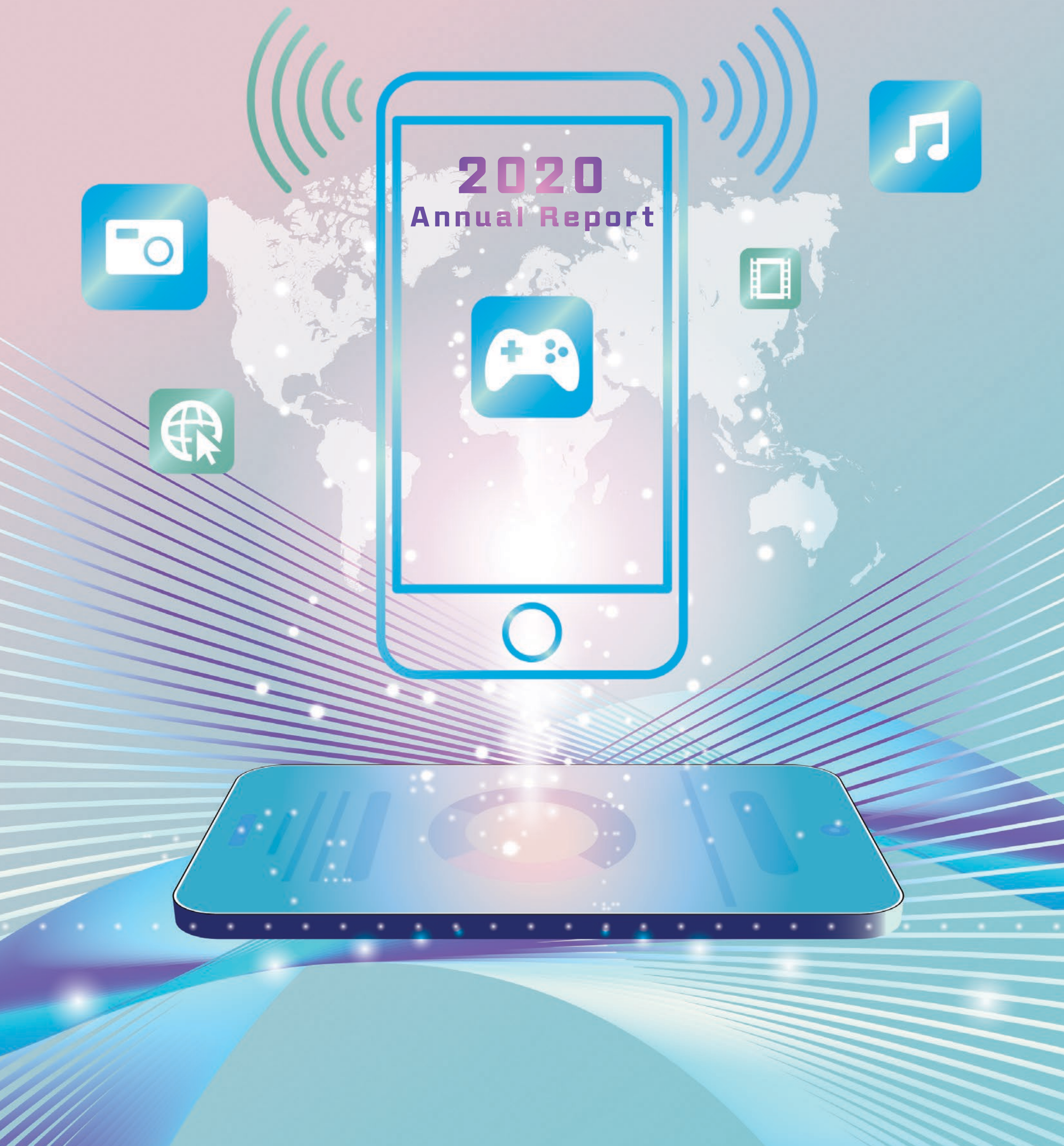
Mobile Internet (China) Holdings Limited
移動互聯（中國）控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code:1439



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Hong Cai *(Chairman)*
Mr. Sun Shao Hua

Independent Non-executive Directors

Mr. Wu Ping
Mr. Fang Zhi Xiang
Mr. Wu Yu Kun

BOARD COMMITTEES

Audit Committee

Mr. Fang Zhi Xiang *(Committee Chairman)*
Mr. Wu Ping
Mr. Wu Yu Kun

Remuneration Committee

Mr. Wu Ping *(Committee Chairman)*
Mr. Fang Zhi Xiang
Mr. Sun Shao Hua

Nomination Committee

Mr. Chen Hong Cai *(Committee Chairman)*
Mr. Wu Ping
Mr. Wu Yu Kun

COMPANY SECRETARY

Mr. Cheng Kit Hung

AUTHORISED REPRESENTATIVES

Mr. Sun Shao Hua
Mr. Cheng Kit Hung

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISER

TC & Co.

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Hong Sheng Industrial Park
Fengxin Industrial Zone
Yichun City, Jiangxi Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1501, Greenfield Tower
Concordia Plaza
No. 1 Science Museum Road, Kowloon
Hong Kong

STOCK CODE

01439

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China (Fengxin Sub-branch)
China Construction Bank (Fengxin Sub-branch)

COMPANY'S WEBSITE

www.hs-pack.com.cn

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chen Hong Cai (陳宏才), aged 47, is our Chairman and Executive Director. He was appointed on 15 January 2018. He is also the chairman of the Nomination Committee. Mr. Chen is primarily responsible for the management, market and business development, product development, production and operation management of the packaging segment of our Group. Mr. Chen has over 10 years of management experience. Mr. Chen graduated from the Nanjing Audit University (南京審計大學) with a Bachelor Degree in International Trade in 1995. Prior to joining the Group, Mr. Chen has been the deputy general manager of the sales department of Jiangxi Fushan Zhongpinxin Packaging Co. Ltd. (江西福山眾品鑫包裝有限公司) from 2013 to 2017. Before that, he served as the deputy general manager of the production department in Essel Packaging (Guangzhou) Limited (愛索爾(廣州)包裝有限公司) from 2000 to 2013.

