lawsuit against directors even though such an action, if successful, might otherwise have benefited us and our shareholders. This provision, however, will not eliminate or limit liability arising under United States federal securities laws.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act") may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in that act and is therefore unenforceable. It should be noted, however, that the opinion of the SEC is not binding on courts and courts, particularly those of jurisdictions other than the United States, may determine otherwise.

We have entered into indemnification agreements separately with each of our current directors and officers that provide, in consideration of the director or officer continuing to serve us in his current capacity, for us to indemnify, and advance expenses to, him or her to the fullest extent permitted by law in effect on the date of execution of the agreements or to such greater extent as applicable law may thereafter permit. The rights of indemnification apply if, by reason of such person's position as an officer or director of us or any of our subsidiaries, he or she was or is threatened to be made, a party to any threatened, pending or completed legal proceeding. With respect to proceedings other than one brought by or in our right (*i.e.*, a shareholders' derivative proceeding), the indemnification covers expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by the indemnified person or on his or her behalf in connection with any such proceeding or any claim, issue or matter therein, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. With respect to proceedings brought by or in our right, the indemnification covers expenses and amounts paid in settlement (such settlement amounts not to exceed, in the judgment of our board of directors, the estimated expense of litigating the proceeding to conclusion) actually and reasonably incurred by him or her or on his or her behalf in connection with any such proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests. However, no indemnification against such expenses or amounts paid in settlement shall be made in respect of any claim, issue or matter in any such proceeding as to which indemnified person has been adjudged to be liable to us if applicable law prohibits such indemnification unless the court in which such proceeding shall have been brought, was brought or is pending, shall determine that indemnification against expenses or amounts paid in settlement may nevertheless be made by us. We will advance an indemnified person reasonable and substantiated expenses, judgments, penalties and fines and amounts paid in settlement in advance of a final determination of liability upon such person agreeing to repay amounts advanced in the event of an ultimate determination that he or she is not entitled to be indemnified with respect to the amounts advanced. The rights of the indemnitees under the agreements are not deemed exclusive of any other rights they may be entitled to under applicable law, our memorandum and articles of association, any agreement, vote of shareholders or resolution of directors or otherwise. Each agreement will remain in effect until the later of ten years after the date the indemnitee shall have ceased to serve as a director or officer or the final determination of all pending proceedings.

### **C. Board Practices**

#### **Term of Office and Benefits**

Our board of directors is divided into three classes, each of which serves a term of three years, with only one class of directors being elected in each year. Please refer to the disclosure under Item 6.A. herein for further information about the term of our directors.

#### **Board Operations**

The positions of principal executive officer and chairman of the Board of Directors are held by different persons. The chairman of the Board of Directors chairs Board of Director and shareholder meetings and participates in preparing their agendas.

The Board of Directors is responsible for overall supervision of our risk oversight efforts as they relate to the key business risks facing the organization. Management identifies, assesses, and manages the risks most critical to the Company's operations on a day-to-day basis and routinely advises the Board of Directors on those matters as the CEO and CFO have access to the Board of Directors, attend regular meetings as well as the audit committee meetings. The Board's role in risk oversight is consistent with our leadership structure, with senior management having responsibility for assessing and managing our risk exposure, and the Board and its Committees, providing oversight as necessary in connection with those efforts.

#### **Independence of Directors**

Messrs. James Preissler, João Manuel Santos Ferreira, Yeung Lun Allan, Peter Li and Kwok Chi Chung, who constitute a majority of our board of directors, meet the standards for independence that are required by the Nasdaq Stock Market. The Nasdaq Stock Market's listing standards define an "independent director" generally as a person, other than an officer of a company, who does not have a relationship with the company that would interfere with the director's exercise of independent judgment.

## Code of Ethics

In August 2008, our board of directors adopted a code of ethics that applies to our directors, officers and employees as well as those of our subsidiaries and is described in the section of this Annual Report entitled “*Code of Ethics and Related Person Policy*” under Item 7.B. herein. Copies of the code of ethics are available free of charge upon request. Requests for copies of the code of ethics should be sent in writing to Iao Kun Group Holding Company Limited, Alameda Dr. Carlos D’ Assumpcao No: 181-187 Centro Comercial, c/o Grupo Brillhantismo, 12 Andar T, Macau.

## Committee Information

### *Audit Committee*

On March 10, 2010, the Board of Directors formed the Audit Committee and adopted a written charter. The Audit Committee is established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). James R. Preissler (Chairman), Yeung Lun Allan and Kwok Chi Chung currently serve on this committee. So that we meet the Nasdaq Stock Exchange and other stock exchange listing requirements, the audit committee will now at all times be composed exclusively of “independent directors” who are “financially literate” as defined under the Nasdaq Stock Exchange listing standards. The definition of “financially literate” generally means being able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement. Messrs. Preissler, Yeung and Kwok meet the standards for independence and financial literacy that are required by the Nasdaq Stock Market and other exchanges and Mr. Preissler also meets the standards for an “Audit Committee Financial Expert” required by SEC rules and current stock exchange listing standards.

The audit committee’s duties, which are specified in our audit committee charter, include, but are not limited to:

- reviewing and discussing with management and the independent auditor the annual audited financial statements, and recommending to the board whether the audited financial statements should be included in our Annual Report on Form 20-F;
- discussing with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of our financial statements;
- discussing with management major risk assessment and risk management policies;
- monitoring the independence of the independent auditor;
- verifying the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law;
- inquiring and discussing with management our compliance with applicable laws and regulations;
- pre-approving all audit services and permitted non-audit services to be performed by our independent auditor, including the fees and terms of the services to be performed;
- appointing or replacing our independent auditor;
- determining the compensation and oversight of the work of our independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work;
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or reports which raise material issues regarding our financial statements or accounting policies; and

- reviewing and approving any related party transactions we may enter into. The audit committee will consider all relevant factors when determining whether to approve a related party transaction, including whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction.

#### ***Nominating Committee***

On April 7, 2010, the Board of Directors formed the Nominating Committee and adopted a written charter. Manuel Santos Ferreira (Chairman), Kwok Chi Chung and Peter Li, each of whom is independent as defined in Rule 5605(a)(2) of the Nasdaq Listing Rules, currently serve on this committee. The nominating committee is responsible for overseeing the selection of persons to be nominated to serve on our board of directors. The nominating committee considers persons identified by its members, management, shareholders and others. The guidelines for selecting nominees, which are specified in the nominating committee charter, generally provide that persons to be nominated:

- should have demonstrated notable or significant achievements in business, education or public service;
- should possess the requisite intelligence, education and experience to make a significant contribution to the board of directors and bring a range of skills, diverse perspectives and backgrounds to its deliberations; and
- should have the highest ethical standards, a strong sense of professionalism and intense dedication to serving the interests of the shareholders.

The nominating committee will consider a number of qualifications relating to management and leadership experience, background and integrity and professionalism in evaluating a person's candidacy for membership on the board of directors. The nominating committee may require certain skills or attributes, such as financial or accounting experience, to meet specific board needs that arise from time to time. The nominating committee does not distinguish among nominees recommended by shareholders and other persons. The procedures by which security holders may recommend nominees to our board of directors have not been changed by the formation of the nominating committee.

#### ***Compensation Committee***

On April 7, 2010, the Board of Directors formed a Compensation Committee and adopted a written charter. Peter Li (Chairman), Manuel Santos Ferreira, and Yeung Lun Allan, each of whom is independent as defined in Rule 5605(a)(2) of the Listing Rules, currently serve on this committee. The charter sets forth responsibilities, authority and specific duties of the Compensation Committee. The principal functions of the compensation committee are to evaluate the performance of our officers, to review any compensation payable to our directors and officers, to prepare compensation committee reports, and to administer the issuance of any common stock or other equity awards issued to our officers and directors.

#### **D. Employees**

The table below provides information as to the total number of employees at the end of the last three fiscal years. We have no contracts or collective bargaining agreements with labor unions and have never experienced work stoppages. We consider our relations with our employees to be good. The majority of our employees are located in Macau. The significant increase in the number of employees is because we directly hired certain key personnel in our VIP rooms from Pak Si (defined below).

	<b>2013</b>	<b>2014</b>	<b>2015</b>
Number of Employees	53	76	111



Part of the day-to-day management and operation of the VIP gaming rooms is contracted by the VIP gaming promoter to a management company that is responsible for hiring and managing certain staff needed for the operation. This includes local managers and executives to provide supervision, finance and cage personnel, public relations, drivers and other service staff (waiters, cleaners, etc.). The VIP gaming promoters have entered into such agreements with Pak Si Management and Consultancy Limited (“Pak Si”), owned by Ms. Tam Lai Ching, Mr. Vong’s sister-in-law. Pak Si must pay all salaries, benefits and other expenses of operation out of such amounts. Such agreements are for one-year terms.

**E. Share Ownership**

See Item 7, below.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. Major shareholders**

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of March 10, 2016 by:

- each person known by us to be the beneficial owner of more than 5% of our outstanding ordinary shares;
- each of our current executive officers and directors; and
- all of our current executive officers and directors as a group.

Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all ordinary shares beneficially owned by them. Our major shareholders do not have different voting rights than our non-majority shareholders. Percentages of ownership are based on 62,307,794 ordinary shares outstanding as of March 10, 2016. Ordinary shares which an individual or group has a right to acquire within 60 days pursuant to the exercise or conversion of options, warrants or other convertible securities are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Sylvia Lee (1)	2,445,739(2)	3.9%
Vong Hon Kun (3)	8,347,295	13.4%
Lam Chou In (3)	6,771,875	10.9%
Lam Man Pou (3)	6,524,438	10.5%
Kwok Chi Chung (3)	0	*
James R. Preissler (4)	276,258	*
Yip Cheuk Fai (3)	0	*
Peter Li	194,586	*
Joao Manuel Santos Ferreira (3)	28,477	*
Yeung Lun, Allan (3)	28,477	*
All of our directors and executive officers as a group (10 individuals)	<u>24,617,145</u>	<u>39.5%</u>
All of our directors, executive officers and 5% stockholders who are our employees as a group.	<u>24,617,145</u>	<u>39.5%</u>

\* Less than 1%.

- (1) The business address of Mrs. Lee is 4100 N.E. Second Avenue, Suite 318, Miami, Florida 33137.
- (2) Represents 115,849 ordinary shares owned jointly by Mrs. Lee and her husband, 31,998 ordinary shares owned by Mrs. Lee and 2,297,892 ordinary shares held by CS Capital USA, LLC, an affiliate of Mrs. Lee and her husband.
- (3) Each of these persons maintains a business address at Alameda Dr. Carlos D' Assumpcao No: 181-187, Centro Comercial c/o Grupo Brilhantismo, 12 Andar T, Macau.
- (4) The business address of James R. Preissler is 50 Old Route 25A, Fort Salonga, NY 11768.

As of March 10, 2016, we believe that 12 holders of record of approximately 51.6% of our outstanding ordinary shares reside in the United States.

## **B. Related Party Transactions**

### **Code of Ethics and Related Person Policy**

Our Code of Ethics requires us to avoid, wherever possible, all related party transactions that could result in actual or potential conflicts of interest, except under guidelines approved by the board of directors (or the audit committee, if one exists at the time). Related-party transactions are defined as transactions in which (1) the aggregate amount involved will or may be expected to exceed \$120,000 in any calendar year, (2) we or any of our subsidiaries is a participant, and (3) any (a) executive officer, director or nominee for election as a director, (b) greater than 5 percent beneficial owner of our ordinary shares, or (c) immediate family member, of the persons referred to in clauses (a) and (b), has or will have a direct or indirect material interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of another entity). A conflict of interest situation can arise when a person takes actions or has interests that may make it difficult to perform his or her work objectively and effectively. Conflicts of interest may also arise if a person, or a member of his or her family, receives improper personal benefits as a result of his or her position. We are not prohibited from entering into related-party transactions with our directors and officers.

Our board of directors is responsible for reviewing and approving related-party transactions to the extent we enter into such transactions. The board of directors will consider all relevant factors when determining whether to approve a related party transaction, including whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. No director may participate in the approval of any transaction in which he is a related party, but that director is required to provide the other members of the board of directors with all material information concerning the transaction. Additionally, we require each of our directors and executive officers to complete a directors' and officers' questionnaire that elicits information about related party transactions. These procedures are intended to determine whether any such related party transaction impairs the independence of a director or presents a conflict of interest on the part of a director, employee or officer.

### **Related Person Transactions of the Company**

Because IKGH and its subsidiaries are not able to directly operate as VIP gaming promoters, IKGH's management has technical ownership of IKGH's VIP gaming promoters, but each such VIP gaming promoter has entered into an agreement with a subsidiary of IKGH providing that 100% of the profits of each VIP gaming promoter be paid to a subsidiary of IKGH. None of the members of IKGH's management team receive compensation for being the owners of IKGH's VIP gaming promoters. The following table shows the relationships of IKGH's management team to its Promotion Entities:

<b>Entity Name</b>	<b>Management Team Member Owning Entity</b>
Sang Heng	Lam Man Pou and Vong Hon Kun
King's Gaming	Mok Chi Hung
Sang Lung	Lam Man Pou and Vong Hon Kun
Bao Li	Lou Kan Kuong and Lei Kam Keong
Oriental	Lam Chou In and Vong Veng Im

The following is a summary of related party transaction and balances as of and for the years ended December 31, 2015, 2014 and 2013:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Loans payable to Mr. Lam Man Pou and Mr. Vong Hon Kun	\$ 2,827,584	\$ 2,612,490	\$ 5,809,075
Loan proceeds from / (payments made to) Mr. Lam Man Pou and Mr. Vong Hon Kun in cash	\$ 213,966	\$ (3,196,222)	\$ (25,802,070)
Contingent consideration payable to Mr. Mok Chi Hung	\$ -	\$ -	\$ 9,000,000
Contingent consideration paid to Mr. Mok Chi Hung in cash	\$ -	\$ 9,000,000	\$ 9,000,000
Contingent consideration payable to Mr. Lou Kan Kuong and Mr. Lei Kam Keong	\$ 14,228,500	\$ 42,291,631	\$ 33,027,050
Contingent consideration paid to Mr. Lou Kan Kuong and Mr. Lei Kam Keong	\$ 21,320,000	\$ 13,000,000	\$ 13,000,000
Contingent consideration payable to Mr. Vong Veng Im	\$ -	\$ 41,404,026	\$ 36,528,269
Contingent consideration paid to Mr. Vong Veng Im	\$ 14,950,000	\$ 26,000,000	\$ 20,000,000
Payable to Pak Si for management services	\$ 399,959	\$ 573,897	\$ 619,042
Total expense for Pak Si for management services	\$ 4,798,390	\$ 7,156,950	\$ 6,807,018
Entertainment expense paid to restaurant owned by Mr. Lam Man Pou and Mr. Vong Hon Kun	\$ 417,000	\$ 727,298	\$ 779,224

Star World Hotel and Casino has extended a credit line of \$25.8 million to Sang Heng which is guaranteed by Mr. Lam. Galaxy Macau Resort has extended a credit line of \$25.8 million to Sang Lung which is guaranteed by Mr. Lam. These credit lines are used to advance funds to VIP gaming patrons so that the VIP gaming patrons can purchase non-negotiable chips on credit at the Lao Kun VIP Rooms operated by Sang Heng at the Star World Hotel and Casino and by Sang Lung at the Galaxy Macau Resort. The credit lines are non-interest bearing, and Mr. Lam is not compensated by AGRL for the guarantee.

From time to time, Mr. Lam and Mr. Vong Hon Kun make small loans to AGRL for operational purposes. Such loans do not bear interest and Mr. Lam and Mr. Vong are not otherwise compensated for making such loans.

City of Dreams Hotel & Casino has extended a credit line of \$4.5 million to Bao Li Gaming, which is guaranteed by Mr. Lou. The credit line is used to advance funds to VIP gaming patrons so that the VIP gaming patrons can purchase non-negotiable chips on credit at the VIP gaming room promoted by Bao Li Gaming at City of Dreams Hotel & Casino. The credit line is non-interest bearing and Mr. Lou is not compensated by AGRL for the guarantee.

Crown Australia has extended a credit line of \$1.5 million to the Company, which is guaranteed by Mr. Lou. The credit line is used to advance funds to VIP gaming patrons so that the VIP gaming patrons can purchase non-negotiable chips on credit at the VIP gaming rooms at the Crown Perth Casino and the Crown Melbourne Casino. The credit line is non-interest bearing and Mr. Lou is not compensated by AGRL for the guarantee.

Messrs. Lam and Vong have agreed to extend credit to AGRL to lend funds to its VIP gaming promoters so that they in turn can extend credit to their VIP gaming patrons. Such loans by Messrs. Lam and Vong are non-interest bearing. See the section entitled “AGRL’s Gaming Operations—Profit Interest Agreements” under Item 4.B. herein for further information regarding these arrangements.

Part of day-to-day management and operation of the VIP gaming rooms is contracted by the VIP gaming promoter to a management company that is responsible for hiring and managing staff needed for the operation. This includes local managers and executives to provide supervision, finance and cage personnel, public relations, drivers and other service staff (waiters, cleaners, etc.). The VIP Gaming Entities have entered into such agreements with Pak Si Management and Consultancy Limited (“Pak Si”), owned by Ms. Tam Lai Ching, Mr. Vong’s sister-in-law. Such agreements are for one-year terms. Effective July 1, 2014, the monthly payments were revised for Sang Heng and Sang Lung from US\$155,000 to approximately \$142,000 each; and Bao Li, King’s Gaming and the Oriental VIP Room from US\$103,000 to approximately \$97,000 each. Effective January 1, 2015, the monthly payments were revised for Sang Heng and Sang Lung from \$142,000 to \$103,000 each, and Bao Li, King’s Gaming and the Oriental VIP Room were revised from \$97,000 to \$65,000 each. Effective January 1, 2016, the monthly payments were revised for Bao Li, King’s Gaming and the Oriental VIP Room from \$65,000 to \$52,000 each.

**C. Interests of Experts and Counsel**

Not required.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated Statements and Other Financial Information.**

See Item 18.

**B. Significant Changes**

None.

**ITEM 9. THE OFFER AND LISTING**

**A. Offer and Listing Details**

The following table sets forth the range of high and low closing bid prices for the ordinary shares and warrants for the periods indicated since the ordinary shares and warrants commenced separate public trading on September 5, 2008. It also sets forth the range of high and low closing bid prices for our units (each consisting of one ordinary share and two warrants; symbol: CSACF) for such periods until the units were separated into their component shares and warrants and ceased trading separately on February 19, 2010. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily reflect actual transactions. Our unexercised warrants were redeemed for cash at the redemption price of \$0.01 on October 28, 2010. Accordingly, there are currently no warrants outstanding. Our ordinary shares currently trade on the Nasdaq Stock Market.

	Ordinary Shares		Warrants		Units	
	High \$	Low \$	High \$	Low \$	High \$	Low \$
<i>Annual Highs and Lows</i>						
2016*	1.68	1.02	—	—	—	—
2015	3.19	1.04	—	—	—	—
2014	3.51	1.22	—	—	—	—
2013	4.68	2.78	—	—	—	—
2012	6.56	2.30	—	—	—	—

	Ordinary Shares		Warrants		Units	
	High \$	Low \$	High \$	Low \$	High \$	Low \$
<b>Quarterly Highs and Lows</b>						
<i>2016</i>						
First Quarter*	1.68	1.02	—	—	—	—
<i>2015</i>						
First Quarter	1.76	1.08	—	—	—	—
Second Quarter	3.19	1.55	—	—	—	—
Third Quarter	2.27	1.40	—	—	—	—
Fourth Quarter	1.89	1.04	—	—	—	—
<i>2014</i>						
First Quarter	3.51	2.60	—	—	—	—
Second Quarter	3.49	2.93	—	—	—	—
Third Quarter	3.26	2.30	—	—	—	—
Fourth Quarter	2.29	1.22	—	—	—	—
<b>Monthly Highs and Lows</b>						
March 2016	1.19	1.03	—	—	—	—
February 2016	1.68	1.06	—	—	—	—
January 2016	1.20	1.04	—	—	—	—
December 2015	1.38	1.04	—	—	—	—
November 2015	1.48	1.18	—	—	—	—
October 2015	1.79	1.39	—	—	—	—
September 2015	1.89	1.40	—	—	—	—

\* Through March 10, 2016

The closing bid price for our ordinary shares on March 10, 2016 was \$1.05.