Mr. Sun Shao Hua (孫少華), aged 49, is our founder and Executive Director. He was appointed on 13 December 2013. Mr. Sun is primarily responsible for the overall operation, strategic planning and business development of our Group. Mr. Sun has more than 15 years of experience in the packaging industry and corporate management. Mr. Sun established the business of our Group in 2006 and has been heading the Group since its incorporation. Mr. Sun was previously the standing director of the 7th China Packaging Federation Council (中國包裝聯合會第七屆理事會) in 2011. Mr. Sun was awarded the 5th Lake Poyang Printing Development Contribution Award (第五屆鄱陽湖(鴻聖)杯印刷發展貢獻獎) by the Association of Printing and Copying Industry in Jiangxi Province (江西省印刷複製業協會) in December 2011.

Mr. Sun completed a postgraduate economics course at Jiangxi University of Finance and Economics (江西財經大學) in July 2005 and graduated from the Central Communist Party School Correspondence Institute (中共中央黨校函授學院) in December 2006, majoring in economic management. Mr. Sun completed the 2006 Chief Executive Course at Xiamen University School of Management in August 2007 and the GEM Financing and Private Fund Executive Course at Fudan University in April 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Ping (吳平), aged 58, was appointed as an Independent Non-executive Director on 13 December 2013. He is also the chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee. Mr. Wu completed a monetary banking correspondence course at the Jiangxi University of Finance and Economics (江西財經大學) in July 1998. Mr. Wu obtained an intermediate level of finance qualification granted by the Ministry of Personnel of the PRC in November 2000. Mr. Wu held various positions in the Yichun branch and Fengxin branch of the China Construction bank from 1981 to 2012, including serving as the manager of the Credit Approval Commission of the Yichun branch, the manager of the Credit Approval Department of the Fengxin branch and the branch manager of the Fengxin branch.

Biographical Details of Directors and Senior Management

Mr. Fang Zhi Xiang (方志祥), aged 48, has been the deputy general manager of Fujian Province Lichen Management and Consulting Company Limited since 2013 and a director of Legend China Limited since 2017. His main responsibility is to supervise daily operations and human resources.

Mr. Fang obtained a diploma in accounting from Anhui Commercial College (安徽商業高等專科學校) (now known as Anhui University of Technology) in June 1995. He subsequently completed a part-time accounting bridging course (會計學業餘銜接課程) provided by Hefei University of Technology in January 2008. In May 1999, Mr. Fang was qualified as a Medium Level Accountant (中級會計師) in China. Mr. Fang has been a member of the Chinese Institute of Certified Public Accountants since December 2009.

Mr. Fang has over 24 years of experience in accounting. Prior to joining the Fujian Province Lichen Management and Consulting Company Limited, Mr. Fang served as a lecturer under the Ministry of Education at Chizhou University from July 1995 to December 2008. From December 2008 to January 2011, Mr. Fang served as the audit director of Fujian Tianlun Group Co., Ltd. (福建天綸集團有限公司). He was mainly responsible for establishing the company's auditing, management, inventory control and internal control systems, conducting internal audits and advising on tax planning.

Mr. Fang is the chairman of the Audit Committee and a member of the Remuneration Committee.

Mr. Wu Yu Kun (伍毓錕), aged 37, is currently a practicing lawyer with Fujian Tenet & Partners. Mr. Wu obtained the judicial qualification in China in 2008, then began to work for Xiamen City Construction and Administration Bureau. Mr. Wu entered the legal profession in 2011 and obtained the his practising license in 2013. Mr. Wu's practising areas include land, real estate, construction projects and government legal services related work. His clients include government authorities such as Xiamen Natural Resources and Planning Bureau formerly known as Xiamen Land Resources and Real Estate Administration), Xiang'an District Government, Siming District Government, Gulangsu Management Committee, as well as commercial clients such as Xia Shang Group and CCRE Group. Notable projects that Mr. Wu has advised on include expropriation for public transportation purpose, disposal of idle land, special rectification program for BRICS Xiamen Summit, World Heritage application for Kulangsu, Xiang'an Airport, among others. Mr. Wu also serves as a legal advisor for various private companies and public institutions, providing legal advice to them covering compliance review, legal risks mitigation and litigation prevention, etc.

Mr. Wu is member of the Audit Committee and the Nomination Committee.

SENIOR MANAGEMENT

Mr. Bai Rui Xiang (白瑞祥), aged 38, joined the Group in 2015 and was appointed as the Director of Research and Development in November 2019. He is responsible for the research, development and design of the Group. In 2000, he graduated from Mudan Vocational High School of Agriculture. He has over 10 years of experience in the design industry.

Mr. Cheng Kit Hung, aged 39, has been a practicing solicitor in Hong Kong since 2009 and is currently a partner of Winston & Strawn. Mr. Cheng obtained the bachelor degree in laws from the University of London in 2006 and graduated from the University of Hong Kong with the postgraduate certificate in laws in 2007.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Mobile Internet (China) Holdings Limited ("Mobile Internet" or the "Company"), I would like to present the results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2020.