Holders of ordinary shares should obtain current market quotations for their securities. The market price of the ordinary shares could vary at any time.

**B. Plan of Distribution**

Not Applicable.

**C. Markets**

Our ordinary shares have traded on the Nasdaq Stock Market since July 3, 2010. From July 3, 2010 until October 2, 2013, they traded under the symbol AERL. Since October 2, 2013, they have traded under the symbol IKGH. Our warrants traded on the NASDAQ Stock Market under the symbol AERLW from July 3, 2010 until October 28, 2010, when they ceased trading. From February 22, 2010 until July 2, 2010, the ordinary shares and warrants traded on the OTC Bulletin Board under the symbols AERCF and AERLF, respectively. Prior to February 22, 2010, the ordinary shares and the warrants traded under the symbols CSAQF and CSAXF, respectively.

**D. Selling Shareholders**

Not Applicable.

**E. Dilution**

Not Applicable.

**F. Expenses of the Issue**

Not Applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not Applicable.

**B. Memorandum and Articles of Association**

The information required by Item 10.B. of Form 20-F is included in the section titled “Description of Securities—Memorandum and Article of Association” in our Post-Effective Amendment on Form F-3 to Registration Statement on Form F-1 initially filed with the SEC on October 20, 2010, as amended (File No. 333-166860), which section is incorporated herein by reference.

**C. Material Contracts**

Our only long term liabilities are the management agreements between IKGH’s Promotion Entities and Pak Si Management and Consultancy Limited of Macau, pursuant to which that company is responsible for the hiring and management of staff at the VIP gaming rooms promoted by the VIP gaming promoters in Macau. Each of the management agreements is for a one-year term, subject to renewal. The total obligations of IKGH’s Promotion Entities for year 2015 are approximately US \$4,797,000. See the section entitled “IKGH’s Gaming Operations” under Item 4.B. herein.

On October 6, 2009, we entered into a Stock Purchase Agreement with AGRL and Spring Fortune, a British Virgin Islands company, that provided for the purchase by us from Spring Fortune of all of the outstanding capital stock of AGRL. The Purchase Agreement was subsequently amended on November 10, 2009, December 9, 2009, January 11, 2010 and April 18, 2011. For further details about such agreement, please refer to the section titled “The Acquisition” under Item 4.A. herein.

On November 15, 2010, we consummated the transactions contemplated by that certain Profit Interest Purchase Agreement dated as of November 10, 2010 among us, King’s Gaming, Mr. Mok Chi Hung and Mr. Wong Hon Meng, pursuant to which we acquired 100% of the profit interest in King’s Gaming. For further details about such agreement, please refer to the section titled “Acquisition of King’s Gaming Promotion Limited” under Item 4.A. herein.

On September 12, 2012, we consummated the transactions contemplated by that certain Profit Interest Purchase Agreement dated as of September 12, 2012, among us, Bao Li Gaming, Mr. Lou Kan Kuong and Mr. Lei Kam Keong, pursuant to which we acquired 100% of the profit interest in Bao Li Gaming. For further details about such agreement, please refer to the section titled “Acquisition of Bao Li Gaming Promotion Limited” under Item 4.A. herein.

On June 26, 2013, we entered into a profit interest purchase agreement (the “Oriental VIP Room Purchase Agreement”) among us, as purchaser, Mr. Vong Veng Im, as seller, and Frontier Champion Limited, our wholly owned subsidiary, whereby we agreed to acquire, and Mr. Vong Veng Im agreed to dispose of, the right, title, interest and benefit in and to 100% of the net operating profit generated by Oriental VIP Room at the VIP gaming room located at level 1 of the Le Royal Arc Casino located in NAPE, Downtown Macau, pursuant to a separate profit interest agreement entered into between Frontier Champion and Mr. Vong Veng Im (the “Oriental VIP Room Profit Interest”). We closed the transactions contemplated by the Oriental VIP Room Purchase Agreement on June 26, 2013. For further details about such agreement, please refer to the section titled “Acquisition of Oriental VIP Room” under Item 4.A. herein.

On June 4, 2013, the Company entered into a Dealer Manager Agreement (the “Dealer Manager Agreement”) with Sterne, Agee & Leach, Inc. (“Sterne Agee”) pursuant to which Sterne Agee acted as exclusive dealer manager in connection with the our Rights Offering. Pursuant to the Dealer Manager Agreement, we agreed to pay Sterne Agee a fee equal to 2.5% of the gross proceeds received in connection with the Rights Offering and the standby purchase, as described below, upon successful completion of the Rights Offering, and to reimburse Sterne Agee for its out-of-pocket expenses incurred in connection with the Rights Offering whether or not the Rights Offering is completed.

In connection with the Rights Offering, the Company also entered into a standby purchase agreement (the “Standby Purchase Agreement”), dated as of June 4, 2013, with certain persons, including Lam Man Pou, the Company’s chairman, Vong Hon Kun, the Company’s chief operating officer, Lam Chou In, Zheng An Ting, So Kam Tai, Au Chun Yin, Chan Fok Hoi, Chan Kai Ian, Sin Kam Chan, Leong Wai Meng and Cheung Mee Mo (the “Standby Purchasers”), whereby the Standby Purchasers agreed to purchase a number of ordinary shares having a value equal to the aggregate subscription price we would have received with respect to the shares underlying all rights not exercised by all holders in the rights offering, referred to as the standby purchase, upon the same terms as the other holders, except the subscription price for 34% of such shares with respect to purchases made by Messrs. Lam Man Pou and Vong Hon Kun was \$4.50 per share. On June 21, 2013, the closing date of the offering, a total of 19,527,950 ordinary shares were issued. The Company incurred offering costs of \$2,067,809.

The parties to the Standby Purchase Agreement also entered into a Registration Rights Agreement (the “Registration Rights Agreement”) dated as of June 4, 2013, whereby the Company granted demand and piggyback registration rights to the Standby Purchasers.

Messrs. Lam and Vong have agreed to extend credit to AGRL to lend funds to its VIP gaming promoters so that they in turn can extend credit to their VIP gaming patrons. Such loans by Messrs. Lam and Vong are non-interest bearing. See the section entitled “IKGH’s Gaming Operations—Profit Interest Agreements” under Item 4.B. herein for further information regarding these arrangements.

On May 15, 2015, we entered into agreements to acquire all of the profit interests of Mr. Lou Kan Kuong (“Mr. Lou”) for acting as a junket operator for the Crown Perth Casino in Perth, Australia and for the Crown Melbourne Casino in Melbourne, Australia for \$200 of consideration in total. Mr. Lou, who is currently an officer of IKGH, entered into agreements to act as a junket operator for the above two Casinos on June 24, 2013. We have started trial operations in the Australian casinos to gain a greater understanding of the preferences of our junket agents and VIP players and the logistics of the market. As of today, nominal revenues have been generated by the Australia operation, equal to our costs as we test this market. We receive a fixed percentage of the rolling chip turnover we generate at the Australian casinos and do not currently share in the win/loss results. The profit interests were acquired as an asset purchase for the historical costs of establishing the agreements between Mr. Lou and Australian Casinos as a related party transaction. We entered into the agreement to expand to overseas markets for our existing agent network in Macau.

#### **D. Exchange controls**

There is no exchange control legislation under Cayman Islands law and accordingly there are no exchange control regulations imposed under Cayman Islands law.

#### **E. Taxation**

The following summary sets forth the material Cayman Islands and U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares covered by this Annual Report, based upon laws and relevant interpretations thereof in effect as of the date of this Annual Report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ordinary shares, such as the tax consequences under state, local and other tax laws. As used in this discussion, references to “we,” “our,” “us,” or “the company” refer only to Iao Kun Group Holding Company Limited.

##### **Cayman Islands Taxation**

The government of the Cayman Islands will not, under existing legislation, impose any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax upon the company or its shareholders. The Cayman Islands are not party to any double taxation treaties that are applicable to payments made to or by us.

No Cayman Islands stamp duty will be payable by you in respect of the issue or transfer of shares. However, an instrument transferring title to a share, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

We have received an undertaking from the Governor-in-Cabinet of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (Revised) of the Cayman Islands, for a period of 20 years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations, of the company or (ii) by way of the withholding in whole or in part of a payment of a dividend or other distribution of income or capital by the company to its shareholders or a payment of principal or interest or other sums due under a debenture or other obligation of the company.

## **United States Federal Income Taxation**

### **General**

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to a beneficial owner of our ordinary shares that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation) that is created or organized (or treated as created or organized) in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (i) a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A beneficial owner of our ordinary shares that is described above is referred to herein as a “U.S. Holder.” If a beneficial owner of our ordinary shares is not described as a U.S. Holder and is not an entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes, such owner will be considered a “Non-U.S. Holder.” The material U.S. federal income tax consequences applicable specifically to Non-U.S. Holders are described below under the heading “Non-U.S. Holders.”

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change or differing interpretations, possibly on a retroactive basis.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular holder based on such holder’s individual circumstances. In particular, this discussion considers only holders that own and hold our ordinary shares as capital assets within the meaning of Section 1221 of the Code, and does not discuss the potential application of the alternative minimum tax or the U.S. federal income tax consequences to holders that are subject to special rules, including:

- financial institutions or financial services entities;
- broker-dealers;
- persons that are subject to the mark-to-market accounting rules under Section 475 of the Code;
- tax-exempt entities;
- governments or agencies or instrumentalities thereof;
- insurance companies;
- regulated investment companies;



- real estate investment trusts;
- certain expatriates or former long-term residents of the United States;
- persons that actually or constructively own 5% or more of our voting shares;
- persons that acquired our ordinary shares pursuant to an exercise of employee options, in connection with employee incentive plans or otherwise as compensation;
- persons that hold our ordinary shares as part of a straddle, constructive sale, hedging, conversion or other integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- controlled foreign corporations; or
- passive foreign investment companies.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws or, except as discussed herein, any tax reporting obligations applicable to a holder of our ordinary shares. Additionally, this discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold our ordinary shares through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our ordinary shares, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. This discussion also assumes that any distribution made (or deemed made) in respect of our ordinary shares and any consideration received (or deemed received) by a holder in connection with the sale or other disposition of such ordinary shares will be in U.S. dollars.

We have not sought, and will not seek, a ruling from the Internal Revenue Service (“IRS”) or an opinion of counsel as to any U.S. federal income tax consequence described herein. The IRS may disagree with the description herein, and its determination may be upheld by a court. Moreover, there can be no assurance that future legislation, regulations, administrative rulings or court decisions will not adversely affect the accuracy of the statements in this discussion.

**THIS DISCUSSION IS ONLY A SUMMARY OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES. IT IS NOT TAX ADVICE. EACH HOLDER OF OUR ORDINARY SHARES IS URGED TO CONSULT ITS OWN TAX ADVISOR IN RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL, AND NON-U.S. TAX LAWS, AS WELL AS U.S. FEDERAL TAX LAWS AND ANY APPLICABLE TAX TREATIES.**

## **U.S. Holders**

### ***Taxation of Cash Distributions Paid on Ordinary Shares***

Subject to the passive foreign investment company (“PFIC”) rules discussed below, a U.S. Holder generally will be required to include in gross income as ordinary income the amount of any cash dividend paid on our ordinary shares. A cash distribution on such ordinary shares generally will be treated as a dividend for U.S. federal income tax purposes to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Such dividend generally will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The portion of such cash distribution, if any, in excess of such earnings and profits will be applied against and reduce (but not below zero) the U.S. Holder’s adjusted tax basis in our ordinary shares. Any remaining excess generally will be treated as gain from the sale or other taxable disposition of such ordinary shares.

With respect to non-corporate U.S. Holders, any such dividends may be subject to U.S. federal income tax at the lower applicable regular long term capital gains tax rate (see “ — Taxation on the Disposition of Ordinary Shares” below) provided that (1) our ordinary shares are readily tradable on an established securities market in the United States, (2) we are not a PFIC, as discussed below, for either the taxable year in which such dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. Under published IRS authority, ordinary shares are considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States only if they are listed on certain exchanges, which presently include the Nasdaq Global Market. Although our ordinary shares are currently listed on the Nasdaq Global Market, U.S. Holders nevertheless should consult their own tax advisors regarding the availability of the lower rate for any dividends paid in respect to our ordinary shares.

### ***Taxation on the Disposition of Ordinary Shares***

Upon a sale or other taxable disposition of our ordinary shares, and subject to the PFIC rules discussed below, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized and the U.S. Holder’s adjusted tax basis in the ordinary shares.

The regular U.S. federal income tax rate on capital gains recognized by U.S. Holders generally is the same as the regular U.S. federal income tax rate on ordinary income, except that long-term capital gains recognized by non-corporate U.S. Holders generally are subject to U.S. federal income tax at a maximum regular rate of 20%. Capital gain or loss will constitute long-term capital gain or loss if the U.S. Holder’s holding period for the ordinary shares exceeds one year. The deductibility of capital losses is subject to various limitations.

### ***Passive Foreign Investment Company Rules***

A foreign (i.e., non-U.S.) corporation will be a PFIC if either (a) at least 75% of its gross income in a taxable year of the foreign corporation, including its pro rata share of the gross income of any corporation in which it is considered to own at least 25% of the shares by value, is passive income, or (b) at least 50% of its assets in a taxable year of the foreign corporation, ordinarily determined based on fair market value and averaged quarterly over the year, including its pro rata share of the assets of any corporation in which it is considered to own at least 25% of the shares by value, are held for the production of, or produce, passive income. Passive income generally includes dividends, interest, rents and royalties (other than certain rents or royalties derived from the active conduct of a trade or business), and gains from the disposition of passive assets.

Based on the composition (and estimated values) of the assets and the nature of our income and our subsidiaries during our 2013 taxable year, we do not believe that we will be treated as a PFIC for such year. However, because we have not performed a definitive analysis as to our PFIC status for our 2014 taxable year, there can be no assurance in respect to our PFIC status for our 2014 taxable year. There also can be no assurance in respect to our status as a PFIC for our current (2015) taxable year or any future taxable year.

If we are determined to be a PFIC for any taxable year (or portion thereof) that is included in the holding period of a U.S. Holder of our ordinary shares, and such U.S. Holder did not make either a timely qualified electing fund (“QEF”) election for our first taxable year as a PFIC in which the U.S. Holder held (or was deemed to hold) our ordinary shares, a QEF election along with a purging election or a mark-to-market election, each as described below, such holder generally will be subject to special rules for regular U.S. federal income tax purposes in respect to:

- any gain recognized by the U.S. Holder on the sale or other disposition of its ordinary shares; and

- any “excess distribution” made to the U.S. Holder (generally, any distributions to such U.S. Holder during a taxable year of the U.S. Holder that are greater than 125% of the average annual distributions received by such U.S. Holder in respect of the ordinary shares during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder’s holding period for the ordinary shares).

Under these rules,

- the U.S. Holder’s gain or excess distribution will be allocated ratably over the U.S. Holder’s holding period for the ordinary shares;
- the amount allocated to the U.S. Holder’s taxable year in which the U.S. Holder recognized the gain or received the excess distribution, or to the period in the U.S. Holder’s holding period before the first day of our first taxable year in which we qualified as a PFIC, will be taxed as ordinary income;
- the amount allocated to other taxable years (or portions thereof) of the U.S. Holder and included in its holding period will be taxed at the highest tax rate in effect for that year and applicable to the U.S. Holder; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such other taxable year of the U.S. Holder.

In general, if we are determined to be a PFIC, a U.S. Holder may avoid the PFIC tax consequences described above in respect to our ordinary shares by making a timely QEF election (or a QEF election along with a purging election). Pursuant to the QEF election, a U.S. Holder will be required to include in income its pro rata share of our net capital gains (as long-term capital gain) and other earnings and profits (as ordinary income), on a current basis, in each case whether or not distributed, in the taxable year of the U.S. Holder in which or with which our taxable year ends. A U.S. Holder may make a separate election to defer the payment of taxes on undistributed income inclusions under the QEF rules, but if deferred, any such taxes will be subject to an interest charge.

The QEF election is made on a shareholder-by-shareholder basis and, once made, can be revoked only with the consent of the IRS. A U.S. Holder generally makes a QEF election by attaching a completed IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund), including the information provided in a PFIC annual information statement, to a timely filed U.S. federal income tax return for the taxable year to which the election relates. Retroactive QEF elections generally may be made only by filing a protective statement with such return and if certain other conditions are met or with the consent of the IRS.

In order to comply with the requirements of a QEF election, a U.S. Holder must receive certain information from us. Upon request from a U.S. Holder, we will endeavor to provide to the U.S. Holder no later than 90 days after the request such information as the IRS may require, including a PFIC annual information statement, in order to enable the U.S. Holder to make and maintain a QEF election. However, there is no assurance that we will have timely knowledge of our status as a PFIC in the future or of the required information to be provided.

If a U.S. Holder has made a QEF election in respect to our ordinary shares, and the special tax and interest charge rules do not apply to such ordinary shares (because of a timely QEF election for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) such shares or a QEF election along with a purge of the PFIC taint pursuant to a purging election, as described below), any gain recognized on the sale or other taxable disposition of such ordinary shares generally will be taxable as capital gain and no interest charge will be imposed. As discussed above, for regular U.S. federal income tax purposes, U.S. Holders of a QEF are currently taxed on their pro rata shares of the QEF’s earnings and profits, whether or not distributed. In such case, a subsequent distribution of such earnings and profits that were previously included in income generally should not be taxable as a dividend to such U.S. Holders. The adjusted tax basis of a U.S. Holder’s ordinary shares in a QEF will be increased by amounts that are included in income, and decreased by amounts distributed but not taxed as dividends, under the above rules. Similar basis adjustments apply to property if by reason of holding such property the U.S. Holder is treated under the applicable attribution rules as owning ordinary shares in a QEF.

Although a determination as to our PFIC status will be made annually, an initial determination that we are a PFIC generally will apply for subsequent years to a U.S. Holder who held our ordinary shares while we were a PFIC, whether or not we meet the test for PFIC status in those subsequent years. A U.S. Holder who makes the QEF election discussed above for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) our ordinary shares, however, will not be subject to the PFIC tax and interest charge rules discussed above in respect to such ordinary shares. In addition, such U.S. Holder will not be subject to the QEF inclusion regime in respect to such ordinary shares for any of our taxable years that end within or with a taxable year of the U.S. Holder and in which we are not a PFIC. On the other hand, if the QEF election is not effective for each of our taxable years in which we are a PFIC and during which the U.S. Holder holds (or is deemed to hold) our ordinary shares, the PFIC rules discussed above will continue to apply to such shares unless the holder files on a timely filed U.S. income tax return (including extensions) a QEF election and a purging election to recognize under the rules of Section 1291 of the Code any gain that it would otherwise recognize if the U.S. Holder sold shares for their fair market value on the “qualification date.” The qualification date is the first day of our tax year in which we qualify as a QEF with respect to such U.S. Holder. The purging election can only be made if such U.S. Holder held shares on the qualification date. The gain recognized by the purging election generally will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above. As a result of the purging election, the U.S. Holder generally will increase the adjusted tax basis in its shares by the amount of gain recognized and will also have a new holding period in the shares for purposes of the PFIC rules.

Alternatively, if a U.S. Holder, at the close of its taxable year, owns ordinary shares in a PFIC that are treated as marketable stock, the U.S. Holder may make a mark-to-market election in respect to such ordinary shares for such taxable year. If the U.S. Holder makes a valid mark-to-market election for the first taxable year of the U.S. Holder in which the U.S. Holder holds (or is deemed to hold) our ordinary shares and for which we are determined to be a PFIC, such holder generally will not be subject to the PFIC rules described above in respect to its ordinary shares. Instead, in general, the U.S. Holder will include as ordinary income each year the excess, if any, of the fair market value of its ordinary shares at the end of its taxable year over the adjusted tax basis in its ordinary shares. The U.S. Holder also will be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted tax basis of its ordinary shares over the fair market value of its ordinary shares at the end of its taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. Holder’s adjusted tax basis in its ordinary shares will be adjusted to reflect any such income or loss amounts, and any further gain recognized on a sale or other taxable disposition of the ordinary shares will be treated as ordinary income.

The mark-to-market election is available only for stock that is regularly traded on a national securities exchange that is registered with the Securities and Exchange Commission, including the Nasdaq Global Market, or on a foreign exchange or market that the IRS determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Although our ordinary shares are currently listed on the Nasdaq Global Market, U.S. Holders nevertheless should consult their own tax advisors regarding the availability and tax consequences of a mark-to-market election in respect to our ordinary shares.

If we are a PFIC and, at any time, have a foreign subsidiary that is classified as a PFIC, a U.S. Holder of our ordinary shares generally should be deemed to own a portion of the shares of such lower-tier PFIC, and generally could incur liability for the deferred tax and interest charge described above if we receive a distribution from, or dispose of all or part of our interest in, or the U.S. Holder were otherwise deemed to have disposed of an interest in, the lower-tier PFIC. Upon request, we will endeavor to cause any lower-tier PFIC to provide to a U.S. Holder no later than 90 days after the request the information that may be required to make or maintain a QEF election in respect to the lower-tier PFIC. However, there is no assurance that we will have timely knowledge of the status of any such lower-tier PFIC or will be able to cause the lower-tier PFIC to provide the required information. A mark-to-market election generally would not be available in respect to such a lower-tier PFIC. U.S. Holders are urged to consult their own tax advisors regarding the tax issues raised by lower-tier PFICs.

A U.S. Holder that owns (or is deemed to own) ordinary shares in a PFIC during any taxable year of the U.S. Holder may have to file an IRS Form 8621 (whether or not a QEF election or mark-to-market election is or has been made) with such U.S. Holder’s U.S. federal income tax return and provide such other information as may be required by the U.S. Treasury Department.

The rules dealing with PFICs and with the QEF and mark-to-market elections are very complex and are affected by various factors in addition to those described above. Accordingly, U.S. Holders of our ordinary shares should consult their own tax advisors concerning the application of the PFIC rules to our ordinary shares under their particular circumstances.

### ***Additional Taxes***

U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% Medicare contribution tax on unearned income, including, without limitation, dividends on, and gains from, the sale or other taxable disposition of, our ordinary shares, subject to certain limitations and exceptions. Under recently issued regulations, in the absence of a special election, such unearned income generally would not include income inclusions under the QEF rules discussed above under “— Passive Foreign Investment Company Rules,” but would include distributions of earnings and profits from a QEF. U.S. Holders should consult their own tax advisors regarding the effect, if any, of such tax on their ownership and disposition of our ordinary shares.

### **Non-U.S. Holders**

Cash dividends paid to a Non-U.S. Holder in respect to our ordinary shares generally will not be subject to U.S. federal income tax unless such dividends are effectively connected with the Non-U.S. Holder’s conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States).

In addition, a Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other taxable disposition of our ordinary shares unless such gain is effectively connected with its conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States) or the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of such sale or other disposition and certain other conditions are met (in which case, such gain from U.S. sources generally is subject to U.S. federal income tax at a 30% rate or a lower applicable tax treaty rate).

Cash dividends and gains that are effectively connected with the Non-U.S. Holder’s conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base in the United States) generally will be subject to regular U.S. federal income tax that such holder maintains or maintained at the same regular U.S. federal income tax rates as applicable to a comparable U.S. Holder and, in the case of a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes, may also be subject to an additional branch profits tax at a 30% rate or a lower applicable tax treaty rate.

### **Backup Withholding and Information Reporting**

In general, information reporting for U.S. federal income tax purposes will apply to cash distributions made on our ordinary shares within the United States to a U.S. Holder (other than an exempt recipient) and to the proceeds from sales and other dispositions of our ordinary shares by a U.S. Holder (other than an exempt recipient) to or through a U.S. office of a broker. Payments made (and sales and other dispositions effected at an office) outside the United States will be subject to information reporting in limited circumstances. In addition, certain information concerning a U.S. Holder’s adjusted tax basis in its ordinary shares and adjustments to that tax basis and whether any gain or loss with respect to such ordinary shares is long-term or short-term also may be required to be reported to the IRS, and certain holders may be required to file an IRS Form 8938 (Statement of Specified Foreign Financial Assets) to report their interest in our ordinary shares.

Moreover, backup withholding of U.S. federal income tax at a rate of 28%, generally will apply to cash dividends paid on our ordinary shares to a U.S. Holder (other than an exempt recipient) and the proceeds from sales and other dispositions of our ordinary shares by a U.S. Holder (other than an exempt recipient), in each case who:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that backup withholding is required; or

- in certain circumstances, fails to comply with applicable certification requirements.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. Holder's or a Non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS. Holders are urged to consult their own tax advisors regarding the application of backup withholding and the availability of and procedures for obtaining an exemption from backup withholding in their particular circumstances.

**F. Dividends and paying agents**

Not required.

**G. Statement by experts**

Not required.

**H. Documents on display**

Documents concerning us that are referred to in this document may be inspected at Alameda Dr. Carlos D' Assumpcao No: 181-187 Centro Comercial, c/o Grupo Brilhantismo, 12 Andar T, Macau.

In addition, we file annual reports and other information with the Securities and Exchange Commission. We file annual reports on Form 20-F and submit other information under cover of Form 6-K. As a foreign private issuer, we are exempt from the proxy requirements of Section 14 of the Exchange Act and our officers, directors and principal shareholders will be exempt from the insider short-swing disclosure and profit recovery rules of Section 16 of the Exchange Act. Annual reports and other information we file with the Commission may be inspected at the public reference facilities maintained by the Commission at Room 1024, 100 F. Street, N.E., Washington, D.C. 20549, and copies of all or any part thereof may be obtained from such offices upon payment of the prescribed fees. You may call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms and you can request copies of the documents upon payment of a duplicating fee, by writing to the Commission. In addition, the Commission maintains a web site that contains reports and other information regarding registrants (including us) that file electronically with the Commission which can be assessed at <http://www.sec.gov>.

**I. Subsidiary Information**

Not required.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

***Foreign Currency Risk***

We do not currently have any foreign exchange exposure as our promotion income and expenses are predominantly denominated in HKD\$. However, in the future, it is possible that a proportion of our promotion income and expenses may be denominated in other currencies if we expand into overseas markets. In such circumstances, we anticipate our primary market risk, if any, to be related to fluctuations in exchange rates. Exchange rate risk may arise if the we are required to use different currencies for various aspects of our operations.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not required.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There has been no default of any indebtedness nor is there any arrearage in the payment of dividends.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

There were no material modifications to the rights of our shareholders during fiscal year 2015.

There are no restrictions on working capital and no removal or substitution of assets securing any class of our registered securities.

### ITEM 15. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer, who is our principal executive officer, and Chief Financial Officer, who is our principal financial officer, regarding the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures as of December 31, 2015 were effective.

Disclosure controls and procedures are designed to provide that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

#### Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our management and other personnel to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. GAAP. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our board of directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatement. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with our policies and procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management has concluded that our internal control over financial reporting was effective as of December 31, 2015. The Company's independent registered public accounting firm has issued an audit report on the Company's internal control over financial reporting as of December 31, 2015.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Iao Kun Group Holding Company Limited (F/K/A AERL)

We have audited Iao Kun Group Holding Company Limited (F/K/A AERL) and its subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Iao Kun Group Holding Company Limited (F/K/A AERL) and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows of Iao Kun Group Holding Company Limited (F/K/A AERL) and its subsidiaries, and our report dated March 11, 2016 expressed an unqualified opinion.

/s/ UHY LLP

New York, New York  
March 11, 2016



## Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that while our management has taken and will continue to take steps to improve our disclosure controls and procedures, our management does not expect that our disclosure controls and procedures or internal financial controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### ITEM 16. [RESERVED]

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.

The Company's Board of Directors has determined that Mr. James Preissler is an audit committee financial expert, and "independent" as that term is defined in the NASDAQ listing standards.

### ITEM 16B. CODE OF ETHICS.

We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, and principal accounting officer. Copies of the code of ethics are available free of charge upon request. Requests for copies of the code of ethics should be sent in writing to Iao Kun Group Holding Company Limited, Alameda Dr. Carlos D' Assumpcao No: 181-187, Centro Comercial c/o Grupo Brilhantismo, 12 Andar T, Macau.

### ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

#### Independent Auditors

The firm of UHY LLP has acted since our inception as our principal independent registered public accounting firm. UHY LLP is a registered firm with the Public Company Accounting Oversight Board and is a member of the American Institute of Certified Public Accountants.

The business address of UHY LLP is 1185 Avenue of the Americas, 38<sup>th</sup> Floor, New York, New York 10036.

The following is a summary of fees paid or to be paid by us to UHY LLP for services rendered as the principal accountant.

	Year Ended December 31, 2014	Year Ended December 31, 2015
Audit Fees	\$ 391,901	\$ 378,799
Audit-Related Fees	151,955	83,520
Tax Fees	-	-
All Other Fees	-	-

Audit fees billed by UHY LLP during the fiscal years ended December 31, 2014 and 2015 related to professional services rendered in connection with the audits of our annual financial statements included in our Annual Reports on Form 20-F for those fiscal periods, the review of our financial information included in semi-annual Reports of Foreign Private Issuer on Form 6-K, and our registration statements and proxy statement filings.

#### **Audit Committee Pre-Approval**

Our Audit Committee pre-approves all auditing services and permitted non-audit services to be performed for us by our independent auditor, including the fees and terms thereof (subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act that are approved by our Audit Committee prior to the completion of the audit). All of the services described above were approved by our Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X promulgated by the SEC.

#### **ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.**

None.

#### **ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.**

None.

#### **ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT.**

None.

#### **ITEM 16G. CORPORATE GOVERNANCE.**

There are no material differences in the Company's corporate governance practices from those of U.S. domestic companies under listing standards of NASDAQ.

#### **ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

#### **ITEM 18. FINANCIAL STATEMENTS**

The financial statements are filed as part of this annual report beginning on page F-1.

#### **ITEM 19. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Stock Purchase Agreement (Restated as Amended), dated October 6, 2009, as amended November 10, 2009, December 9, 2009 and January 11, 2010 among CS China Acquisition Corp., Asia Gaming & Resort Limited ("AGRL"), and Spring Fortune Investment Ltd (included as Annex A to the Proxy Statement filed as Exhibit 10.1 to the Report of Foreign Private Issuer on Form 6-K filed on January 19, 2010 and incorporated herein by reference)
2.2	Amendment No. 4 to Stock Purchase Agreement, dated April 18, 2011, among Iao Kun Group Holding Company Limited, AGRL, and Spring Fortune Investment Ltd (8)
2.3	Profit Interest Purchase Agreement, dated November 10, 2010, by and among Iao Kun Group Holding Company Limited and King's Gaming Promotion Limited, Mr. Mok Chi Hung and Mr. Wong Hon Meng (5)

- 2.4 Profit Interest Purchase Agreement, dated September 5, 2012, by and among Iao Kun Group Holding Company Limited and Bao Li Gaming Promotion Limited, Mr. Lou Kan Kuong and Mr. Lei Kam Keong (13)
- 3.1 Form of Second Amended Memorandum and Articles of Association (included as Annex D to the Proxy Statement filed as Exhibit 10.1 to the Report of Foreign Private Issuer on Form 6-K filed on January 19, 2010 and incorporated herein by reference)
- 4.1 Specimen Unit Certificate (1)
- 4.2 Specimen Ordinary Share Certificate (2)
- 4.3 Specimen Warrant Certificate (1)
- 4.4 Form of Unit Purchase Option granted to EarlyBirdCapital, Inc. (1)
- 4.5 Form of Warrant Agreement between Continental Stock Transfer & Trust Company and registrant (1)
- 10.1 Form of Escrow Agreement among CS China Acquisition Corp., Spring Fortune Investment Ltd, Spring Fortune Investment Ltd Designee(s) and Continental Stock Transfer & Trust Company (3)
- 10.2 Employment Agreement, dated October 6, 2009 between AGRL and Leong Siak Hung (3)
- 10.3 Amendment to Employment Agreement, dated February 16, 2012, between the Company and Leong Siak Hung (13)
- 10.4 Employment Agreement, dated October 6, 2009 between AGRL and Raymond Li Chun Ming (3)
- 10.5 Amendment to Employment Agreement, dated February 16, 2012, between the Company and Raymond Li Chun Ming (13)
- 10.6 Employment Agreement, dated October 6, 2009 between AGRL and Lam Man Pou (3)
- 10.7 Amendment to Employment Agreement, dated February 16, 2012, between the Company and Lam Man Pou (13)
- 10.8 Employment Agreement, dated October 6, 2009 between AGRL and Vong Hon Kun (3)
- 10.9 Amendment to Employment Agreement, dated February 16, 2012, between the Company and Vong Hon Kun (13)
- 10.10 Employment Agreement, dated November 10, 2010, between the Company and Wong Hon Meng (7)
- 10.11 Amendment to Employment Agreement, dated February 16, 2012, between the Company and Wong Hon Meng (13)
- 10.12 Employment Agreement, dated February 2, 2010, between the Company and Lam Chou In (13)
- 10.13 Amendment to Employment Agreement, dated February 16, 2012, between the Company and Lam Chou In (13)
- 10.14 Employment Agreement, dated November 2010, between the Company and Mok Chi Hung (13)
- 10.15 Amendment to Employment Agreement, dated February 16, 2012, between the Company and Mok Chi Hung (13)
- 10.16 Management Service Contract dated January 1, 2010 between Iao Pou Gaming Promotion Limited and Pak Si Management and Consultancy Limited (3)
- 10.17 Management Service Contract dated January 1, 2010 between Sang Heng Gaming Promotion Company Limited and Pak Si Management and Consultancy Limited (3)

- 10.18 VIP Junket Promotion Agreement, dated January 18, 2008 between Gillmann Investments Asia, Ltd. and Doowell Limited (3)
- 10.19 VIP Gaming Promotion Agreement, dated November 14, 2008 between Unicorn Incorporation and Champion Lion Limited (3)
- 10.20 Gaming Promotion Agreement between Galaxy Casino S.A. and Sang Lung Gaming Promotion Company Limited (13)
- 10.21 Profit Interest Agreement, dated February 2, 2010 between Well Mount International Limited and Doowell Limited (3)
- 10.22 Profit Interest Agreement, dated February 2, 2010 between Link Bond International Limited and Champion Lion Limited (3)
- 10.23 Profit Interest Agreement, dated February 2, 2010 between Foxhill Group limited and Iao Pou Gaming Promotion Limited (3)
- 10.24 Profit Interest Agreement, dated February 2, 2010 between Kasino Fortune Investments Limited and Sang Heng Gaming Promotion Company Limited (3)
- 10.25 Form of Share Purchase Agreement (included Exhibit 10.1 to the Report of Foreign Issuer on Form 6-K filed on January 29, 2010 and incorporated herein by reference)
- 10.26 Letter Agreement among registrant, EarlyBirdCapital, Inc. and Chien Lee (1)
- 10.27 Letter Agreement among registrant, EarlyBirdCapital, Inc. and Sylvia Lee (2)
- 10.28 Letter Agreement among registrant, EarlyBirdCapital, Inc. and Michael Zhang (2)
- 10.29 Form of Investment Management Trust Agreement between Continental Stock Transfer & Trust Company and registrant (1)
- 10.30 Form of Stock Escrow Agreement between registrant, Continental Stock Transfer & Trust Company and the Initial Shareholders (1)
- 10.31 Form of Letter Agreement between registrant and CS Capital USA, LLC regarding administrative support (2)
- 10.32 Form of Registration Rights Agreement among registrant and the Initial Shareholders (2)
- 10.33 Form of Subscription Agreement among registrant, EarlyBirdCapital, Inc., Graubard Miller and each of CS Capital USA, LLC, Bill Haus, James Preissler, Peter Li and William B. Heyn (1)
- 10.34 Letter Agreement among registrant, EarlyBirdCapital, Inc. and Bill Haus (1)
- 10.35 Letter Agreement among registrant, EarlyBirdCapital, Inc. and Jim Preissler (1)
- 10.36 Letter Agreement among registrant, EarlyBirdCapital, Inc. and Peter Li (1)
- 10.37 Letter Agreement among registrant, EarlyBirdCapital, Inc. and William B. Heyn (1)
- 10.38 Form of Indemnification Agreement between registrant and, separately, each of its directors and executive officers (6)
- 10.39 Loan Agreement and Guaranty dated as of February 2, 2010 between Lam Man Pou and Vong Hon Kun and AGRL (6)
- 10.40 Form of Amendment to Profit Interest Agreements (6)
- 10.41 Convertible Term Note issued by the Company to Lam Man Pou dated April 18, 2011 (8)
- 10.42 Convertible Term Note issued by the Company to Vong Hon Kun dated April 18, 2011 (8)
- 10.43 Lock-up Agreement by and among the Company and Lam Man Pou dated April 18, 2011 (8)
- 10.44 Lock-up Agreement by and among the Company and Vong Hon Kun dated April 18, 2011 (8)