2020 was a challenging year for us. During the first half of 2020, the outbreak of COVID-19 and its escalation on a global scale has triggered unprecedented disruptions to the economy and business operations nation wide. We inevitably felt the severe impact of a much weakened domestic economy resulted from the COVID-19 outbreak amid the ongoing US-China trade friction.

For our packaging products business, the business gradually picked up in the second half of the year, but the recovery of many SMEs in China including us lagged behind the recovery speed of the overall economy.

For our mobile game business, the industry sees dominant players with substantial financial and technical resources and superior at capturing market preferences and trends. Our existing games are at the recession stage of their respective life cycle, resulting in significant shrinkage in contribution to the annual results. We have been making efforts to review the strategies and resources for the segment.

As a result, 2020 saw decrease in business for both of our packaging and mobile game segments. The Group's revenue for 2020 was approximately RMB214.5 million, representing a year on year decline of 51.6%. However, the Group's net loss for 2020 was significantly decreased to approximately RMB238.9 million (2019: a net loss of approximately RMB441.3 million). The decrease is the combined result of a number of factors, with the substantial decrease in impairment loss on goodwill for 2020 being the primary factor.

Looking forward, we will continue to focus on strengthening our core businesses, optimising our product mix, and enhancing our operational efficiency while proactively exploring new opportunities.

I would like to take this opportunity to express my sincere gratitude to all fellow directors, management, and our staff for their dedication and contribution to our Group's development. I would also like to thank all our shareholders for their trust and continuous support over a challenging 2020. We remain committed to optimizing our business to generate satisfactory return for our shareholders.

Mobile Internet (China) Holdings Limited
Chen Hong Cai
Chairman and Executive Director

Jiangxi Province, the PRC, 14 May 2021

Corporate Governance Report

The Board is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with the increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

The Company has adopted the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that up to the date of this annual report, in the opinion of the Board, save as deviations explained under sections "Board Composition", "Chairman and Chief Executive" and "Audit Committee", the Company has complied with the CG Code. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the evolving regulatory requirements and to meet the rising expectations of the shareholders and other stakeholders.

CORPORATE GOVERNANCE PRACTICES

(A) Board of Directors

Responsibilities and Delegation

The Board is responsible for the leadership and control of the Company, overseeing the Group's businesses, strategic decisions, internal control, risk management systems and monitoring the performance of the senior management. The management is responsible for the daily operations of the Group under the leadership of the Chairman. The Directors have the responsibility to act objectively in the interests of the Company.

The Board has delegated various responsibilities to the Board committees including the Audit Committee, the Remuneration Committee and Nomination Committee. Further details of these Committees are set out below in section B of this corporate governance report.

Board Composition

As at 31 December 2020 and the date of this report, the Board consists of the following members:

Executive Directors:

Mr. Chen Hong Cai	Chairman of the Board and Nomination Committee
Mr. Sun Shao Hua	Member of the Remuneration Committee

Independent Non-Executive Directors:

Mr. Wu Ping	Chairman of the Remuneration Committee, and member of the Nomination Committee and Audit Committee
Mr. Fang Zhi Xiang	Chairman of the Audit Committee and member of the Remuneration Committee (appointed on 30 April 2021)
Mr. Wu Yu Kun	Member of the Audit Committee and Nomination Committee (appointed on 30 April 2021)
Mr. Liu Da Jin	Chairman of the Remuneration Committee, member of the Audit Committee and the Nomination Committee (resigned on 2 May 2021)

The Board currently comprises two executive Directors and three independent non-executive Directors from different business and professional fields. The profiles of each Director are set out in the "Biographical Details of Directors and Senior Management" section in this annual report. The Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions.

The Board has adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the board.

The Company has received annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Mr. Ma Yiu Ho, Peter, an independent non-executive director of the Company, retired on 28 August 2020. Following his retirement, the composition of the Board fell below the requirements under Rule 3.10(1) of the Listing Rules which provides that the Board must include at least three independent non-executive directors. However, the Company is in compliance with Rule 3.10(1) as of the date of this report.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operation and financial performance of the Group. Ad-hoc meetings will also be convened when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors.

Agenda and Board papers together with all appropriate, complete and reliable information will be provided to all the Directors before meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for board meetings. The company secretary of the Company is responsible to keep the minutes of board meetings and meetings of Board committees. All minutes are open for inspection by any Director at reasonable time on reasonable notice.

For the financial year ended 31 December 2020, four Board meetings were held.

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practices, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

Chairman and Chief Executive

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not separately have any officer with the title of "chief executive". Mr. Chen Hong Cai, the Chairman of the Group, is also responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions, complement the role of the chairman and chief executive. The Board is of the view that this structure provides the Group with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of shareholders' benefits.

Appointments, Re-election and Removal of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years, and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years, and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with the Company's Articles of Association, all Directors shall be subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. In accordance with the Articles of Association, Mr. Chen Hong Cai will retire and, being eligible, will offer himself for re-election at the forthcoming AGM of the Company. Mr. Fang Zhi Xiang and Mr. Wu Yu Kun will submit themselves for re-election at the forthcoming AGM of the Company.

Training Induction and Continuing Development of Directors

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Each newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Directors have provided to the Company their records of continuous professional development during the year ended 31 December 2020.