- 10.45 Lock-up Agreement by and among the Company and Lam Chou In dated April 18, 2011 (8)
- 10.46 Lock-up Agreement by and among the Company and Legend Global International Limited dated April 18, 2011 (8)
- 10.47 Gaming Promotion Agreement, dated December 9, 2010 between Venetian Macau S.A. and Sociedad de Promocao de Jogos Imperador, Limitada (portions of this exhibit have been omitted pursuant to a request for confidential treatment on file with the Securities and Exchange Commission) (9)
- 10.48 Star World Hotel and Casino Gaming Promoter Loan Contract dated June 30, 2008 by and among Galaxy Casino Holdings Limited, Sang Heng Gaming Promotion Limited and Lam Man Pou (10)
- 10.49 Venetian Macau Limited Junket Credit Agreement dated March 29, 2011 by and between Kasino Fortune Investments Limited and Sang Heng Gaming Promotion Limited (10)
- 10.50 Profit Interest Agreement by and between Super Number and Sang Lung dated as of July 1, 2011 (12)
- 10.51 Gaming Promotion Agreement between Galaxy Casino S.A. and Sang Heng Gaming Promotion Company Limited (13)
- 10.52 Star World Casino Gaming Promoter Loan Contract dated February 9, 2010 by and among Galaxy Casino Holdings Limited, Sang Heng Gaming Promotion Limited and Vong Hon Kun (10)
- 10.53 Lease, dated September 6, 2011, between AGRL and Hong Yip Service Company Limited (13)
- 10.54 Employment Agreement, dated April 7, 2010, between the Company and Sylvia Lee (13)
- 10.55 Employment Agreement, dated September 5, 2012, between the Company and Lei Kam Keong (14)
- 10.56 Employment Agreement, dated September 5, 2012, between the Company and Lou Kan Kuong (14)
- 10.57 Non-Exclusive Gaming Promotion Agreement dated February 7, 2011 by and between Bao Li Gaming Promotion Limited and Melco Crown Gaming (Macau) Limited (14)
- 10.58 Revised Exhibit A dated September 3, 2012 to the Gaming Promotion Agreement, dated December 9, 2010 between Venetian Macau S.A. and Sociedad de Promocao de Jogos Imperador, Limitada (14)
- 10.59 Gaming Promotion Agreement between Starworld Gaming and Sang Heng Gaming Promotion Company Limited (14)
- 10.60 Dealer Manager Agreement, dated as of June 4, 2013, between the Company and Sterne, Agree & Leach, Inc. (15)
- 10.61 Standby Purchase Agreement, dated as of June 4, 2013, among the Company and the standby purchasers named therein (15)
- 10.62 Registration Rights Agreement, dated as of June 4, 2013, among the Company and the standby purchasers name therein (15)
- 10.63 Profit Interest Purchase Agreement dated June 26, 2013 among the company, Mr. Vong Veng Im, and Frontier Champion Limited (16)
- 10.64 Collaborator Agreement dated January 1, 2014 between Chan Yan Hung and Lam Chou In (16)
- 12.1 Certification of the Chief Executive Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended
- 12.2 Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended
- 13.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

15.1	Consent of UHY LLP, independent registered public accounting firm
21.1	Subsidiaries (incorporated by reference to page 30 of this Annual Report on Form 20-F)
99.1	Audit Committee Charter (4)
99.2	Nominating Committee Charter (4)
99.3	Compensation Committee Charter (4)
99.4	Iao Kun Group Holding Company Limited 2011 Omnibus Securities and Incentive Plan (11)
101.1	Interactive Data Files

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- (1) Filed as an exhibit to Amendment No. 5 to registrant's Registration Statement on Form S-1 filed on July 8, 2008.
  - (2) Filed as an exhibit to Amendment No. 2 to registrant's Registration Statement on Form S-1 filed on January 31, 2008.
  - (3) Filed as an exhibit to the Company's Shell Company Report on Form 20-F filed on February 8, 2010.
  - (4) Filed as an exhibit to the Company's Report of Foreign Private Issuer on Form 6-K filed April 23, 2010.
  - (5) Filed as Appendix A to Exhibit 99.1 to the Report on Form 6-K filed on November 10, 2010.
  - (6) Filed as an exhibit to the Company's Registration Statement on Form F-1 originally filed on May 14, 2010 (File No.: 333-166860).
  - (7) Filed as an exhibit to the Company's Registration Statement on Form F-3 filed on April 8, 2011.
  - (8) Filed as an exhibit to the Company's Registration Statement on Form F-3 filed on May 3, 2011.
  - (9) Filed as an exhibit to the Company's Registration Statement on Form F-3 filed on July 29, 2011.
  - (10) Filed as an exhibit to the Company's Registration Statement on Form F-3 filed on May 31, 2011.
  - (11) Filed as Annex A to Exhibit 99.1 to the Report on Form 6-K filed on November 3, 2011.
  - (12) Filed as an exhibit to the Company's Report on Form 6-K filed on August 22, 2011.
  - (13) Filed as an exhibit to the Company's Registration Statement on Form F-3 filed on December 31, 2012.
  - (14) Filed as an exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
  - (15) Filed as Annex A to Exhibit 99.1 to the Report on Form 6-K filed on June 4, 2013.
  - (16) Filed as an exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 2014.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**IAO KUN GROUP HOLDING COMPANY LIMITED  
(FKA ASIA ENTERTAINMENT & RESOURCES LTD.)**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Iao Kun Group Holding Company Limited (F/K/A AERL)

We have audited the accompanying consolidated balance sheets of Iao Kun Group Holding Company Limited (F/K/A AERL) and its subsidiaries (the “Company”) as of December 31, 2015, and 2014, and the related consolidated statements of operations and comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2015. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Iao Kun Group Holding Company Limited (F/K/A AERL) and its subsidiaries as of December 31, 2015, and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2016, expressed an unqualified opinion.

/s/ UHY LLP

New York, New York  
March 11, 2016



**IAO KUN GROUP HOLDING COMPANY LIMITED**  
**F/K/A ASIA ENTERTAINMENT & RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Revenue from VIP Gaming Operations	\$ 105,002,184	\$ 233,822,859	\$ 236,850,159
Total Revenues	<u>105,002,184</u>	<u>233,822,859</u>	<u>236,850,159</u>
Expenses			
- Commission to Junket Agents	76,979,677	188,448,178	182,639,067
- Selling, General and Administrative Expenses	18,351,625	26,506,299	21,485,944
- Special Rolling Tax	642,268	1,662,714	1,704,851
- Impairment of Goodwill	17,757,113	-	-
- Amortization of Intangible Assets	16,369,467	16,365,034	13,187,006
Total Expenses	<u>130,100,150</u>	<u>232,982,225</u>	<u>219,016,868</u>
Operating (loss) income attributable to ordinary shareholders before change in fair value of contingent consideration	(25,097,966)	840,634	17,833,291
Change in Fair Value of Contingent Consideration for the Acquisitions of King's Gaming, Bao Li Gaming and Oriental VIP Room	30,215,735	(60,918,569)	(12,445,789)
Net Income (Loss) Attributable to Ordinary Shareholders	<u>5,117,769</u>	<u>(60,077,935)</u>	<u>5,387,502</u>
Other Comprehensive Income (Loss)			
Foreign Currency			
- Translation Adjustment	89,182	65,092	(76,610)
Total Comprehensive Income (Loss)	<u>\$ 5,206,951</u>	<u>\$ (60,012,843)</u>	<u>\$ 5,310,892</u>
<b>Net Income (Loss) Per Share</b>			
Basic	<u>\$ 0.08</u>	<u>\$ (0.99)</u>	<u>\$ 0.10</u>
Diluted	<u>\$ 0.08</u>	<u>\$ (0.99)</u>	<u>\$ 0.10</u>
<b>Weighted Average Shares Outstanding</b>			
Basic	<u>62,116,749</u>	<u>60,781,915</u>	<u>53,030,405</u>
Diluted	<u>62,292,834</u>	<u>60,781,915</u>	<u>53,210,572</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**IAO KUN GROUP HOLDING COMPANY LIMITED**  
**F/K/A ASIA ENTERTAINMENT & RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,052,694	\$ 11,146,534
Accounts Receivable, Net	1,460,251	1,529,052
Markers Receivable	170,892,037	188,549,136
Prepaid Expenses and Other Assets	1,448,155	348,777
<b>Total Current Assets</b>	<u>176,853,137</u>	<u>201,573,499</u>
Intangible Assets (net of accumulated amortization of \$58,496,618 and \$42,105,966 at December 31, 2015 and December 31, 2014, respectively)	105,645,737	121,968,648
Goodwill	-	17,753,907
Property and Equipment (net of accumulated depreciation of \$169,798 and \$108,913 at December 31, 2015 and December 31, 2014, respectively)	241,927	322,149
Other Assets	-	23,427
<b>TOTAL ASSETS</b>	<u>\$ 282,740,801</u>	<u>\$ 341,641,630</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Lines of Credit Payable	\$ 41,908,984	\$ 32,392,020
Accrued Expenses	6,030,996	11,682,653
Bao Li Gaming Acquisition-Contingent Purchase Price Obligation	14,228,500	22,662,750
Oriental VIP Room Acquisition-Contingent Purchase Price Obligation	-	13,738,762
Loan Payable, Shareholders, current	2,827,584	2,612,490
<b>Total Current Liabilities</b>	<u>64,996,064</u>	<u>83,088,675</u>
Bao Li Gaming Acquisition-Contingent Purchase Price Obligation, net of current portion	-	19,628,881
Oriental VIP Room Acquisition-Contingent Purchase Price Obligation, net of current portion	-	27,665,264
<b>Total Liabilities</b>	<u>64,996,064</u>	<u>130,382,820</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred Shares, \$0.0001 par value Authorized 1,150,000 shares; none issued	-	-
Ordinary Shares, \$0.0001 par value, Authorized 500,000,000 shares; 62,307,794 and 60,452,314 issued and outstanding at December 31, 2015 and December 31, 2014, respectively.	6,230	6,044
Additional Paid-in Capital	133,236,655	130,048,153
Retained Earnings	83,861,247	80,653,190
Accumulated Other Comprehensive Income	640,605	551,423
<b>Total Shareholders' Equity</b>	<u>217,744,737</u>	<u>211,258,810</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 282,740,801</u>	<u>\$ 341,641,630</u>

**SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**IAO KUN GROUP HOLDING COMPANY LIMITED**  
**F/K/A ASIA ENTERTAINMENT & RESOURCES LTD.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**

	<u>Ordinary Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Shareholders' Equity</u>
<b>Balances, January 1, 2013</b>	41,177,217	\$ 4,118	\$ 69,670,922	\$ 145,828,260	\$ 562,941	\$ 216,066,241
Ordinary shares repurchased and retired	(1,458,953)	(146)	(5,024,614)	-	-	(5,024,760)
Ordinary shares issued for cash at \$3.00 per share- rights offering	9,784,950	978	29,353,872	-	-	29,354,850
Ordinary shares issued for repayment of shareholders loan	9,743,000	974	34,196,956	-	-	34,197,930
Rights offering costs for issuance of ordinary shares	-	-	(2,067,809)	-	-	(2,067,809)
Director shares issued for compensation	60,610	6	199,994	-	-	200,000
Dividend paid	-	-	-	(8,945,377)	-	(8,945,377)
Net income	-	-	-	5,387,502	-	5,387,502
Foreign currency translation adjustment	-	-	-	-	(76,610)	(76,610)
<b>Balances, December 31, 2013</b>	59,306,824	\$ 5,930	\$ 126,329,321	\$ 142,270,385	\$ 486,331	\$ 269,091,967
Ordinary shares repurchased and retired	(1,415,300)	(142)	(4,193,412)	-	-	(4,193,554)
Incentive shares issued for Bao Li Gaming 2013 rolling chip turnover target	1,250,000	125	3,837,375	-	-	3,837,500
Incentive shares issued for Oriental VIP Room 2014 rolling chip turnover target	1,250,000	125	3,874,875	-	-	3,875,000
Directors Shares issued for compensation	60,790	6	199,994	-	-	200,000
Dividend paid	-	-	-	(1,539,260)	-	(1,539,260)
Net loss	-	-	-	(60,077,935)	-	(60,077,935)
Foreign currency translation adjustment	-	-	-	-	65,092	65,092
<b>Balances, December 31, 2014</b>	60,452,314	\$ 6,044	\$ 130,048,153	\$ 80,653,190	\$ 551,423	\$ 211,258,810
Incentive shares issued for Bao Li Gaming 2014 rolling chip turnover target	1,025,000	103	1,342,647	-	-	1,342,750
Incentive shares issued for the Oriental VIP Room 2015 rolling chip turnover target	718,750	72	1,645,866	-	-	1,645,938
Directors Shares issued for compensation	111,730	11	199,989	-	-	200,000
Dividend paid	-	-	-	(1,909,712)	-	(1,909,712)
Net income	-	-	-	5,117,769	-	5,117,769
Foreign currency translation adjustment	-	-	-	-	89,182	89,182
<b>Balances, December 31, 2015</b>	62,307,794	\$ 6,230	\$ 133,236,655	\$ 83,861,247	\$ 640,605	\$ 217,744,737



**IAO KUN GROUP HOLDING COMPANY LIMITED**  
**F/K/A ASIA ENTERTAINMENT & RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 5,117,769	\$ (60,077,935)	\$ 5,387,502
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Amortization of intangible assets	16,369,467	16,365,034	13,187,006
Change in fair value of contingent purchase price obligation for the acquisition of King's Gaming, Bao Li Gaming and Oriental VIP Room	(30,215,735)	60,918,569	12,445,789
Impairment of goodwill	17,757,113	-	-
Depreciation	82,961	77,224	24,284
Loss on sale of equipment	-	14,958	-
Change in assets and liabilities			
Accounts Receivable	69,416	3,652,903	(2,701,407)
Markers Receivable	17,730,826	53,793,183	(740,005)
Prepaid Expenses and Other Assets	(1,075,548)	153,220	(200,340)
Deferred Offering Costs Expensed	-	-	806,786
Lines of Credit Payable	9,501,385	(10,277,075)	7,881,658
Accrued Expenses	(5,455,168)	(4,018,538)	1,815,085
Net cash provided by operating activities	<u>29,882,486</u>	<u>60,601,543</u>	<u>37,906,358</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Cash paid for Oriental VIP Room acquisition	-	-	(20,000,000)
Proceeds from the sale of equipment	-	12,895	-
Purchase of property and equipment	(2,623)	(303,819)	(126,974)
Net cash used in investing activities	<u>(2,623)</u>	<u>(290,924)</u>	<u>(20,126,974)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Contingent consideration paid for King's Gaming acquisition	-	(9,000,000)	(9,000,000)
Contingent consideration paid for Bao Li Gaming acquisition	(21,320,000)	(13,000,000)	(13,000,000)
Contingent consideration paid for the Oriental VIP Room acquisition	(14,950,000)	(26,000,000)	-
Cash paid for shares repurchased	-	(4,193,554)	(5,024,760)
Professional fee payment for rights offering	-	-	(2,067,809)
Proceeds from issuance of ordinary shares	-	-	29,354,850
Payment of dividends	(1,909,712)	(1,539,260)	(8,945,377)
Proceeds from/(repayment of) shareholder loans, net	213,966	(3,196,222)	(22,161,847)
Net cash used in financing activities	<u>(37,965,746)</u>	<u>(56,929,036)</u>	<u>(30,844,943)</u>
Net (decrease) increase in cash and cash equivalents	(8,085,883)	3,381,583	(13,065,559)
Effect of foreign currency translation on cash	(7,957)	201,854	(15,640)
Cash and cash equivalents at beginning of period	<u>11,146,534</u>	<u>7,563,097</u>	<u>20,644,296</u>
Cash and cash equivalents at end of period	<u>\$ 3,052,694</u>	<u>\$ 11,146,534</u>	<u>\$ 7,563,097</u>
Non-cash Investing Activities			
Estimated contingent purchase price-Oriental VIP Room	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,816,791</u>
Non-cash Financing Activities			
Ordinary shares issued for repayment of debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,197,930</u>
Director shares issued for compensation	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>
Ordinary shares issued for contingent consideration payment for Bao Li Gaming	<u>\$ 1,342,750</u>	<u>\$ 3,837,500</u>	<u>\$ -</u>
Ordinary shares issued for contingent consideration payment for the Oriental VIP Room	<u>\$ 1,645,938</u>	<u>\$ 3,875,000</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



**IAO KUN GROUP HOLDING COMPANY LIMITED**  
**F/K/A ASIA ENTERTAINMENT & RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**

**Note 1 — Organization and Business of Companies**

Iao Kun Group Holding Company Limited (formerly Asia Entertainment & Resources Ltd. and formerly CS China Acquisition Corp.) ("Iao Kun" or the "Company") was incorporated in the Cayman Islands on September 24, 2007 as a blank check company whose objective was to acquire, through a share exchange, asset acquisition or other similar business combination, an operating business, or control of such operating business through contractual arrangements, that has its principal operations located in People's Republic of China ("PRC", "China"). On September 30, 2013, the Company changed its name from Asia Entertainment & Resources Ltd ("AERL"). The decision to change the name of the Company was to enhance the Company's brand image in Macau.

On October 6, 2009, Iao Kun entered into a stock purchase agreement, subsequently amended on November 10, 2009, December 9, 2009, January 11, 2010 and April 18, 2011 (the "Agreement"), with Asia Gaming & Resort Limited and its wholly owned subsidiaries (collectively "AGRL") and Spring Fortune Investments Ltd. ("Spring Fortune") that provided for the acquisition by Iao Kun from Spring Fortune of all of the outstanding capital stock of AGRL. On February 2, 2010, the acquisition was consummated pursuant to the terms of the Agreement, and AGRL became a wholly owned subsidiary of Iao Kun.

Upon the closing of the acquisition of AGRL by Iao Kun, the Promoter Companies (defined below) became variable interest entities ("VIEs") of the subsidiaries of AGRL, which are the primary beneficiaries of the operations of the Promotion Entities (defined below) through the profit interest agreements which were entered into on February 2, 2010 and agreements subsequent to that date.

Currently, Macau laws do not allow corporate entities, such as Iao Kun, to directly operate a gaming promotion business in Macau. Consequently, Iao Kun's gaming promotion business is operated through a series of contractual arrangements, including profit interest agreements that enable the AGRL subsidiaries to receive substantially all of the economic benefits of the Promoter Companies, Collaborator and Junket Operator (collectively "Promotion Entities") and for AGRL to exercise effective control over the Promotion Entities.

Iao Kun, through its ownership of AGRL, had fifteen wholly owned subsidiaries that were incorporated in the British Virgin Islands, listed in the table below.

Subsidiaries	Date of Incorporation
Foxhill Group Limited ( Foxhill ) +	February 15, 2007
Kasino Fortune Investments Limited ( Kasino Fortune )	February 16, 2007
Well Mount International Limited ( Well Mount ) +	November 1, 2007
Link Bond International Limited ( Link Bond ) +	November 1, 2007
Billion Boom International Limited ( Billion Boom )	November 1, 2007
Super Number Limited ( Super Number )	April 11, 2011
Jubilee Dynasty Ltd. ( Jubilee Dynasty )	May 18, 2012
Frontier Champion Limited ( Frontier )	May 28, 2013
Robust South Limited ("Robust") *	February 12, 2015
Yuwang Limited ("Yuwang")	March 11, 2015
Sino Hero Enterprises Limited ("Sino Hero")	March 16, 2015
Bliss Time Enterprises Limited ("Bliss")*	March 30, 2015
Brave Ring Limited ("Brave") *	March 30, 2015
Yong Kang Holdings Limited ("Yong") *	April 21, 2015
Prospect Jade Limited ("Prospect") *	April 22, 2015

\* The subsidiary is currently inactive.

+ The subsidiary had been inactive and the subsidiary was dissolved in November 2015. Each of these subsidiaries had nominal activity, primarily consisting of organizational and administrative expenses. The dissolution of the subsidiaries did not have a significant impact on the consolidated financial statements.

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The following companies are the Promotion Entities:

VIP Gaming Promotion Entities	Date Formed	Location	Subsidiary holds 100% of Profit Interest	Effective date of profit interest agreement
Sang Heng Gaming Promotion Company Limited ( Sang Heng )**	March 28, 2007	Star World Hotel and Casino Downtown Macau	Kasino Fortune	February 2, 2010
King's Gaming Promotion Ltd. ( King's Gaming )**	April 15, 2008	Sands Cotai Central Cotai, Macau	Billion Boom	November 10, 2010
Sang Lung Gaming Promotion Company Limited ( Sang Lung )**	March 28, 2011	Galaxy Macau Resort, Macau	Super Number	May 15, 2011
Bao Li Gaming Promotion Ltd. ( Bao Li )**	November 3, 2009	City of Dreams Hotel & Casino Cotai, Macau	Jubilee Dynasty	September 1, 2012
Mr. Lam Chou In (Collaborator) ***		Le Royal Arc Casino Downtown, Macau	Frontier Champion	July 1, 2013
Mr. Lou Kan Kuong (Crown Australia Junket Operator) ****		Crown Perth Casino in Perth, Australia and Crown Melbourne Casino in Melbourne, Australia	Sino Hero and Yuwang	May 16, 2015

\*\* This is a Promoter Company in Macau.