During the year ended 31 December 2020, all Directors have attended training courses and read articles and materials in relation to corporate governance, Listing Rules update or financial markets update arranged by professional firms/institutions. Besides, the company secretary also conducted briefings on corporate governance, directors' duties and responsibilities and provided materials for Listing Rules amendments to all Directors for their reference.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2020.

When the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors in advance.

(B) Board Committees

The Board has established three committees, namely the Audit Committee, Nomination Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and the Stock Exchange.

The majority of the members of each Board committee are independent non-executive Directors.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

Audit Committee

The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and provide material advice in respect of financial reporting and oversee the internal control procedures of the Company. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Fang Zhi Xiang, Mr. Wu Ping and Mr. Wu Yu Kun. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee has reviewed the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2020 and the interim financial statements for the six months ended 30 June 2020, including the accounting principles and practices adopted by the Company and the Group.

The Audit Committee held three meetings during the year ended 31 December 2020, of which all meetings with external auditors' presence, and all members of the Audit Committee attended the meetings. At the meetings, it reviewed the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors. No major issue on the internal control system of the Group has been identified.

The Company had established a whistleblowing policy and system for employees to raise concerns of possible improprieties where all concerns are addressed to the Audit Committee.

During the period under review, Mr. Ma Yiu Ho, Peter, retired on 28 August 2020. Following his retirement, the composition of the audit committee fell below the requirements under Rule 3.21 of the Listing Rules which provides that the audit committee must comprise a minimum of three members. However, the Company is in compliance with Rule 3.21 as of the date of this report.

Remuneration Committee

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to our Directors and senior management and to ensure none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on their skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and the prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in their respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. The Remuneration Committee currently consists of two independent non-executive Directors, namely Mr. Wu Ping (Chairman) and Mr. Fang Zhi Xiang, and one executive Director, Mr. Sun Shao Hua.

For the year ended 31 December 2020, one meeting were held and all members attended the meetings.

Nomination Committee

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; to identify individuals suitably qualified to become Board members; to assess the independence of independent non-executive Directors; and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The Nomination Committee currently consists of two independent non-executive Directors, namely Mr. Wu Ping and Mr. Wu Yu Kun, and one executive director, Mr. Chen Hong Cai (Chairman).

The Nomination Committee held one meeting during the year ended 31 December 2020 and all members of the Committee attended the meetings.

Board Diversity Policy

The Company has adopted a board diversity policy (the "Diversity Policy") which sets out the approach to achieve diversity of the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, professional knowledge, personal integrity and time commitments.

In identifying and selecting suitable candidates to serve as a director of the Company, the Nomination Committee would consider the above criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Board will consider setting measurable objectives to implement the Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The Nomination Committee will review the Diversity Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Function

The Board is responsible for performing the functions set out in code provision D.3.1 of the Corporate Governance Code.

The Board would review the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the Corporate Governance Code and disclosure in its Corporate Governance Report.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

Number of meetings and attendance records

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2020 is set out in the table below:

	Meeting attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Chen Hong Cai	4/4	N/A	N/A	1/1
Sun Shao Hua	4/4	N/A	1/1	N/A
Zheng Li Fang (Note 1)	4/4	N/A	N/A	N/A
Independent non-executive Directors				
Liu Da Jin	4/4	3/3	1/1	1/1
Wu Ping	4/4	3/3	1/1	1/1
Ma Yiu Ho, Peter (Note 2)	3/4	2/3	N/A	N/A

Note 1: Ms. Zheng resigned on 21 December 2020. Her attendances above were stated by reference to the number of meetings held during her tenure.

Note 2: Mr. Ma retired on 28 August 2020. His attendances above were stated by reference to the number of meetings held during his tenure.

(C) Accountability and Audit

Directors' Responsibility in respect of the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended 31 December 2020 with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and suitable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the financial statements are prepared on a going concern basis.

Management had provided monthly updates to Directors for giving a balanced and understandable assessment of the Company's performance, position and projects to enable the Directors to discharge their duties.

Details regarding uncertainty on the going concern of the Group are set out in Note 3 to the consolidated financial statements. Despite the existence of such uncertainty, the Board is of the view that it is appropriate to prepare the consolidated financial statements on a going concern basis, and that each of the Company's operating subsidiaries has adequate resources to continue in operational existence.

Auditor's Remuneration

For the year ended 31 December 2020, the analysis of the remuneration payable to the external auditor of the Company, HLB Hodgson Impey Cheng Limited, in respect of audit services and non-audit services is set out below:

	Amount (RMB'000)
Audit services	**781**
Non-audit services	—
Total	**781**

The Audit Committee will recommend the reappointment of HLB Hodgson Impey Cheng Limited for audit service, and consider the engagement of the non-audit services to ensure the independence and objectivity of audit service.

(D) Risk Management and Internal Control

The Board has overall responsibility for the internal control and risk management systems of the Company. Internal controls are used by the Board to facilitate the effectiveness and efficiency of operations, safeguard the investment of Shareholders and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and help the Board identify and mitigate, but not eliminate, risk exposure. The policies and procedures of internal controls (which include financial, operational and compliance controls) are considered to be adequate and effective based on the annual review conducted by the Board through the Audit Committee.