\*\*\* According to Macau laws, a collaborator needs to enter into an agreement with a licensed gaming promoter and register with the Gaming Inspection and Coordination Bureau of the Macau SAR.

\*\*\*\* On May 15, 2015, the Company entered into agreements to acquire all of the profit interests of Mr. Lou Kan Kuong (“Mr. Lou” or the “Crown Australia Junket Operator”) promotion activities at the Crown Perth Casino in Perth, Australia and at the Crown Melbourne Casino in Melbourne, Australia with the consideration of \$200 in total. Mr. Lou, who is currently an officer of Iao Kun, entered into agreements to act as a junket operator for the above two casinos on June 24, 2013. The profit interests were acquired as an asset purchase for the historical costs of establishing the agreements between Mr. Lou and Australian casinos as a related party transaction. The Company entered into the agreement to expand to overseas markets for its existing agent network in Macau.



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In addition to the above Promotion Entities, Iao Pou Gaming Promotion Company Limited (“Iao Pou”) promoted a VIP Room at the MGM Grand Paradise in Macau until it ceased operations in June 2011. During November 2015, Iao Pou was dissolved. The dissolution of Iao Pou did not have a significant impact on the consolidated financial statements.

Management’s determination of the appropriate accounting method with respect to the AGRL VIEs is based on Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 “Consolidation of Variable Interest Entities” (“Topic 810”). AGRL consolidates the VIEs because the equity investors in the Promotion Entities do not have the characteristics of a controlling financial interest and Iao Kun through AGRL is the primary beneficiary.

In accordance with FASB ASC Topic 810, the operations of the Promotion Entities are consolidated with those of Iao Kun for all periods subsequent to the closing of the acquisition of AGRL by Iao Kun.

The operations of AGRL's Promotion Entities are primarily based in Macau, and are subject to Macau jurisdiction. The Company operates a gaming promotion business in VIP gaming rooms located in hotels and casinos in Macau and Australia. Iao Kun, its subsidiaries (including AGRL) and the Promotion Entities are collectively referred to as the "Group".

***VIP Gaming Promoter and Collaborator Agreements***

Sang Heng’s Gaming Representative (VIP Room Promoter) Agreement dated as of February 1, 2008 entered into between Galaxy Casino, S.A., and Sang Heng allowed for the sharing of profits as a gaming representative of Iao Kun VIP Room in Star World Hotel and Casino in Macau for the period from November 30, 2007 to December 31, 2008. Pursuant to an agreement in October 2009, both parties agreed that Sang Heng should be compensated in accordance with Order no. 83/2009 of the Secretary for the Economy and Finances of the Macau SAR, which provides the maximum commission for gaming activity of promotion of games at 1.25% of the rolling chip volume. The agreement became effective on November 1, 2009. The agreement must be, and has been, renewed annually. Effective September 1, 2012, both parties agreed to change to the revenue sharing model to provide that Sang Heng be compensated based upon a mutually agreed upon percentage of the win/losses of the VIP gaming room.

King’s Gaming’s Gaming Representative (VIP Room Promoter) Agreement was entered into in July 2008 between Venetian Macau S.A. and King's Gaming which allowed for the sharing of profits as a gaming representative of Wenzhou VIP Room in Venetian Hotel and Casino in Macau for the period ended December 31, 2008. The agreement was renewed in January 2009 for the period from January 1, 2009 to December 31, 2009. Pursuant to an agreement in September 2009, both parties agreed that King's Gaming should be compensated in accordance with Order no. 83/2009 of the Secretary for the Economy and Finances of the Macau SAR, which provides the maximum commission for gaming activity of promotion of games at 1.25% of the rolling chip volume. The agreement became effective on November 1, 2009. The agreement automatically renews annually. Effective September 1, 2012, both parties agreed to change to the revenue sharing model to provide that King’s Gaming be compensated based upon a mutually agreed upon percentage of the wins/losses of the VIP gaming room. King’s Gaming moved its VIP gaming room to Sands Cotai Central in February 2013.

Sang Lung’s Gaming Representative (VIP Room Promoter) Agreement dated as of June 24, 2011 entered into between Galaxy Casino, S.A., and Sang Lung allowed for Sang Lung to be compensated in accordance with Order no. 83/2009 of the Secretary for the Economy and Finances of the Macau SAR, which provides the maximum commission for gaming activity of promotion of games at 1.25% of the rolling chip volume. The agreement became effective on July 1, 2011. The agreement must be, and has been, renewed annually. Effective September 1, 2012, both parties agreed to change to the revenue sharing model to provide that Sang Lung be compensated based upon a mutually agreed upon percentage of the wins/losses of the VIP gaming room.

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Bao Li's Gaming Promoter Agreement dated as of February 7, 2011 entered into between Melco Crown Gaming (Macau) Limited and Bao Li Gaming which allowed for Bao Li Gaming to be compensated in accordance with Order no. 83/2009 of the Secretary for the Economy and Finances of the Macau SAR, which provides the maximum commission for gaming activity of promotion of games at 1.25% of the rolling chip volume. The agreement automatically renews annually. As a matter of convenience and to maintain flexibility in remuneration methods, the Company also entered into an agreement with Melco Crown Gaming (Macau) Limited ("Melco Crown") to share in the casino's VIP gaming room wins/losses from the players recruited by the Company. Either the Gaming Promoter or Melco Crown may adjust these arrangements with adequate notice and agreement by both parties to the arrangement. Effective September 1, 2012, both parties agreed to change to the revenue sharing model to provide that Bao Li Gaming be compensated based upon a mutually agreed upon percentage of the wins/losses of the VIP gaming room.

The Collaborator Agreement dated October 15, 2013 entered into between the licensed gaming promoter of Le Royal Arc Casino and the Collaborator allows the Collaborator to be compensated based upon a mutually agreed-upon percentage of the win/losses of the Oriental VIP Room at the Le Royal Arc Casino.

The Junket Operator Agreement dated June 24, 2013 entered into between Mr. Lou Kan Kuong, Crown Melbourne and Crown Perth, Australia, which allows the Crown Australia Junket Operator to be compensated based upon a mutually-agreed percentage of the rolling chip turnover at Crown Melbourne and Crown Perth, Australia.

**Note 2 — Summary of Significant Accounting Policies**

***Principles of Consolidation***

The operations of the Promotion Entities are consolidated with those of AGRL and its wholly owned subsidiaries and Iao Kun as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013. Intercompany transactions and account balances have been eliminated. Unless otherwise indicated all currency amounts are in United States Dollars.

***Fiscal Year End***

The fiscal year end of the Company is December 31.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. These estimates and judgments are based on historical information, information that is currently available to management and on various other assumptions that management believes to be reasonable under the circumstances. The Company has made significant estimates of the contingent purchase price obligation for the King's Gaming, Bao Li Gaming and the Oriental VIP Room acquisitions, goodwill and other intangible assets in these consolidated financial statements. Actual results could vary from those estimates.

***Revenue Recognition***

Revenue from VIP gaming room promotion operations in Macau is recorded monthly based upon the Promotion Entities' share of the net gaming wins/losses in VIP gaming rooms. The amounts due to the Promotion Entities are calculated and reported by the casino operators and the Promotion Entities on a monthly basis, usually within two days of the month end. Revenue from VIP operations in Australia is based upon a fixed commission as a percentage of rolling chip turnover.

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Additionally, the Promotion Entities in Macau earn revenues based upon percentages of non-negotiable chips exchanged in the VIP gaming rooms (typically 0.05%), which is available to offset costs incurred for accommodations, food and beverage and other services furnished to players and is included in gross revenues. These revenues are included in revenue from VIP gaming room promotion operations in the accompanying consolidated statements of operations.

Beginning on September 1, 2012, the Company changed its remuneration model from a fixed commission model of 1.25% of the rolling chip turnover to a revenue sharing model in Macau. The decision to change from the fixed commission model to the revenue sharing model was made as a result of the Company's expansion into four VIP gaming rooms with the ability to spread the risk of fluctuations surrounding gaming wins and losses. Additionally, management has initiated a program for junket agents who purchase non-negotiable chips in cash from the Promotion Entities in Macau ("super-agent"), allowing the super-agent to assume some of the risk of gaming losses or receive increased commissions as a result of gaming wins.

The win rate is the percentage of rolling chip turnover exchanged in the VIP gaming room that is won by the casino (gross wins and losses divided by rolling chip turnover). Win rate and total rolling chip turnover in the Group's VIP gaming rooms during the year ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Win rate	3.59%	2.98%	2.97%
Total rolling chip turnover	\$6,422,339,000	\$16,627,093,000	\$17,048,596,000

***VIP Gaming Room Cage and Marker Accounting***

In the VIP gaming rooms, VIP gaming patrons primarily purchase non-negotiable chips from the cage either with cash, cash chips, cashier's order, or markers (short term, non-interest bearing loans). Non-negotiable chips can only be used to make wagers. Winning wagers are paid in cash chips. If the VIP gaming patrons continue to play, they must exchange the cash chips for non-negotiable chips, which is the basis for commission. The exchange of the non-negotiable chips by the VIP gaming patrons in the VIP gaming room is recorded as rolling chip turnover and provides a basis for measuring VIP gaming room win percentage. It is customary in Macau to measure VIP gaming room play using this rolling chip method.

A VIP gaming patron can be a player, a junket agent or a super-agent. Whoever signs on the marker and takes delivery of the non-negotiable chips at the casino cage and carries them over to the game table is the borrower. It is also common practice that the VIP gaming patron taking delivery of the non-negotiable chips shares the chips with other VIP gaming patrons for the purpose of achieving a higher rolling volume (if the VIP gaming patron is a junket agent, they are entitled to receive commission even when the non-negotiable chips are wagered by third parties acquainted with them) without receiving immediate payment in cash for the non-negotiable chips. Under Macau law, licensed gaming promoters are permitted to extend credit to VIP gaming patrons creating a civil obligation to pay.

The Group, through the Promotion Entities, extends credit to junket agents. A majority of the Group's consolidated markers receivable are owed by junket agents from Macau and the rest are primarily in mainland China. In addition to enforceability issues, the collectability of markers receivable from foreign junket agents is affected by a number of factors including changes in economic conditions in the junket agents' home countries.

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The Group may not be able to collect all of their markers receivable from the junket agents. Management expects that the Group will be able to enforce these obligations only in a limited number of jurisdictions, including Macau and Hong Kong. To the extent that junket agents of the Group, through the Promotion Entities, are from other jurisdictions, the Group may not have access to a forum in which they will be able to collect all of their markers receivable because, among other reasons, courts of many jurisdictions do not enforce gaming debts and the Group may encounter forums that will refuse to enforce such debts. The Group's inability to collect gaming debts could have a significant negative impact on their operating results.

The following is a summary of an aging of the Company's markers receivable by jurisdiction that may refuse to enforce such debts:

Jurisdiction/Aging	December 31, 2015	% of total markers receivable	December 31, 2014	% of total markers receivable
PRC				
0-30 days	\$ 10,405,378		\$ 12,330,410	
31-60 days	8,907,468		11,760,382	
61-90 days	9,906,074		9,025,019	
91-180 days	28,120,968		23,337,632	
Greater than 180 days	-		-	
<b>Total</b>	<b>\$ 57,339,888</b>	<b>34%</b>	<b>\$ 56,453,443</b>	<b>30%</b>

The Group regularly evaluates the allowance for uncollectible marker receivable based on a specific review of junket agent accounts as well as management's prior experience with collection trends in the casino industry and current economic and business conditions. Messrs. Lam and Vong guaranteed all markers receivable in the Company's VIP gaming rooms until June 25, 2014, upon the execution of a termination agreement for the guarantees and loan agreements. The guarantees by Messrs. Lam and Vong did not cover markers receivable attributable to the junket agent networks of Mr. Mok, Mr. Lou and Mr. Lei or Mr. Vong Veng Im as described below. The guarantee of Messrs. Lam and Vong allowed for offset against the loans provided by them for the working capital. Upon the acquisition of King's Gaming, Mr. Mok has guaranteed the collection of all markers receivable attributable to Mr. Mok and his network of junket agents at both King's Gaming's existing VIP gaming room and the Company's existing and future VIP gaming rooms for as long as he is employed by the Company. Upon the acquisition of Bao Li Gaming, Mr. Lou and Mr. Lei guaranteed the collection of all markers receivable attributable to them and their network of junket agents at both Bao Li Gaming's existing VIP gaming room and the Company's existing and future VIP gaming rooms through December 31, 2015. Upon the acquisition of the Oriental VIP room, Mr. Vong Veng Im guaranteed the collection of all markers receivable attributable to the Collaborator and his network of junket agents at both the Oriental VIP Room and the Company's existing and future VIP gaming rooms through June 30, 2016. Upon the acquisition of the profit interest of the Crown Australia Junket Operator, Mr. Lou Kan Kuong guaranteed the collection of all markers receivable attributable to the Crown Australia operation and his network of junket agents at Crown Australia, Melbourne and Perth for so long as he is employed by the Company or the termination of the Australia junket business, whichever is earlier. As of December 31, 2015 and 2014, management believes that an allowance for uncollectible markers receivable is not necessary.

Two junket agents accounted for approximately 13% and 11% of markers receivable as of December 31, 2015. No junket agents, individually, accounted for more than 10% of markers receivable as of December 31, 2014.

***Fair Value of Financial Instruments***

FASB ASC Topic 820 "Fair Value Measurements and Disclosures" defines fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the buyer and the seller at the measurement date. In determining fair value, the valuation techniques consistent with the market approach, income approach and cost approach shall be used to measure fair value. FASB ASC Topic 820 establishes a fair value hierarchy for inputs, which represent the assumptions used by the buyer and seller in pricing the asset or liability. These inputs are further defined as observable and unobservable inputs. Observable inputs are those that buyer and seller would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the inputs that the buyer and seller would use in pricing the asset or liability developed based on the best information available in the circumstances.

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The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not being applied. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.
- Level 2 — Valuations based on (i) quoted prices in active markets for similar assets and liabilities, (ii) quoted prices in markets that are not active for identical or similar assets, (iii) inputs other than quoted prices for the assets or liabilities, or (iv) inputs that are derived principally from or corroborated by market through correlation or other means.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

For certain of the Group's financial instruments, none of which are held for trading purposes, including cash and cash equivalents, accounts receivable, markers receivable, certain other current assets, lines of credit payable, accrued expenses, and loan payable to shareholders, the carrying values of these financial instruments approximate their fair value due to their short maturities. The contingent purchase price obligations-King's Gaming, Bao Li Gaming and Oriental VIP Room acquisitions were initially recognized for the fair values of the acquisition contingent consideration and are adjusted to the fair value at each subsequent reporting date (see Note 9, Note 10 and Note 11).

At least annually, management determines if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and other information. There were no changes in the valuation techniques during the years ended December 31, 2015 and 2014.

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The following are the classes of assets and liabilities measured at fair value:

Recurring fair value measurements:

	Fair Value Measurements Using				Total Gains for the Year Ended December 31, 2015
	As of December 31, 2015	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value of Contingent Consideration:					
Oriental VIP Room	\$ -	\$ -	\$ -	\$ -	\$ 24,807,965
Bao Li Gaming	\$ 14,228,500	\$ -	\$ -	\$ 14,228,500	\$ 5,407,770
Total recurring fair value measurements					<u>\$ 30,215,735</u>

	Fair Value Measurements Using				Total (Losses) for the Year Ended December 31, 2014
	As of December 31, 2014	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value of Contingent Consideration:					
Oriental VIP Room	\$ 41,404,026	\$ -	\$ -	\$ 41,404,026	\$ (34,741,232)
Bao Li Gaming	\$ 42,291,631	\$ -	\$ -	\$ 42,291,631	\$ (26,177,337)
Total recurring fair value measurements					<u>\$ (60,918,569)</u>

Non-recurring fair value measurements:

	Fair Value Measurements Using				Total (Losses) for the Year Ended December 31, 2015
	As of December 31, 2015	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Goodwill	\$ -	\$ -	\$ -	\$ -	\$ (17,757,113)
Total non-recurring fair value measurements					<u>\$ (17,757,113)</u>

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Additional information regarding the valuation technique and inputs used is as follows:

Quantitative Information about Level 3 Fair Value Measurements:

<b>Contingent Consideration</b>	<b>Fair Value as of 12/31/2015</b>	<b>Valuation Techniques</b>	<b>Unobservable Input</b>	<b>Range</b>
Oriental VIP Room	\$ -	Forecasted Performance, June 2016	Chip Turnover Annual Growth	(60%)-(20%)
		Monte Carlo Method	Average Simulated Share Prices	\$ 1.07
<b>Contingent Consideration</b>	<b>Fair Value as of 12/31/2014</b>	<b>Valuation Techniques</b>	<b>Unobservable Input</b>	<b>Range</b>
Oriental VIP Room	\$ 41,404,026	Forecasted Performance, 2015-June 2016	Chip Turnover Annual Growth	(40%) – (5%)
		Monte Carlo Method	Average Simulated Share Prices	\$1.24- \$1.29
Bao Li Gaming	\$ 42,291,631	Forecasted Performance, 2015	Chip Turnover Annual Growth	(20%) - (5%)
		Monte Carlo Method	Average Simulated Share Prices	\$1.26- \$1.31

The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration for the Bao Li Gaming and Oriental VIP Room acquisitions are the forecasted performance results of the operations of Bao Li Gaming and Oriental VIP Room and the simulated share prices of the Company's ordinary shares (the "Ordinary Shares") under the Monte Carlo method. Significant increases (decreases) in any of those inputs in isolation would result in a significantly higher (lower) fair value measurement. As of December 31, 2015, the Bao Li Gaming final contingent consideration was determined based upon actual performance and no future estimates are required.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash, cash chips, non-negotiable chips and short-term investments with original maturities of less than 90 days. Cash equivalents are placed with high credit quality financial institutions.

***Accounts Receivable and Concentration of Credit Risk***

Accounts receivable are principally comprised of net gaming revenues, fees and incentives revenues receivable, which do not bear interest and are recorded at amounts due from the casino operators.

When deemed necessary, the Group records an allowance for doubtful accounts which represents management's best estimate of the amount of probable credit losses in the Group's existing accounts receivable. Management believes that all outstanding balances are collectible and therefore an allowance has not been established. Although management believes that no allowance is currently necessary, it is possible that the estimated amount of cash collections with respect to accounts receivable could change.

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**Earnings Per Share**

Basic net earnings (loss) per common share is computed by dividing net earnings (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings (loss) per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

The calculations of earnings (loss) per share are computed as follows for the years ended December 31,:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Numerator:</b>			
Net income (loss) attributable to Ordinary Shareholders for basic and diluted earnings per share	\$ 5,117,769	\$ (60,077,935)	\$ 5,387,502
<b>Denominator:</b>			
Denominator for basic earnings (loss) per share			
- Weighted-average Ordinary Shares outstanding during the year	62,116,749	60,781,915	53,030,405
Effect of dilutive securities:			
- Weighted-average director shares issued/ issuable	400	-	167
- Oriental VIP Room earn out shares	39,315	-	-
- Bao Li Gaming earn out shares	136,370	-	180,000
Denominator for diluted earnings (loss) per share	<u>62,292,834</u>	<u>60,781,915</u>	<u>53,210,572</u>
Basic earnings (loss) per share	\$ 0.08	\$ (0.99)	\$ 0.10
Diluted earnings (loss) per share	<u>\$ 0.08</u>	<u>\$ (0.99)</u>	<u>\$ 0.10</u>

The issued and issuable earnout Ordinary Shares for the Oriental VIP Room (Note 11) and Bao Li Gaming (Note 10) have been included in basic earnings (loss) per share based on the weighted average shares for the years ended December 31, 2015, 2014 and 2013 and incremental shares from the assumed outstanding earnout shares as of the beginning of each period are included for the calculation of diluted earnings per share but excluded from the calculation of diluted loss per share because the effect would have been anti-dilutive.

In 2011, the Company decided that a portion of the directors fees and officers remuneration would be paid in Ordinary Shares. The shares are to be issued in January of each year. In November 2015, a new plan was adopted to allow for additional shares to be issued. A total of 60,790 Ordinary Shares were issued during the third quarter of 2014 to satisfy the Company's obligations for 2013 and have been included in diluted earnings per share based on the weighted average shares for the year ended December 31, 2013. A total of 145,980 Ordinary Shares are to be issued to satisfy the Company's obligations for 2015 and have been included in diluted earnings per share based on the weighted average shares for the year ended December 31, 2015.

The Company issued one transferable subscription right for each two Ordinary Shares then owned to stockholders of record on June 3, 2013. Accordingly, as required by FASB ASC Topic 260 "Earnings Per Share" the number of weighted average Ordinary Shares outstanding for basic and diluted earnings per share have been increased retroactively by a factor of 1.081 for all periods presented before June 21, 2013. This factor represents the impact of the bonus element of the rights offering on the Company's Ordinary Shares, based upon the closing price of the Ordinary Shares immediately prior to the rights trading separately from the Ordinary Shares on June 5, 2013 (\$4.07 per share), and the expected proceeds from the rights offering.



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***Property and Equipment***

Property and equipment is stated at cost. Depreciation and amortization is recorded on a straight-line basis over the estimated useful lives of the assets ranging from two to five years, which do not exceed the lease term for leasehold improvements, if applicable.

***Goodwill and Other Intangible Assets***

The Company amortizes intangible assets over their estimated useful lives unless it is determined their lives to be indefinite. Goodwill and other intangible assets with indefinite lives are not amortized but are subject to tests for impairment at least annually. Management performs impairment tests more frequently than annually if events or circumstances indicate that the value of goodwill or intangible assets with indefinite lives might be impaired.

The following are the useful lives of the respective finite-lived intangible assets:

Bad Debt Guarantee	3 to 5.5 years	Based upon six months after the expiration of the employment agreement or at the expiration of the employment agreement
Non-Compete agreement	9 to 11.7 years	Based upon the termination date of the casino's license or June 2022
Profit interest agreement	9 to 11.7 years	Based upon the termination date of the casino's license or June 2022

***Indefinite Useful Life Assets***

In accordance with U.S. GAAP, the Company performs impairment testing for goodwill at least annually unless indicators of impairment exist in interim periods. The Company performs its annual test of goodwill on December 31 each year.

Goodwill impairment testing follows the two-step approach as defined in FASB ASC Topic 350, which is performed at the entity level as the Company has one reporting unit, which is gaming promotion business mainly located in Macau. The first step ("Step 1") compares the fair value of the reporting unit to its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss to be recognized. In the second step ("Step 2"), the fair value of the reporting unit resulting from the first step of the evaluation is allocated to the fair value of all of the assets and liabilities of the reporting unit in order to determine an implied goodwill value. This allocation is similar to the purchase price allocation performed in purchase accounting. If the carrying value of goodwill exceeds the implied fair value, the excess of the carrying value is required to be recorded as an impairment loss. The loss recognized cannot exceed the carrying value of goodwill.

***Impairment of Long-lived Assets***

The Company evaluates when events or circumstances indicate that the carrying amount of long-lived assets to be held and used might not be recoverable, the expected future undiscounted cash flows from the assets are estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows was less than the carrying amount of the assets, an impairment loss would be recorded. The impairment loss would be measured on a location by location basis by comparing the fair value of the asset with its carrying amount. Long-lived assets that are held for disposal are reported at the lower of the assets' carrying amount or fair value less costs related to the assets' disposition.

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**Advertising Costs**

Costs for advertising and marketing are expensed the first time the advertising or marketing takes place or as incurred. Advertising and marketing costs for ongoing operations are included in selling, general and administrative expense. During the years ended December 31, 2015, 2014 and 2013, the Group incurred advertising costs of \$514,923, \$709,609 and \$348,384, respectively.

**Stock-Based Compensation**

The Company awards stock and other equity-based instruments to its employees, directors and consultants (collectively "share-based payments"). Compensation cost related to such awards is recorded when earned. Ordinary Shares are issued to the directors subsequent to year end based on the average trading price prior to December 31 each year. All of the Company's stock-based compensation is based on grants of equity instruments and no liability awards have been granted. All of the Company directors presently receive \$20,000 payable in Ordinary Shares, valued at the average of the closing prices of the Ordinary Shares over the three-month period preceding the end of each fiscal year.

The shareholders approved the 2011 Omnibus Securities and Incentive Plan in December 2011 and the Board of Directors approved the 2015 Omnibus Equity Incentive Plan in November 2015 (collectively, the "Incentive Plan"). The purpose of the Incentive Plan is to assist the Company in attracting, retaining and providing incentives to key management employees and nonemployee directors, and nonemployee consultants to the Company and its affiliates, and to align the interests of such employees, nonemployee directors and nonemployee consultants with those of the Company's shareholders. The Incentive Plan provides for the granting of Distribution Equivalent Rights, Incentive Share Options, Non-Qualified Share Options, Performance Share Awards, Performance Unit Awards, Restricted Share Awards, Restricted Share Unit Awards, Share Appreciation Rights, Tandem Share Appreciation Rights, Unrestricted Share Awards or any combination of the foregoing up to a maximum of 200,000 Ordinary Shares and 500,000 Ordinary Shares for the 2011 Incentive Plan and 2015 Incentive Plan, respectively, as may be best suited to the circumstances of the particular employee, director or consultant. On July 17, 2014, 60,790 Ordinary Shares were issued for year 2013 compensation. On December 10, 2015, 111,730 Ordinary Shares were issued as compensation owed for 2014. 145,980 Ordinary Shares are to be issued as compensation owed for 2015. A liability of approximately \$209,000 and \$209,000 is included in accrued expenses at December 31, 2015 and December 31, 2014, respectively.

**Foreign Currency**

The reporting currency of Iao Kun is in the United States dollar ("US \$", "\$", "Reporting Currency"). The Group's functional currency is the Hong Kong Dollar ("HKD \$", "Functional Currency"). Monetary assets and liabilities denominated in currencies other than the Functional Currency are translated into the Functional Currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the Functional Currency are translated into the Functional Currency at the exchange rates prevailing on the dates of the transaction.

Exchange gains or losses arising from foreign currency transactions are included in the determination of net income (loss) for the respective period.

For financial reporting purposes, the consolidated financial statements of the Group, which are prepared using the Functional Currency, are then translated into the Reporting Currency. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and shareholders' equity is translated at historical exchange rates. Any translation adjustments resulting are not included in determining net income (loss) but are included in foreign currency translation adjustment in other comprehensive income, a component of shareholders' equity.

	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Period end HK\$:US\$ exchange rate	\$ 7.75	\$ 7.75	\$ 7.75
Average annual HK\$:US\$ exchange rate	\$ 7.75	\$ 7.75	\$ 7.76

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***Comprehensive Income***

The Group follows standards for the reporting and display of comprehensive income and its components in the financial statements. Comprehensive income is defined as the change in equity of a company during the period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on the accompanying consolidated statements of changes in equity, is the cumulative foreign currency translation adjustment.

***Economic and political risks***

The Group's current operations are mainly conducted in Macau and Hong Kong. Accordingly, the Group's consolidated financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC and by the general state of the PRC economy.

The Group's operations in Macau and Hong Kong are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Group's consolidated results may be adversely affected by changes in the political and social conditions in the PRC and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad and rates and methods of taxation, among other things.

***Income Taxes***

Sang Heng, King's Gaming, Bao Li, Sang Lung and Oriental are not subject to Macau Complimentary tax, because, pursuant to the VIP gaming promoter agreements with the Casino Operators, gaming revenue is received net of taxes collected by the Macau SAR paid directly by the Casino Operator on a monthly basis. No provision for Macau Complimentary tax has been made.

As Promotion Entities, Sang Heng, King's Gaming, Bao Li, Sang Lung and Oriental are subject to a tax on the amount of non-negotiable chips exchanged by VIP gaming patrons in the VIP gaming rooms ("rolling chip turnover"), which is referred to as a "rolling tax". The rolling tax is deducted and paid by the Casino Operator on a monthly basis. The rate of rolling tax is 0.01% on the rolling chip turnover of the VIP gaming room and the rolling tax is deducted as an expense in the consolidated statements of operations.

AGRL is not subject to Hong Kong profits tax because all operations are performed outside Hong Kong and Hong Kong adopts a territorial tax regime under which only Hong Kong sourced income is subject to the profit tax.

All subsidiaries are incorporated under the BVI Business Companies Act, 2004 (No. 16 of 2004) and are exempted from payment of BVI taxes.

The Company is not incorporated nor does it engage in any trade or business in the United States and is not subject to United States federal income taxes. The Company did not derive any significant amount of income subject to such taxes after completion of the Share Exchange and accordingly, no relevant tax provision is made in the consolidated statements of operations.

Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be effective when the differences are expected to reverse.

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Deferred tax assets are reduced by a valuation allowance to the extent that management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of income in the period that includes the enactment date.

The Company has not recorded deferred income taxes applicable to undistributed earnings of Macau VIP rooms because it is the present intention of management to reinvest the undistributed earnings indefinitely in Macau. Undistributed earnings amounted to approximately \$271,898,000 and \$256,283,000 on December 31, 2015 and 2014, respectively. If the earnings of such foreign subsidiaries were not indefinitely reinvested, a deferred tax liability of approximately \$32,628,000 and \$30,754,000 would have been required at December 31, 2015 and 2014, respectively. Generally, such earnings become subject to Macau tax upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability on such undistributed earnings.

The Company prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken in the tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. As of December 31, 2015 and 2014, there were no amounts that had been accrued with respect to uncertain tax positions.

***Recently Issued Accounting Pronouncements***

In August 2014, the FASB issued Accounting Standards Update 2014-15 – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 defines management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and provides related footnote disclosure requirements. Under U.S. GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting establishes the fundamental basis for measuring and classifying assets and liabilities. The Update provides guidance on when there is substantial doubt about an organization’s ability to continue as a going concern and how the underlying conditions and events should be disclosed in the footnotes. It is intended to reduce diversity that existed in footnote disclosures because of the lack of guidance about when substantial doubt existed. The amendments in this Update is effective for the Company beginning in the year ended December 31, 2016. Early application is permitted. Management is currently evaluating the effect that the updated standard will have on the Company’s consolidated financial statements and related disclosures.

Except as described above, management does not believe that any recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

**Note 3 — Accounts Receivable**

Accounts receivable consisted of the following:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Gaming revenues receivable	<u>\$ 1,460,251</u>	<u>\$ 1,529,052</u>

As of December 31, 2015, accounts receivable were due from two casino operators and one gaming promoter and were 41%, 35% and 24% of total receivables, respectively. As of December 31, 2014, accounts receivable were due from four casino operators and were 59%, 33%, 5% and 3% of total receivables, respectively.

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**Note 4 — Goodwill and Other Intangible Assets**

**Goodwill**

Changes in the carrying value of goodwill are as follows:

	December 31, 2014	Other	Impairments	December 31, 2015
Goodwill, gross	\$ 17,753,907	\$ -	\$ -	\$ 17,753,907
Foreign currency translation	-	3,206	-	3,206
Accumulated impairment loss	-	-	(17,757,113)	(17,757,113)
Total Goodwill, net	<u>\$ 17,753,907</u>	<u>\$ 3,206</u>	<u>\$ (17,757,113)</u>	<u>\$ -</u>

For the quarter ended June 30, 2015, the Company concluded there was indicator of potential goodwill impairment due to the impact of the significant decline in the Macau VIP gaming promotion business. As a result of identifying indicator of impairment, the Company performed an impairment test of goodwill as of June 30, 2015.

In performing Step 1 of the impairment test, the Company estimated the fair value of the reporting unit using a combination of the income approach and market-based valuation methodologies with greater emphasis placed on the income approach, for purpose of estimating the total enterprise value for the Company.

Under the income approach which is based on probability-weighted discounted cash flow (“DCF”) technique, forecasted net cash flow (“NCF”) of the business was developed and then discounted to the present value at a discount rate commensurate with the risks involved in the ultimate realization of those returns. This income approach employs the following key projection estimates: (i) rolling chip turnover (“RCT”) and/or expected growth rates in RCT; (ii) win rates; (iii) operating costs and operating profit; (iv) NCF; (v) the expiration date of the concession and sub-concession agreements for the right to operate casinos in Macau; and (vi) the determination of an appropriate discount rate (i.e., a rate of return) based on the reporting unit's deemed weighted average cost of capital (“WACC”). The WACC considers observable market rates and yields and comparable company return data. As the name implies, probability-weighted DCF analysis involves the development of several forecasted NCF scenarios that are then probability-weighted to yield an overall indication of reporting unit value. Assumptions used in DCF analysis give consideration to historical financial and operating data, various internal estimates, and economic and market data as derived from a variety of external sources. These estimates are developed as part of the Company's routine short-term management procedures and long-range strategic planning process. In addition, the Company tested the reasonableness of the assumption inputs and outcomes of its DCF analysis against available comparable market data.

Under the market approach, the fair value of the reporting unit is derived by reference to the Company's market capitalization at the valuation date.

The Step 1 analysis indicated that the carrying value of the reporting unit exceeded its estimated fair value, requiring the Company to perform Step 2 to measure the amount of impairment loss, if any.

Under Step 2, the fair value of all of the reporting unit's assets and liabilities were estimated for the purpose of deriving an estimate of the implied fair value of goodwill. This test resulted in a non-cash, goodwill impairment charge of \$17,757,113, which was recognized during the year ended December 31, 2015.

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Determining the fair value of a reporting unit is highly judgmental in nature and involves the use of significant estimates and assumptions. The Company's fair value estimates for purposes of determining the goodwill impairment charge are considered Level 3 fair value measurements. The Company based its fair value estimates on assumptions it believes to be reasonable but that are unpredictable and inherently uncertain. Actual future results related to assumed variables could differ from these estimates.

**Other Intangible Assets**

Intangible assets as of December 31, 2015 and 2014 consist of the following:

	<b>Bad Debt Guarantee</b>	<b>Non- Compete Agreement</b>	<b>Profit Interest Agreement</b>	<b>Total</b>
<b>Amortized intangible assets:</b>				
<b>Gross carrying amounts</b>				
Balance as of January 1, 2014	\$ 606,374	\$ 1,824,021	\$ 161,646,336	\$ 164,076,731
Foreign currency translation	124	(243)	(1,998)	(2,117)
Balance as of December 31, 2014	606,498	1,823,778	161,644,338	164,074,614
Foreign currency translation	251	753	66,737	67,741
Balance as of December 31, 2015	606,749	1,824,531	161,711,075	164,142,355
<b>Accumulated amortization</b>				
Balance as of January 1, 2014	320,842	325,156	25,093,788	25,739,786
Amortization expense	127,282	176,281	16,061,471	16,365,034
Foreign currency translation	(55)	108	1,093	1,146
Balance as of December 31, 2014	448,069	501,545	41,156,352	42,105,966
Amortization expense	127,317	176,329	16,065,821	16,369,467
Foreign currency translation	215	248	20,722	21,185
Balance as of December 31, 2015	575,601	678,122	57,242,895	58,496,618
Total amortized intangible assets	<u>\$ 31,148</u>	<u>\$ 1,146,409</u>	<u>\$ 104,468,180</u>	<u>\$ 105,645,737</u>

As a result of the same indicators mentioned above for Goodwill Impairment, the Company performed impairment test of intangible assets as of June 30, 2015 and the sum of the estimated undiscounted cash flows exceeded the carrying amount of the intangible assets. Therefore, no impairment has been recognized for other intangible assets.

Amortization expense for the years ended December 31, 2015, 2014 and 2013 was \$16,369,467, \$16,365,034 and \$13,187,006, respectively.

Estimated amortization expense of intangibles for the next five years and thereafter is as follows:

2016	\$ 16,273,287
2017	16,242,150
2018	16,242,150
2019	16,242,150
2020	16,242,150
Thereafter	24,403,850
	<u>\$ 105,645,737</u>

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**Note 5 — Property and Equipment**

Property and equipment consisted of the following:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Office Equipment	\$ 196,374	\$ 193,669
Furniture and Fixtures	4,418	4,416
Leasehold Improvements	-	22,131
Motor Vehicles	210,933	210,846
	<u>411,725</u>	<u>431,062</u>
Less: Accumulated Depreciation	(169,798)	(108,913)
	<u>\$ 241,927</u>	<u>\$ 322,149</u>

Depreciation expense was \$82,961, \$77,224 and \$24,284 for the years ended December 31, 2015, 2014 and 2013, respectively.

**Note 6 — Lines of Credit Payable**

Lines of Credit Payable consisted of the following:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Due to casino operators	\$ 41,908,984	\$ 32,392,020

Due to casino operators represents an advance of non-negotiable chips to Sang Heng, Sang Lung, King's Gaming and Bao Li Gaming and are interest free and renewable monthly and advances of commission income.

The casino operators, both in Macau and Australia, have extended lines of credit totaling approximately \$57,582,000 and \$59,324,000 as of December 31, 2015 and 2014, respectively. The lines of credit may be exceeded from time to time at the discretion of the casino operators. The lines of credit for Sang Heng, Sang Lung and King's Gaming are guaranteed by Mr. Lam or Mr. Vong and are secured by their personal checks and a deposit paid by Mr. Lam. The lines of credit for Bao Li Gaming and the Crown Australia Junket Operator are guaranteed by Mr. Lou and are secured by his personal checks.

**Note 7 — Accrued Expenses**

Accrued Expenses consist of the following:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Commission payable-the junket agents	\$ 4,531,003	\$ 8,886,601
Management fee payable-related party (Note 14)	399,959	573,897
Management and Directors' compensation	440,234	562,139
Accrued listing expenses	-	765,417
Others	659,800	894,599
	<u>\$ 6,030,996</u>	<u>\$ 11,682,653</u>

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One junket agent accounted for approximately 12% of the rolling chip turnover during the year ended December 31, 2015 and another junket agent accounted for approximately 12% of commission payable as of December 31, 2015. One junket agent accounted for approximately 10% of the rolling chip turnover during the year ended December 31, 2014 and 14% of commission payable as of December 31, 2014.

**Note 8 — Loans Payable, Shareholders**

As of December 31, 2015 and 2014, the amount of the funding advanced to AGRL by Messrs. Lam and Vong was approximately \$2,827,584 and \$2,612,490, respectively. All amounts due as of December 31, 2015 are considered short-term advances and are due on demand.