In light of the size and scale of the Group's businesses, the Group currently does not have an internal audit department. The Board will review and consider to establish such department as and when it thinks necessary. As such, the Board, supported by the Audit Committee, is directly responsible for risk management and internal control systems of the Company and for reviewing its effectiveness. In order to maintain a high standard of corporate governance, the Company engaged an external independent consultant with professional staff in possession of relevant expertise to assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems. The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended in the report to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Company's control environment and processes. Based on the findings and recommendations of the report as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

(E) Dissemination of Inside Information

The Group regulates the handling and dissemination of inside information according to internal procedures and policy so as to ensure inside information remains confidential until the disclosure and publication of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

The Board is responsible for approving the policy on disclosure of inside information which aims at providing guiding principles, practices and procedures to assist employees and officers of the Group in (i) relaying inside information to the Board to enable it to make timely decisions on disclosure, if necessary; and (ii) communicating with the Group's stakeholders, in ways which are in compliance with the SFO and the Listing Rules.

An employee who becomes aware of a matter or event that he/she considers to be material or inside information shall report to his division/ department head who will assess the sensitivity of the relevant information and, if considered appropriate, escalate and report to the Board and/or the company secretary of the Company.

(F) Company Secretary

For the period under review, the Company Secretary, Mr. Tsang Ho Yin, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed. For the year ended 31 December 2020, Mr. Tsang has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Mr. Tsang resigned on 5 February 2021, and Mr. Cheng Kit Hung was appointed as the company secretary on 5 February 2021. The biographical details of Mr. Cheng is set out in the section headed "Biographical Details of Directors and Senior Management".

(G) Shareholders' Rights

The Board welcomes shareholders to present their views and shareholders may at any time submit their questions and concerns about the Group. Enquiries may be put to the Board or senior management by contacting the Company Secretary through our shareholders' email at info@hs-pack.com or by phone at 852–3468 3666 or directly by raising questions at the general meeting of the Company. Shareholder(s) holding not less than one-tenth of the Company's paid up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office and addressing to the Company Secretary at the Company's principal place of business in Hong Kong. The extraordinary general meeting will be held within 2 months after the deposition of such requisition.

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Any Shareholder may appoint a proxy or representative to attend the general meeting, and they are entitled to exercise the same voting rights in the meeting.

(H) Investor Relations and Communication with Shareholders

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. To promote effective communication, the Company maintains a website at http://www.hs-pack.com.cn, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted.

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through AGMs or other general meetings to communicate with the shareholders. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf.

The forthcoming AGM of the Company is scheduled to be held on 30 June 2020. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

Constitutional Documents

There was no change in the constitutional documents of the Company during the year ended 31 December 2020.

BUSINESS REVIEW

The Group is currently engaged in two business segments, (i) packaging business and (ii) mobile game business. It its packaging business, the Group manufactures and sells paper-based packaging products with operation in Jiangxi Province in China. Our products are used in packaging of a wide variety of products such as food and beverage, glass and ceramics articles, metal hardware and chemicals products, bamboo articles, shopping bags, etc. In its mobile game business, the Group offers free-to-play mobile, browser and client-based online games.

Packaging business

During the first half of 2020, the outbreak of COVID-19 and its escalation on a global scale has triggered unprecedented disruptions to the economy and business operations nation wide. The Group inevitably felt the severe impact of a much weakened domestic economy resulted from the COVID-19 outbreak amid the ongoing US-China trade friction.

The Group's business gradually picked up in the second half of the year, but the recovery of many SMEs in China including the Group lagged behind the recovery speed of the overall economy. As a result and on annual basis, the Group recorded a significantly lower revenue as compared to that of last year.

On the supply side, the Chinese government continued to promote economic and environmental development reforms and strictly implement environmental protection regulations. This has led to a tightened supply of both imported and domestically produced waste paper, which caused the average price of raw paper remaining high during the year.

In face of the intensified competition and higher raw material cost, while the fixed cost remained largely unchanged despite the decrease in revenue, the Group recorded a significant shrinkage in both revenue and profit. The Group recorded a sales volume of approximately 42.8 million square meters, representing a year on year decline of 44.5%, as compared to 77.2 million square meters last year. The Group's revenue from the packaging segment was approximately RMB202.0 million, representing a year on year decline of 41.9% with the gross profit margin dropped from 15.1% in 2019 to 12.6% this year.

Mobile game business

The mobile game industry in China is highly competitive, with frequent introduction of new games and rapid adoption of technological and product advancements. The industry also sees dominant players with substantial financial and technical resources.

The Group's existing games are at the recession stage of their respective life cycle, resulting in significant shrinkage in contribution to the segment results for the year under review. The Group has been making efforts to review its strategies and resources for the segment, and there is no new game launched during 2020.

As a result, the segment revenue decreased sharply to approximately RMB12.6 million in 2020, representing a year on year decline of 86.9% and comprising approximately 5.9% of the total revenue of the Group.

FINANCIAL REVIEW

The revenue for the year ended 31 December 2020 was approximately RMB214.5 million, representing a decrease of approximately RMB229.1 million or approximately 51.6% as compared to that of approximately RMB443.6 million in 2019. The decrease in revenue was attributable to (i) decrease of 41.9% in revenue from our packaging segment; and (ii) sharp plunge of 86.9% in revenue from our mobile game segment.

The following table set out a breakdown of our revenue by product categories and their relative percentages of our total revenue during the year.

Revenue by products

	2020		2019	
	RMB'000	**% of Total**	RMB'000	% of Total
Flexo-printed cartons	**68,673**	**32.0%**	128,169	28.9%
Offset-printed cartons				
— Traditional paper-based cartons	**57,951**	**27.0%**	93,641	21.1%
— Stone-paper based cartons	**75,361**	**35.1%**	125,842	28.4%
Sub-total	**133,311**	**62.1%**	219,483	49.5%
Packaging segment	**201,984**	**94.1%**	347,652	78.4%
Mobile game segment	**12,551**	**5.9%**	95,990	21.6%
Total	**214,535**	**100.0%**	443,642	100.0%

Packaging segment

Flexo-printed cartons

The Group's flexo-printed carton segment targeted food and beverage companies as its main customers. The goal is to provide products of good quality, load capacity and protection capabilities. Revenue from sales of flexo-printed cartons for 2020 was approximately RMB68.7 million (2019: approximately RMB128.2 million), which accounted for 32.0% (2019: approximately 28.9%) of our total revenue. The decrease in revenue was mainly due to the loss in sales as a result of the intense market competition.