**Note 9 — Acquisition of King’s Gaming Promotion Limited**

On November 10, 2010, the Company completed the purchase of the profit interest pursuant to a Profit Interest Purchase Agreement (“King’s Gaming Purchase Agreement”) with Mr. Mok and Mr. Wong (together, the “King’s Gaming Seller”), to acquire the right to 100% of the profit interest derived by King’s Gaming, effective November 1, 2010, from the promotion of the Wenzhou VIP Room at the Venetian Hotel and Casino in Macau for an aggregate amount of (i) up to \$36,000,000, of which \$9,000,000 was paid at the closing, and (ii) 1,500,000 Ordinary Shares of the Company (the “Purchase Price”) issued at the closing. The balance of \$27,000,000 of the Purchase Price will be maintained as working capital at the cage of King’s Gaming (and shall be the sole property of the Company until paid to the King’s Gaming Seller in accordance with the terms of the King’s Gaming Purchase Agreement) and shall be paid to the Seller in installments of \$9,000,000 (each, an “Installment Payment”), subject to meeting a minimum Gross Profit requirement equal to \$6,150,000 (the “Minimum Gross Profit Requirement”) for each of the three fiscal years following the closing date commencing with fiscal year 2011, which shall be evidenced by the management prepared financial statements of King’s Gaming approved by the Audit Committee of the Company. In the event King’s Gaming fails to achieve the Minimum Gross Profit Requirement in any of the three fiscal years following the closing date, the Installment Payment shall be reduced by an amount equal to the product of (x) \$9,000,000 and (y) the quotient obtained by dividing (A) the actual Gross Profit for such year, by (B) the Minimum Gross Profit Requirement.

The Earnout Shares, Incentive Shares and Additional Incentive Shares (each as defined in the King’s Gaming Purchase Agreement) shall be released and issued to the Seller as follows:

Year	Gross Profit Target For Earnout/Incentive Shares	Earnout/Incentive Shares	Additional Incentive Shares
2011	\$ 6,150,000	500,000	*
2012	\$ 7,380,000	500,000	*
2013	\$ 8,860,000	500,000	*
2014	\$ 9,740,000	100,000	*
2015	\$ 10,720,000	100,000	*
2016	\$ 11,790,000	100,000	*
2017	\$ 12,970,000	100,000	*
2018	\$ 14,260,000	100,000	*
2019	\$ 15,690,000	100,000	*
2020	\$ 17,260,000	100,000	*

\*- For each \$1,000,000 in which the Gross Profit target for such year is exceeded, 10,000 Additional Incentive Shares will be issued. The Seller is not entitled to any Additional Shares on a pro rata basis for multiples of less or greater than \$1,000,000.



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For the year ended December 31, 2011, Incentive Shares of 500,000 were earned since King's Gaming met its 2011 Gross Profit Target exceeding \$6,150,000 and earned additional incentive shares of 20,000 by exceeding its Gross Profit Target by over \$2,000,000.

King's Gaming did not meet its Gross Profit Targets in year 2012 through 2015 and accordingly no incentive shares were issued. Additionally, Mr. Mok has agreed to provide a personal guaranty, for so long as he is employed by the Company or King's Gaming, providing for the guaranty of all obligations of King's Gaming and the Seller pursuant to the King's Gaming Purchase Agreement, including, but not limited to, any bad debts the Seller network of junket agents may have incurred or may incur in the future.

As of November 10, 2010, the total estimated purchase price of \$75,973,890, consisting of \$9 million in cash, 1.5 million Ordinary Shares valued at \$10.74 per share for a value of \$16,110,000, and estimated contingent consideration of \$50,863,890 consisting of contingent cash and Ordinary Shares, was allocated based on valuations performed to determine the fair values of the acquired assets, as follows:

Gaming License Deposit	\$	12,446
Bad Debt Guarantee		466,116
Non-Compete agreement		792,304
Profit interest agreement		59,694,600
Goodwill		<u>15,008,424</u>
<b>Total Estimated Purchase Price</b>	<b>\$</b>	<b><u>75,973,890</u></b>

In accordance with the FASB ASC Topic 805 on business combinations, a liability of \$50,857,564 was recognized for the estimated acquisition fair value of the contingent consideration based on the probability of the achievement of the Gross Profit targets at December 31, 2010. Any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in the Group's estimate of the gross profit expected to be achieved, will be recognized in earnings in the period that estimated fair value changes. The fair value estimate assumes probability-weighted gross profits are achieved over the earn-out period. A change in the fair value of the acquisition-related contingent consideration could have a material impact on the Group's statement of operations and financial position in the period of change in estimate. During the years ended December 31, 2015, 2014 and 2013, the Company did not recognize any gains or losses due to the change in the fair value of the contingent consideration utilizing Level 3 fair value measurements as King's Gaming is not expected to meet the Gross Profit Target and no Ordinary Shares are expected to be issued. Fluctuations in the market value of the Company's Ordinary Shares and subsequent performance will cause the fair value to increase or decrease and the resulting change will be recognized in earnings.

Management has considered the factors that make up the goodwill recognized in the transaction including the reputation of the VIP gaming room and its former location at the Venetian Hotel and Casino on Cotai in Macau (now located at the Sands Cotai Central Casino). Additional factors include the synergies between the operations of King's Gaming and the operations of Sang Heng, Sang Lung, Bao Li and Oriental VIP Room, including the expanded network of junket agents and the ability to offer higher tier VIP players the opportunity to play at either a high end luxury Cotai location or a high end luxury downtown Macau location. These factors do not qualify for separate recognition in the overall purchase price allocation.

**Note 10 — Acquisition of Bao Li Gaming Promotion Limited**

On September 12, 2012, the Company completed the purchase of the profit interest pursuant to a Profit Interest Purchase Agreement ("Bao Li Purchase Agreement") with Mr. Lou and Mr. Lei (together, the "Bao Li Seller"), to acquire the right to 100% of the profit derived by Bao Li Gaming, effective September 1, 2012, from the promotion of the VIP gaming room at the City of Dreams Hotel and Casino in Macau for an aggregate amount of \$15,000,000, of which \$7,500,000 was paid upon the satisfaction of all conditions to closing and \$7,500,000 paid at the closing (the "Purchase Price"). Additionally, the Company reimbursed the Seller approximately \$146,026 for cash and incentive receivables acquired.

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For purposes of the Bao Li Purchase Agreement, “Base Rolling Chip Turnover” means \$2,500,000,000 of non-negotiable chips that the Bao Li Seller’s network of junket agents purchases from Bao Li Gaming’s and the Company’s VIP gaming rooms attributable to the Bao Li Seller’s network of junket agents at Bao Li Gaming’s existing VIP gaming room and the Company’s existing and future VIP gaming rooms.

In addition, as more fully set forth below, the Company is required to issue to the Bao Li Seller (i) up to an aggregate of \$39,000,000 and 1,875,000 Ordinary Shares in the event certain rolling chip turnover targets are achieved for each of the three years following the closing date (the “Base Earnout Payment”), (ii) and additional cash payments and Ordinary Shares in the event the rolling chip turnover targets for each of the three years following the closing date are exceeded, in increments of \$25,000,000 (the “Incremental Earnout Payment”). For each \$25,000,000 increment in which the rolling chip Turnover target for such year is exceeded, the Company shall pay an additional \$130,000 and issue 6,250 Ordinary Shares. The Bao Li Seller is not entitled to any additional Incremental Earnout Payments in the event that the Seller’s rolling chip turnover exceeds \$5,000,000,000. As a result, in any year the maximum Incremental Earnout Payment cannot exceed \$13,000,000 in cash and 625,000 in Ordinary Shares. In the event that the Seller fails to achieve the Base Rolling Chip Turnover in any year, the Bao Li Seller will not be entitled to receive any earnout payments.

The Earnout Shares, Incentive Shares and Additional Incentive Shares (each as defined in the Bao Li Purchase Agreement) shall be released and issued to the Bao Li Seller as follows:

Year	Rolling Chip Turnover Target For Base Earnout Payments	Base Earnout Cash Payments	Base Earnout Shares	Incremental Earnout Payment
2013	\$ 2,500,000,000	\$ 13,000,000	625,000	*
2014	\$ 2,500,000,000	\$ 13,000,000	625,000	*
2015	\$ 2,500,000,000	\$ 13,000,000	625,000	*

\*- For each \$25,000,000 increment in which the rolling chip turnover target for such year is exceeded, the Company shall pay an additional \$130,000 and 6,250 Ordinary Shares will be issued.

Additionally, Mr. Lou and Mr. Lei have agreed to provide personal guarantees, through December 31, 2015 providing for the guaranty of all obligations of Bao Li Gaming and the Seller pursuant to the Bao Li Purchase Agreement, including, but not limited to any bad debts the Bao Li Seller network of junket agents may have incurred or may incur in the future.

As of September 12, 2012, the total estimated purchase price of \$48,007,120 consisting of \$15,146,026 in cash, and estimated contingent consideration of \$32,861,094 consisting of contingent cash and Ordinary Shares has been allocated based on valuations performed to determine the fair values of the acquired assets as follows:

Gaming License Deposit	\$ 12,520
Cash and Incentive Receivables	146,026
Bad Debt Guarantee	122,381
Non-Compete agreement	723,484
Profit interest agreement	45,016,159
Goodwill	1,986,550
<b>Total Estimated Purchase Price</b>	<b>\$ 48,007,120</b>

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In accordance with the FASB ASC Topic 805 on business combinations, a liability of \$14,228,500 and \$42,291,631 was recognized for the estimated acquisition fair value of the contingent consideration based on the probability of the achievement of the rolling chip turnover targets at December 31, 2015 and 2014, respectively. Any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in the Group's estimate of the rolling chip turnover expected to be achieved, will be recognized in earnings in the period that estimated fair value changes. The fair value estimate assumes probability-weighted rolling chip turnover targets are achieved over the earn-out period. Actual achievement of rolling chip turnover targets for this assumed earn-out period could reduce the liability to zero. A change in the fair value of the acquisition-related contingent consideration could have a material impact on the Group's statement of operations and financial position in the period of change in estimate. During the years ended December 31, 2015, 2014 and 2013, the Company recognized a gain of \$5,407,770 and losses of \$26,177,337 and \$13,744,041, respectively, due to the change in the fair value of the contingent consideration utilizing Level 3 fair value measurements. Fluctuations in the market value of the Company's Ordinary Shares and subsequent performance will cause the fair value to increase or decrease and the resulting change will be recognized in earnings.

Bao Li achieved the rolling chip target for 2013, 2014 and 2015, and Earnout cash and Earnout Ordinary Shares earned and issued are as follows:

Year	Base Earnout Cash Payments	Base Earnout Shares Issued	Incremental Earnout Cash Payments	Incremental Earnout Shares Issued
2013	\$ 13,000,000	625,000	\$ 13,000,000	625,000
2014	\$ 13,000,000	625,000	\$ 8,320,000	400,000
*2015	\$ 13,000,000	625,000	\$ 520,000	25,000

\*It is anticipated that the cash payment and shares issuance for the 2015 earnout will be made in the second quarter of 2016.

The following is a reconciliation of the change in fair value of the contingent consideration:

Contingent Consideration as of January 1, 2014	\$ 33,027,050
Payment	(13,000,000)
Ordinary Shares Issued	(3,837,500)
Change in Fair Value of Contingent Consideration	26,177,337
Foreign Currency Translation Adjustment	(75,256)
Contingent Consideration as of December 31, 2014	\$ 42,291,631
Payment	(21,320,000)
Ordinary Shares Issued	(1,342,750)
Change in Fair Value of Contingent Consideration	(5,407,770)
Foreign Currency Translation Adjustment	7,389
Contingent Consideration Payable as of December 31, 2015	<u>\$ 14,228,500</u>

Management has considered the factors that make up the goodwill recognized in the transaction including the reputation of the VIP gaming room and its location at the City of Dreams Hotel and Casino in Macau. Additional factors include the synergies between the operations of Bao Li Gaming and the operations of Sang Heng, Sang Lung, King's Gaming and Oriental VIP Room, including the expanded network of junket agents and the ability to offer higher tier VIP players the opportunity to play at another high end luxury Cotai location or a high end luxury downtown Macau location. These factors do not qualify for separate recognition in the overall purchase price allocation.

**Note 11 — Acquisition of the Oriental VIP Room**

On June 26, 2013, the Company completed the purchase of the profit interest pursuant to a Profit Interest Purchase Agreement (“Oriental VIP Room Purchase Agreement”) with Mr. Vong Veng Im (the “Oriental VIP Room Seller”), to acquire the right to 100% of the profit derived from the operations, effective July 1, 2013, from the promotion of a VIP gaming room at the Le Royal Arc Casino in Macau for an aggregate amount of \$20,000,000 in cash, of which \$10,000,000 was paid at the closing and \$10,000,000 was paid at a subsequent closing (the “Purchase Price”), upon the completion of certain conditions. Mr. Vong is a collaborator for the gaming promoter license holder at the Le Royal Arc Casino.

For purposes of the Oriental VIP Room Purchase Agreement, “Base Rolling Chip Turnover” means \$2,500,000,000 of non-negotiable chips that the Oriental VIP Room Seller’s network of junket agents purchases from Oriental VIP Room’s and the Company’s VIP gaming rooms.

In addition, as more fully set forth below, the Company is required to pay and issue to the Oriental VIP Room Seller (i) up to an aggregate of \$39,000,000 and 1,875,000 Ordinary Shares in the event certain rolling chip turnover targets are achieved for each of the three 12 month periods ending June 30, 2014, 2015 and 2016 following the closing date (the “Base Earnout Payment”), (ii) and additional cash payments and Ordinary Shares in the event the rolling chip turnover targets for each of the three 12 month periods ending June 30, 2014, 2015 and 2016 following the closing date are exceeded, in increments of \$25,000,000 (the “Incremental Earnout Payment”). For each \$25,000,000 increment in which the rolling chip turnover target for such year is exceeded, the Company shall pay an additional \$130,000 and issue 6,250 Ordinary Shares. The Oriental VIP Room Seller is not entitled to any additional Incremental Earnout Payments in the event that the Seller’s rolling chip turnover exceeds \$5,000,000,000. As a result, in any year the maximum Incremental Earnout Payment cannot exceed \$13,000,000 in cash and 625,000 in Ordinary Shares. In the event that the Seller fails to achieve the Base Rolling Chip Turnover in any year, the Oriental VIP Room Seller will not be entitled to receive any earnout payments. If the Oriental VIP Room Seller achieves an aggregate Rolling Chip Turnover of at least \$15,000,000,000 for the 36 month period ending June 30, 2016, the Company shall pay an additional \$2,500,000 for every \$1,000,000,000 of rolling chip turnover in excess of \$15,000,000,000 up to a maximum of \$12,500,000.

The Earnout Shares, Incentive Shares and Additional Incentive Shares (each as defined in the Oriental VIP Room Purchase Agreement) shall be released and issued to the Oriental VIP Room Seller as follows:

<b>12 Month Period</b>	<b>Rolling Chip Turnover Target For Base Earnout Payments</b>	<b>Base Earnout Cash Payments</b>	<b>Base Earnout Shares</b>	<b>Incremental Earnout Payment</b>
June 30, 2014	\$ 2,500,000,000	\$ 13,000,000	625,000	*
June 30, 2015	\$ 2,500,000,000	\$ 13,000,000	625,000	*
June 30, 2016	\$ 2,500,000,000	\$ 13,000,000	625,000	*

\*- For each \$25,000,000 increment in which the rolling chip turnover target for such year is exceeded, the Company shall pay an additional \$130,000 and 6,250 Ordinary Shares. In addition, an aggregate rolling chip turnover of at least \$15,000,000,000 for the 36 month period ending June 30, 2016 the Company shall pay an additional \$2,500,000 for every \$1,000,000,000 of rolling chip turnover in excess of \$15,000,000,000 up to a maximum of \$12,500,000.

Additionally, Mr. Vong Veng Im has agreed to provide a personal guarantee, through June 30, 2016 providing for the guaranty of all obligations of Oriental VIP Room and the Oriental VIP Room Seller pursuant to the Oriental VIP Room Purchase Agreement, including, but not limited to any bad debts the Oriental VIP Room Seller network of junket agents may have incurred or may incur in the future.

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As of June 26, 2013, the total estimated purchase price of \$57,803,560 consisting of \$10,000,000 in cash, and estimated contingent consideration of \$47,803,560 consisting of contingent cash and Ordinary Shares has been allocated based on valuations performed to determine the fair values of the acquired assets as follows:

Bad Debt Guarantee	\$	16,881
Non-Compete agreement		305,927
Profit interest agreement		56,758,004
Goodwill		722,748
		<u>722,748</u>
Total Estimated Purchase Price	\$	<u>57,803,560</u>

In accordance with the FASB ASC Topic 805 on business combinations, a liability of \$0 and \$41,404,026 was recognized for the estimated acquisition fair value of the contingent consideration based on the probability of the achievement of the rolling chip turnover targets at December 31, 2015 and 2014, respectively. Any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in the Group's estimate of the rolling chip turnover expected to be achieved, will be recognized in earnings in the period that estimated fair value changes. The fair value estimate assumes probability-weighted rolling chip turnover targets are achieved over the earn-out period. A change in the fair value of the acquisition-related contingent consideration could have a material impact on the Group's statement of operations and financial position in the period of change in estimate. During the years ended December 31, 2015, 2014 and 2013, the Company recognized a gain of \$24,807,965, a loss of \$34,741,232 and a gain of \$1,298,252, respectively, due to the change in the fair value of the contingent consideration utilizing Level 3 fair value measurements. Fluctuations in the market value of the Company's Ordinary Shares and subsequent performance will cause the fair value to increase or decrease and the resulting change will be recognized in earnings.

The Oriental VIP Room achieved the rolling chip target for 12 month periods ended June 30, 2015 and 2014 and Earnout cash and Earnout Ordinary Shares earned and issued are as follows:

Period ended	Base Earnout Cash Payments	Base Earnout Shares Issued/Earned	Incremental Earnout Cash Payments	Incremental Earnout Shares Issued/Earned
June 30, 2014	\$ 13,000,000	625,000	\$ 13,000,000	625,000
June 30, 2015	\$ 13,000,000	625,000	\$ 1,950,000	93,750

As of December 31, 2015, management does not expect the Oriental VIP Room will meet the June 30, 2016 rolling chip target and therefore has not recorded a liability for the June 30, 2016 earnout cash payment and share based payment.

The following is a reconciliation of the change in fair value of the contingent consideration:

Contingent Consideration as of January 1, 2014	\$	36,528,269
Payment		(26,000,000)
Ordinary Shares Issued		(3,875,000)
Change in Fair Value of Contingent Consideration		34,741,232
Foreign Currency Translation Adjustment		9,525
Contingent Consideration as of December 31, 2014	\$	41,404,026
Payment		(14,950,000)
Ordinary Shares Issued		(1,645,938)
Change in Fair Value of Contingent Consideration		(24,807,965)
Foreign Currency Translation Adjustment		(123)
Contingent Consideration Payable as of December 31, 2015	\$	<u>-</u>

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Management has considered the factors that make up the goodwill recognized in the transaction including the reputation of the VIP gaming room and its location at the Le Royal Arc Casino in Macau. Additional factors include the synergies between the operations of the Oriental VIP Room and the operations of Sang Heng, Sang Lung, Bao Li Gaming and King's Gaming, including the expanded network of junket agents and the ability to offer higher tier players the opportunity to play at another high end luxury downtown Macau location or a high end luxury Cotai location. These factors do not qualify for separate recognition in the overall purchase price allocation. Total acquisition costs which have been expensed, amounting to approximately \$1,252,000.

Management determined that the acquisition of the operations of Oriental VIP Room at the Le Royal Arc Casino in Macau would allow the Company to expand its operations in downtown Macau and appeal to a wider number of players. Prior to the acquisition, the Company's had only one VIP gaming room in downtown Macau. Additionally, the acquisition of the operations of Oriental VIP Room brought an additional network of junket agents and collaborators that may increase revenues at the Company's Macau VIP rooms.

The following is a summary of revenues, expenses and net income of Oriental VIP Room since the effective acquisition date (July 1, 2013) included in the consolidated results of operations for the Company during the year ended December 31, 2013:

Revenues	\$ 9,511,291
Expenses	(10,477,592)
Net Loss Attributable To Oriental VIP Room	<u>\$ (966,301)</u>

The following pro forma consolidated statements of operations have been prepared assuming that the acquisition of Oriental VIP Room occurred on January 1, 2013.