Offset-printed cartons

The Group's offset-printed carton segment includes traditional paper-based cartons and stone-paper based cartons. Revenue from sales of offset-printed cartons for the year ended 31 December 2020 was approximately RMB133.3 million (2019: approximately RMB219.5 million), which accounted for approximately 62.1% (2019: approximately 49.5%) of our total revenue. The decrease in revenue was mainly due to the decrease in sales of both traditional paper-based cartons and stone-paper based cartons resulted from the overall challenging market environment.

Revenue by product categories of our customers (Packaging segment)

	2020		2019	
	RMB'000	**%**	RMB'000	%
Food and beverage	**57,990**	**28.7%**	96,048	27.6%
Department stores	**48,586**	**24.1%**	62,436	18.0%
Metal hardware and chemical products	**21,681**	**10.7%**	47,615	13.7%
Glass and ceramics articles	**2,752**	**1.4%**	8,612	2.5%
Bamboo articles	**1,895**	**0.9%**	7,044	2.0%
Others (Note)	**69,080**	**34.2%**	125,897	36.2%
Total	**201,984**	**100.0%**	347,652	100.0%

Note: Other products mainly include stationary, energy and electronic products, textile and pharmaceutical products.

The Group's main customers are manufacturers of food and beverage in the PRC. For the year ended 31 December 2020, revenue from food and beverage manufacturers was approximately RMB58.0 million (2019: RMB96.0 million), representing approximately 28.7% (2019: 27.6%) of the revenue of packaging segment.

Mobile game segment

During the year ended 31 December 2020, revenue from mobile game segment was approximately RMB12.6 million (2019: RMB96.0 million), accounting for approximately 5.9% of the total revenue (2019: 21.6%). The significant decrease in revenue contributed by the mobile game segment was mainly attributable to (i) the significant shrinking of contribution from the existing games when they enter into the recession stage; and (ii) no new game was launched during 2020.

Revenue by games (Mobile game segment)

	2020		2019	
	RMB'000	%	RMB'000	%
Legend of the Journey to the West (大聖傳説) & updated version Chinese Odyssey (大話西遊)	43	0.3%	2,438	2.5%
Swordsman (七絕)	260	2.1%	18,701	19.5%
War of Heroes (天天打魔獸)	486	3.9%	20,495	21.4%
Hammer of Odin (奧丁之錘)	2,668	21.3%	20,757	21.6%
Heroes of Chaos (亂世群英傳)	4,272	34.0%	16,637	17.3%
Myths (天旗)	3,399	27.1%	10,323	10.8%
Hongyanjue (紅顏決)	1,315	10.5%	6,553	6.8%
Others*	108	0.9%	86	0.1%
Total	12,551	100.0%	95,990	100.0%

*Note: Others represent the commission received from the operation of games developed by other game developers.

	2020		2019	
	RMB'000	%	RMB'000	%
Self-developed games	10,730	85.5%	48,099	50.1%
Licensed games	1,821	14.5%	47,891	49.9%
Total	12,551	100.0%	95,990	100%

GROSS PROFIT AND GROSS PROFIT MARGIN

	2020		2019	
	RMB'000	GP margin (%)	RMB'000	GP margin (%)
Flexo-printed cartons	4,785	7.0%	12,630	9.9%
Offset-printed cartons				
— Traditional paper-based cartons	5,690	9.8%	12,045	12.9%
— Stone paper based cartons	14,955	19.8%	27,911	22.2%
Sub-total	20,645	15.5%	39,956	18.2%
Packaging segment	25,430	12.6%	52,586	15.1%
Mobile game segment	12,104	96.4%	47,399	49.4%
Total	37,535	17.5%	99,985	22.5%

The overall gross profit for the Group for the year ended 31 December 2020 was approximately RMB37.5 million, representing a decline in 62.5% or approximately RMB62.5 million as compared to approximately RMB100.0 million in 2019. Overall gross profit margin decreased from approximately 22.5% in 2019 to approximately 17.5% in 2020. The decrease in gross profit is primarily due to the decrease in revenue from both the mobile game segment and the packaging segment, coupled with the fact that there is much sharper plunge in revenue from the mobile game business, where the margin is much higher than that from the packaging business.

Gross profit for the flexo-printed cartons segment for the year ended 31 December 2020 was approximately RMB4.8 million, representing a decrease of 62.1% as compared to approximately RMB12.6 million in 2019. Gross profit margin decreased from 9.9% in 2019 to 7.0% in 2020. The decrease in the gross profit was due to the combined effect of decrease in revenue coupled with the deterioration of the gross profit margin due to the fact that the fixed cost remained despite the plunge in revenue.

Gross profit for the offset-printed cartons segment for the year ended 31 December 2020 was approximately RMB20.6 million, representing a decrease of 48.3% as compared to approximately RMB40.0 million in 2019. The gross profit margin of offset-printed cartons decreased to 15.5% in 2020 from 18.2% in 2019. The offset-printed cartons are higher value added products than flexo-printed products, and the Group is able to pass part of the increase in raw material costs to clients. As a result, the Group managed to achieve relatively smaller decrease in the gross profit margin.