	<b>Pro Forma Consolidated For the Year Ended December 31, 2013</b>
Revenue	<u>\$ 242,775,634</u>
Expenses	<u>242,079,136</u>
Pro Forma Net Income Attributable To Ordinary Shareholders	<u>\$ 696,498</u>
<b>Pro Forma Net Income Per Share</b>	
Basic	<u>\$ 0.01</u>
Diluted	<u>\$ 0.01</u>
<b>Weighted average shares outstanding</b>	
Basic	<u>53,030,405</u>
Diluted	<u>53,210,572</u>

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**Note 12 — Shareholders' Equity**

**Ordinary Shares**

Iao Kun is authorized to issue 500,000,000 Ordinary Shares, par value \$.0001. The authorized Ordinary Shares was increased from 200,000,000 to 500,000,000 as a result of a shareholder vote on September 24, 2013. The following summarizes the Ordinary Shares issued relating to achieving earnings targets or rolling chip turnover targets in association with the Company's acquisitions of Kings' Gaming, Bao Li Gaming and Oriental VIP room:

	Years Ended December 31,		
	2015	2014	2013
<b>King's Gaming (Note 9)</b>	-(1)	-(1)	-(1)
<b>Bao Li Gaming (Note 10)</b>	1,025,000(2)	1,250,000(2)	N/A
<b>Oriental VIP Room (Note 11)</b>	718,750(3)	1,250,000(3)	N/A

- (1) King's Gaming did not meet its Gross Profit Target for the years ended December 31, 2014, 2013 and 2012, and therefore no shares for achieving those performance targets were issued.
- (2) Bao Li achieved the minimum rolling chip target and also reached the incremental earn out rolling chip target for 2013 and 2014, and therefore an aggregate of 1,250,000 and 1,025,000 Ordinary Shares were issued in the third quarter of 2014 and the second quarter of 2015, respectively.
- (3) The Oriental VIP Room achieved the minimum rolling chip target and also reached the incremental earn out rolling chip target for the 12 months ended June 30, 2014, and therefore an aggregate of 1,250,000 Ordinary Shares were issued in the fourth quarter of 2014. The Oriental VIP Room achieved the minimum rolling chip target and also reached an additional incremental earn out rolling chip target for the 12 months ended June 30, 2015 and a total of 718,750 Ordinary Shares were issued during the third quarter of 2015.

The holders of the Ordinary Shares have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the Ordinary Shares.

**Rights Offering in 2013**

The Company issued one transferable subscription right for each two Ordinary Shares then owned to stockholders of record on June 3, 2013. The rights entitled rights holders to subscribe for an aggregate of up to 20,225,582 Ordinary Shares. The subscription price was \$3 per Ordinary Share to be exercised. As a result of a standby purchase agreement with certain persons, including Lam Man Pou, Vong Hon Kun, Lam Chou In, Zheng An Ting, So Kam Tai, Au Chun Yin, Chan Fok Hoi, Chan Kai Ian, Sin Kam Chan, Leong Wai Meng and Cheung Mee Mo (the "Standby Purchasers"), whereby the Standby Purchasers have agreed to purchase a number of Ordinary Shares having a value equal to the aggregate subscription price the Company would have received with respect to the shares underlying all rights not exercised by all holders in the rights offering, referred to as the standby purchase, upon the same terms as the other holders, except the subscription price for 34% of such shares with respect to purchases made by Messrs. Lam Man Pou and Vong Hon Kun was \$4.50 per share. Messrs. Lam and Vong agreed to purchase approximately 34% of the shares sold pursuant to the standby purchase for an exercise price not less than the closing price of Iao Kun's Ordinary Shares on May 24, 2013, which was \$4.37 per share, at a premium to the exercise price of the rights (\$ 3.00 per share). On June 21, 2013, the subscription period for the rights offering expired and on June 28, 2013, the Company instructed its transfer agent to issue a total of 19,527,950 Ordinary Shares. The Company incurred offering costs of \$2,067,809, which have been recorded as a reduction of Additional Paid in Capital.

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***Directors Compensation***

All of the Company's directors presently receive annual compensation of \$30,000 in cash and \$20,000 payable in Ordinary Shares, valued at the average of the closing prices of the Ordinary Shares over the three-month period preceding the end of each fiscal year. The Ordinary Shares will be issued the following year. The chairman of the audit committee will receive additional annual cash compensation of \$10,000 and the other members of the audit committee will each receive additional annual cash compensation of \$5,000. The chairman of the compensation and nominating committees each receive additional annual cash compensation of \$5,000 and the other members of these committees each receive additional annual cash compensation of \$3,000. Each director will also receive cash compensation of \$1,000 for each board or committee meeting that he or she attends (whether in person or telephonically) that is at least an hour in duration and \$500 for each board or committee meeting he or she attends that is less than an hour in duration. Total director fees charged to operations during the years ended December 31, 2015, 2014 and 2013 were \$497,000, \$497,000 and \$497,000, respectively.

**Share Repurchase Program**

The Board of Directors established a share repurchase program, with an expiration date of June 30, 2013 (the "2012 Repurchase Plan"). The 2012 Repurchase Plan authorized the Company to purchase up to two million of its Ordinary Shares on the open market at prices to be determined by the Company's management. During the year ended December 31, 2012, the Company repurchased an aggregate of 1,273,947 Ordinary Shares for an aggregate purchase price of \$4,166,483 pursuant to the 2012 Repurchase Plan. During the quarter ended March 31, 2013, the Company purchased the remaining 726,053 Ordinary Shares for an aggregate purchase price of \$2,728,912. The Ordinary Shares have been retired and the purchase price was allocated to par value and additional paid in capital.

In March 2013, the Board of Directors established a new share repurchase program with an expiration date at any time in the discretion of appropriate company officers (the "2013 Repurchase Plan"). The 2013 Repurchase Plan authorizes the Company to purchase up to four million of its Ordinary Shares on the open market at prices to be determined by the Company's management. During the year ended December 31, 2013, the Company repurchased an aggregate of 732,900 Ordinary Shares for an aggregate purchase price of \$2,295,849. During the year ended December 31, 2014, the Company repurchased an aggregate of 1,415,300 Ordinary Shares for an aggregate purchase price of \$4,193,554. During the year ended December 31, 2015, the Company did not repurchase any additional shares.

**Dividend**

The Board of Directors has authorized a regular cash dividend each year after the release of the Company's financial results for the six months ending June 30 (the "Six Month Dividend"), an amount per outstanding Ordinary Share equal to: (i) 15% of the Company's non-GAAP net income (defined as operating income before amortization of intangible assets and change in fair value of contingent consideration) for the most recently completed six months ended June 30, divided by (ii) the number of Ordinary Shares outstanding on the record date for such dividend; and, an annual dividend each year after the release of the Company's annual financial results (the "Annual Dividend"), equates to an amount per outstanding Ordinary Share equal to (i) 15% of the Company's non-GAAP net income for the most recently completed fiscal year, less the amount paid pursuant to the immediately previous six-month dividend, divided by (ii) the number of Ordinary Shares outstanding on the record date for such dividend.

The record date for each period's dividend will be set by the Company's management to be as close as practicable to, but no less than, 15 days after the public release by the Company of the financial results for the applicable six-month period and fiscal year end. The payment date for each period's dividend will be set by the Company's management to be as close as practicable to, but no less than, 10 days after the record date.



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<b>Payment Date</b>	<b>Amount</b>
April 26, 2013 (for the year 2012 Annual Dividend)	\$ 4,142,199
September 20, 2013 (for the 2013 Six Month Dividend)	\$ 4,803,178
October 14, 2014 (for the 2014 Six Month Dividend)	\$ 1,539,260
June 22, 2015 (for the 2014 Annual Dividend)	\$ 1,038,967
October 19, 2015 (for the 2015 Six Month Dividend)	\$ 870,745

**Preferred Stock**

The Company is authorized to issue 1,150,000 preferred shares with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. There are no issued and outstanding preferred shares at December 31, 2015 and December 31, 2014.

**Ordinary Shares Reserved for Future Issuance**

At December 31, 2015 and 2014, the Company has reserved 2,816,470 and 5,403,200 shares, respectively, of its authorized but unissued Ordinary Shares for possible future issuance in connection with the following:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Incentive Plans Shares	416,470	28,200
Contingently Issuable Incentive Shares-King's Gaming	500,000	600,000
Contingently Issuable Incentive Shares-Bao Li Gaming	650,000	2,275,000
Contingently Issuable Incentive Shares-Oriental VIP Room	1,250,000	2,500,000
<b>Total</b>	<b>2,816,470</b>	<b>5,403,200</b>

**Hong Kong Stock Exchange Listing**

On February 9, 2015, the Company was notified by the Hong Kong Stock Exchange (the "Stock Exchange") that based on the information provided to the Stock Exchange that, due to various factors, including the declining financial performance of the Company, the unpredictability of the Company's revenues, the overall market conditions, the near term industrial outlook in Macau and certain related party payments made to Pak Si, the Stock Exchange is unable to proceed further with the Company's listing application and the Company has elected to not continue with the application process at such time. Total expenses incurred for Stock Exchange listing, included in Selling, General and Administrative expenses, were approximately \$162,459, \$3,037,000 and \$2,312,000 for years ended December 31, 2015, 2014 and 2013, respectively.

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**Note 13 — Commitments and Contingencies**

**Employment Agreements**

AGRL entered into employment agreements with five executive officers: Mr. Lam (Chairman of the Board), Leong Siak Hung (former Chief Executive Officer), Li Chun Ming (former Chief Financial Officer), Mr. Vong (Director), and Lam Chou In (Operating Officer) that became effective upon the closing of the acquisition of AGRL. Upon the closing of the acquisition of King's Gaming, Iao Kun has entered into two additional employment contracts with Mr. Mok and Mr. Wong. Upon the closing of the acquisition of Bao Li, the Company entered into employment agreements with Mr. Lou and Mr. Lei. Upon the acquisition of the Oriental VIP Room, the Company entered into a 5 year employment agreement with Vong Veng Im. Beginning July 1, 2013, the Company entered into a two year employment agreement with Chien Lee, Chief Strategic Officer, which was terminated on June 9, 2014. Upon termination the Company entered into a consulting agreement with Mr. Chien under similar terms. The employment agreements for the former Chief Executive Officer and former Chief Financial Officer expired in February 2013 and continued on the same terms (subject to increases) on a month to month basis until April 30, 2015, upon their resignations. The agreement with Mr. Lam expired on February 2, 2015 and is continuing on the same terms on a month to month basis.

On May 1, 2015, the Company entered into employment agreements with Mr. Vong (Chief Executive Officer), Mr. Lam Chou In (Chief Operating Officer) and Mr. Yip Cheuk Fai (Chief Financial Officer). Each of the agreements is for a period of three years and each executive is entitled to paid vacation in accordance with the Company's policies and other customary benefits.

Annual minimum compensation for the terms of the employment agreements for terms greater than one year, as amended, is as follows at December 31, 2015:

2016	\$	1,283,793
2017		1,175,793
2018		485,065
Total	\$	<u>2,944,651</u>

The employment agreements provide that the executive, during the period of five years following the termination of his employment, shall not compete with AGRL or solicit any of its employees. The agreements with each of Leong Siak Hung, Li Chun Ming Raymond, Lam Man Pou, Vong Hon Kun and Lam Chou In contain provisions prohibiting the executives, during their respective terms of employment, from selling, hypothecating or otherwise transferring more than 20% of any Ordinary Shares that may be transferred to them by Spring Fortune from shares it received or receives as a result of the acquisition. If an executive's employment is terminated for any reason prior to the expiration of the employment term, or if the executive breaches the confidentiality and non-competition and non-solicitation provisions of his employment agreement, the executive is obligated to transfer and assign to the Company all securities then held by him and all rights to receive securities in the future, which securities will be canceled.

Total compensation charged to operations during the years ended December 31, 2015, 2014 and 2013, related to these employment contracts were approximately \$1,136,000, \$1,340,000 and \$1,166,000, respectively.

**Office Lease**

The Company has an office lease in Macau for executive offices which will expire in April 2016, and had an office lease in Hong Kong for executive offices which expired in September 2015. The Company moved the executive offices to the Macau office. The Company also rents a storage space on a month to month basis for \$1,547 per month. Minimum future lease payments are \$14,240 for the year ended December 31, 2016. Rent expense was \$87,524, \$93,519 and \$83,969 for the years ended December 31, 2015, 2014 and 2013, respectively.

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**Gaming Table Rentals**

Starting from August 1, 2013, the Company pays a monthly rental of approximately \$425,000 for six gaming tables in its Oriental VIP Room in order to have a greater percentage of revenue sharing. Beginning in January 2015, the Company reduced the gaming tables from six to four gaming tables in its Oriental VIP Room and the monthly rental was reduced to approximately \$309,000, which was further reduced to \$284,000 in May 2015 and \$258,000 beginning in June 2015. Beginning in September 2015, the Company no longer pays a monthly rental for gaming tables and has reduced its percentage of revenue sharing. Rental expense charged to operations for gaming table rentals was \$2,296,004, \$5,106,581 and \$2,127,193 for the years ended December 31, 2015, 2014 and 2013, respectively.

**Revenue Sharing**

Beginning in September 2012, the Company has adopted a new program to allow certain cash basis junket agents (non-marker) to share in the risk of wins and losses in the VIP gaming rooms. The maximum percentage of sharing that the junket agent may elect to share in the risk of wins and losses is limited to their percentage of rolling chip turnover during the previous month. The junket agent must make its election by the second day of the subsequent month and may elect from zero percent to the maximum percent. A total of approximately \$164,000 was recorded as additional commission income in January 2016 for participating junket agents based on December 2015 rolling chip turnover. Due to fluctuations in wins and losses as well as the agents' participation, levels, the total amount of revenues and losses shared as well as their percentage of rolling chip turnover may fluctuate significantly.

**Certain Risks and Uncertainties**

The Group's operations are dependent on the annual renewal of the gaming licenses by the Macau SAR to the Promoter Companies and the registration of the Collaborator by the licensed gaming promoter. The tenure of the Promotion Entities acting as gaming promoters and collaborator for the Casinos is subject to the Gaming Representative / Gaming Promoter Arrangements and Collaborator Agreement.

The Group may not be able to collect all of their markers receivable from the junket agents. Management expects that the Group will be able to enforce these obligations only in a limited number of jurisdictions, including Macau. To the extent that junket agents of the Group, through the Promotion Entities, are from other jurisdictions, the Group may not have access to a forum in which they will be able to collect all of their markers receivable because, among other reasons, courts of many jurisdictions do not enforce gaming debts and the Group may encounter forums that will refuse to enforce such debts. The Group's inability to collect gaming debts could have a significant negative impact on their operating results.

The Group receives all of their revenue from casino operators within the Asia-Pacific Region. If economic conditions in these areas were to decline materially or additional casino licenses to new casino operators were awarded in these locations, the Group's consolidated results of operations could be materially affected.

**Note 14 — Related Party Transactions**

**Management Agreements**

Part of day-to-day management and operation of the VIP gaming rooms is contracted by the Promotion Entities to Pak Si Management and Consultancy Limited of Macau ("Pak Si"), a related party management company that is responsible for hiring and managing staff needed for operations. This includes local managers and executives to provide supervision, finance and cage personnel, public relations, drivers and other service staff (waiters, cleaners, etc.). The agreements renew annually. The principal of Pak Si is the sister-in-law of Mr. Vong, a director of the Company and its Chief Executive Officer.

Effective January 1, 2013, the monthly payments were revised for Sang Heng and Sang Lung from \$180,000 to \$155,000 each, and Bao Li and King's Gaming remained at a monthly rate of \$103,000.

Beginning in July 2013, the Oriental VIP Room entered into a management agreement with Pak Si for \$103,000 per month.

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Effective July 1, 2014, the monthly payments were revised for Sang Heng and Sang Lung from \$155,000 to \$142,000 each, and Bao Li, King's Gaming and the Oriental VIP Room were revised from \$103,000 to \$97,000 each.

Effective January 1, 2015, the monthly payments were revised for Sang Heng and Sang Lung from \$142,000 to \$103,000 each, and Bao Li, King's Gaming and the Oriental VIP Room were revised from \$97,000 to \$65,000 each.

Effective January 1, 2016, the monthly payments were revised for Bao Li, King's Gaming and the Oriental VIP Room from \$65,000 to \$52,000 each.

Total expenses for Pak Si's services were \$4,798,390, \$7,156,950 and \$6,807,018 during the years ended December 31, 2015, 2014 and 2013, respectively. Amounts due to Pak Si as of December 31, 2015 and December 31, 2014 were \$399,959 and \$573,897, respectively and have been recorded in accrued expenses. Overall fees for services provided by Pak Si have been reduced as a result of the direct hire of employees by the Company as well as reduced volumes of business in the Company's VIP Gaming Rooms.

**Entertainment Expense**

The Group incurred entertainment expense for catering and restaurant services provided by a related party in which three directors have the majority ownership interest. Such entertainment expenses during the years ended December 31, 2015, 2014 and 2013 were approximately \$417,000, \$727,000 and \$779,000, respectively.

## SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

### IAO KUN GROUP HOLDING COMPANY LIMITED

March 11, 2016

By: /s/ Vong Hon Kun

Name: Vong Hon Kun

Title: Chief Executive Officer (Principal  
Executive Officer)

March 11, 2016

By: /s/ Yip Cheuk Fai

Name: Yip Cheuk Fai

Title: Chief Financial Officer (Principal  
Financial and Accounting Officer)

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## Certification

Pursuant to Rule 13a-14(a) of the Exchange Act

I, Vong Hon Kun, certify that:

1. I have reviewed this annual report on Form 20-F of Iao Kun Group Holding Company Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 11, 2016

By: /s/ Vong Hon Kun  
Name: Vong Hon Kun  
Title: Chief Executive Officer  
(Principal Executive Officer)

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## Certification

Pursuant to Rule 13a-14(a) of the Exchange Act

I, Yip Cheuk Fai, certify that:

1. I have reviewed this annual report on Form 20-F of Iao Kun Group Holding Company Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 11, 2016

By: /s/ Yip Cheuk Fai  
Name: Yip Cheuk Fai  
Title: Chief Financial Officer  
(Principal Financial and Accounting Officer)

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Certification

Pursuant to 18 U.S.C. Section 1350

Pursuant to U.S.C. Section 1350 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Iao Kun Group Holding Company Limited. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2015 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

**IAO KUN GROUP HOLDING COMPANY  
LIMITED**

March 11, 2016

By: /s/ Vong Hon Kun  
Name: Vong Hon Kun  
Title: Chief Executive Officer  
(Principal Executive Officer)

March 11, 2016

By: /s/ Yip Cheuk Fai  
Name: Yip Cheuk Fai  
Title: Chief Financial Officer  
(Principal Financial and Accounting Officer)

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Iao Kun Group Holding Company Limited (F/K/A Asia Entertainment & Resources Ltd.)

We hereby consent to the incorporation by reference in the Registration Statements on Form F-3 (File No. 333-166860) and Form F-3 (File No. 333-185759) of Iao Kun Group Holding Company Limited and its subsidiaries (“the Company”) of our reports dated March 11, 2016, relating to the Company’s consolidated financial statements as of December 31, 2015 and 2014 and for the three years ended December 31, 2015 and the effectiveness of internal control over financial reporting as of December 31, 2015, which appear in this annual report on Form 20-F.

/S/ UHY LLP

New York, New York  
March 11, 2016

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