The gross profit from our mobile game segment for the year ended 31 December 2020 was approximately RMB12.1 million, representing a decline in approximately 74.5% as compared to approximately RMB47.4 million in 2019. The gross profit margin increased to approximately 96.4% for the year ended 31 December 2020 from approximately 49.4% in 2019. The deterioration in gross profit was mainly attributable to the sharp decrease in revenue. The improvement in gross margin is primarily because over 98% games in terms of revenue were run on the Group's self-operating platform in 2020, which enabled the Group to enjoy higher margin than if run on third party platforms.

OTHER REVENUE AND INCOME

Other revenue and income of the Group increased by 99.8% or approximately RMB2.4 million from approximately RMB2.5 million in 2019 to approximately RMB4.9 million in 2020. The increase was mainly due to the increase in government subsidies granted to the Group during the year.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group decreased by 83.5% or approximately RMB119.0 million, from approximately RMB142.5 million in 2019 to approximately RMB23.5 million in 2020. The decrease was mainly due to the reduction in the marketing expenses incurred for the Group's stone paper products and reduction in transportation costs in the packaging segment for the period under review.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased by 21.4% or approximately RMB10.1 million from approximately RMB47.3 million in 2019 to approximately RMB57.4 million in 2020. The increase was primarily because increase in administrative staff costs.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

The Group has recognised impairment loss on goodwill and intangible assets of Cable King Group of approximately RMB12.0 million and RMB7.1 million respectively for the year ended 31 December 2020. During the year ended 31 December 2020, the Cable King Group's performance was not in line with previous expectation mainly due to (i) underperformance of existing games when they entered into the recession stage; and (ii) no new games were launched during the year.

In view of the unfavourable operating of Cable King Group. It is therefore uncertain that Cable King Group will be able to generate positive cash flow in the future, the recoverable amount of Cable King Group has been determined based on value in use calculation. The Directors expect that the recoverable amount of Cable King Group will be minimal and, as such, the Directors have decided to fully write off the goodwill of approximately RMB12.0 million and the intangible assets of approximately RMB7.1 million related to the Cable King Group.

IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT

In 2020, the Group has provided for the impairment losses of property, plants and equipment of RMB58.9 million (2019: Nil). The increase in impairment losses were mainly attributed to the impairment provision of certain machineries for production. For more details, please refer to Note 16 to financial statements of this report.

IMPAIRMENT OF LONG-TERM PREPAYMENT

In 2020, the Group has provided for impairment losses on long-term prepayment of approximately RMB35.7 million (2019: Nil). The increase in impairment loss was due to the games development evaluated as unsuccessful.

FINANCE COSTS

Finance costs of the Group decreased substantially to approximately RMB71.3 million in 2020 as compared to approximately RMB131.0 million in 2019, representing an decrease of RMB59.7 million. Promissory Note 1, Promissory Note 3 and Convertible Bond 2 with outstanding principal amount of approximately HK$40,000,000, HK$120,000,000 and HK$6,667,000, respectively, matured on 19 May 2019. In accordance with the agreements thereof, default interest will be accrued on the outstanding principal such that the total payable by the Company shall be the sum of the outstanding principal and such amount as would result in an internal rate of return of 22% per annum on the outstanding principal. The Group's finance costs decreased sharply for the period under review primarily due to such interest accrued this year as compared to that accrued last year as a result.

The Company has been keeping on discussing with the noteholder and the convertible bond holder with a view to reaching a settlement on this matter.

INCOME TAX

Income tax credit of the Group decreased by 74.9% or approximately RMB4.2 million from income tax credit of approximately RMB5.6 million in 2019 to income tax credit approximately RMB1.4 million in 2020, as the over provision of taxation in prior year decreased. Both of our packaging and mobile game segment were qualified as High and New Technology Enterprises and entitled to a preferential income tax rate of 15%.

LOSS FOR THE YEAR

As a combined result of the factors discussed above, the Group's net loss for 2020 was approximately RMB238.9 million as compared to a net loss of approximately RMB441.3 million for the previous year.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

LIQUIDITY, FINANCIAL RESOURCES AND GOING CONCERN UNCERTAINTY

The Group generally finances its operation with internal resources and borrowings. As at 31 December 2020, cash and bank balances amounted to approximately RMB61.6 million (2019: RMB179.1 million), primarily denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings amounted to approximately RMB311.3 million (2019: RMB324.4 million). As at 31 December 2020, 15.1% (2019: 14.8%) of the total borrowings were denominated in Renminbi and 84.9% (2019: 85.2%) of the total borrowings were denominated in Hong Kong Dollars. As the Group recorded net deficit as at 31 December 2020, the Group's gearing ratio calculated as total borrowings divided by total equity as at 31 December 2020 is not available (2019: 1,040.1%).

Promissory Note 1, 3 and Convertible Bond 2 with outstanding principal amount of HK$40,000,000, HK$120,000,000 and HK$6,666,667, respectively, matured on 19 May 2019 without redemption, default and were reallocated to borrowings. The Company has been keeping on discussing with the noteholder and the convertible bond holder with a view to reaching a settlement on this matter.

On 8 June 2020, the holder of Promissory Note 4 with outstanding principal amount of HK$90,000,000 extended the mature date to 7 June 2021.

As at 31 December 2020, the Group had net current liabilities of approximately RMB378.8 million (2019: net current liabilities of approximately RMB221.7 million). The Directors have given careful consideration to future liquidity, performance of the Group and its available sources of financing in assessing whether the Group will be able to repay the outstanding borrowings and meet its future finance requirements. Certain measures have been and will be taken to manage its liquidity needs and to improve its financial position which include, but not limited to, the following:

(i) The Group is taking measures to tighten cost control with an aim to attain positive cash flow from operations;

(ii) The Group is in the process of negotiating with its promissory noteholders and convertible bondholders to restructure and/or refinance its borrowings, and secure necessary facilities to meet the Group's working capital and financial requirements in the near future;

(iii) The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to, seeking new investment and business opportunities (manufacturing of medical supplies), private placements, open offers or rights issue of new shares of the Company;

(iv) The director of the Company, Mr. Sun Shao Hua, has stated that he is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due; and

(v) The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavouring to request them to repay the trade receivables in accordance with the repayment schedules agreed with them.

Details regarding uncertainty on the going concern of the Group are set out in Note 3 to the consolidated financial statements. Despite the existence of such uncertainty, the Board is of the view that it is appropriate to prepare the consolidated financial statements on a going concern basis, and that each of the Company's operating subsidiaries has adequate resources to continue in operational existence.

INVENTORIES

As at 31 December 2020, inventories amounted to approximately RMB52.2 million (2019: RMB52.9 million). The number of inventory turnover days was approximately 110 days (2019: 59 days).

TRADE RECEIVABLES

As at 31 December 2020, trade receivables amounted to approximately RMB71.9 million (2019: RMB70.4 million). The Group granted customers from our packaging segment a credit period of 30 to 90 days following the day of delivery. The number of turnover days for trade receivables was approximately 121 days (2019: 54 days).

TRADE PAYABLES

As at 31 December 2020, trade payables amounted to approximately RMB32.2 million (2019: RMB40.6 million). The Group managed to obtain a credit period of an average of approximately 60 days from the majority of its suppliers. The turnover day for trade payables was approximately 75 days (2019: 38 days).

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC while most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year ended 31 December 2020.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group's capital commitments were approximately RMB60.0 million (2019: RMB60.0 million). The capital commitments were mainly related to capital contribution payable to a subsidiary.

CONTINGENT CONSIDERATION AND LIABILITIES

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December 2020, the Group pledged certain assets with a carrying value of approximately RMB112.0 million (2019: RMB142.0 million) as collateral for the Group's bank borrowings.

INFORMATION ON EMPLOYEES

As at 31 December 2020, the Group had a total of 509 full time employees, including the Executive Directors (2019: 586). Total staff costs (including Directors' emoluments) were approximately RMB61.5 million, as compared to approximately RMB60.8 million for the year ended 31 December 2019.

The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

OUTLOOK

Looking forward, the Group will proactively explore new opportunities while strengthening the existing business.

For the packaging business, the Group will continue to strategically focus on market opportunities in its high-end packaging segment, which requires higher technical standards and enjoys higher margin. The Group will also continue its efforts in providing value added services, such as structural design and logistics management, with a view to enhancing its market position. For the mobile game segment, the Group will carefully review the mobile game market and take actions accordingly.

At the same time, the Group will continue to optimise operating costs in order to keep itself in a better position to weather the potentially challenging global economic prospect and lay down a solid foundation for future development when opportunities arise.

The Directors are pleased to present its report together with the consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of the principal subsidiaries of the Company are set out in Note 1 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2020 is set out in Note 6 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business, financial key performance indicators and outlook of the Group for the year ended 31 December 2020 are provided in the Chairman's Statement and Management Discussion and Analysis of this annual report.

ENVIRONMENTAL POLICY

The Group recognizes the importance of environmental protection. We have imposed the following measures to control our pollutant emissions during our production process:

(1) Waste water is processed by our sewage treatment station to reach national safety standards for discharge;

(2) A desulfurization device was in place to monitor the emission of sulfur dioxide so as to ensure that the waste gas emitted from our steam boiler in our boiler room is within the national permissible level; and

(3) Solid waste such as scrap paper and various residues from production will be sold to scrap paper recycling companies for recycling.

For administrative office, we also implement green office practices such as double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospect may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. Major risks are summarised below.

Operation risk

Mobile game business

(a) the Group may not be able to continuously enhance its existing games and player experience and launch high-quality new games and services, which will materially and adversely affect its ability to continue to retain existing players and attract new players;

(b) the Group utilises major game distribution platforms, online application stores and third-party payment vendors to generate a substantial portion of revenues and if the Group is unable to maintain a good relationship with these distribution and payment channels or if the use of these distribution or payment channels is adversely affected by any factor such as new measures imposed or intervention by any regulators or third parties, the business and results of operations of the Group will be adversely affected;

(c) the Group relies on the contractual arrangements to control and obtain the economic benefits from Behill Science Technology Co., Ltd (冰河(廈門)信息技術有限公司) ("Behill") which may not be as effective in providing operational control as direct ownership;

(d) if the PRC government finds the contractual arrangements established for operating the online game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the contractual arrangements and the relinquishment of our interest in the variable interest entity, being Behill;

(e) there are uncertainties in the interpretation of PRC laws and regulations relating to the contractual arrangements, in particular, based on the consultation draft of the new PRC Foreign Investment Law published by the Ministry of Commerce on 19 January 2015 and assuming that the draft of the new PRC Foreign Investment Law is enacted as proposed, substantial uncertainties exist in connection with the legality and validity of the contractual arrangements to hold interests in PRC businesses that are subject to foreign ownership restrictions. If an entity established in a foreign jurisdiction is identified as controlled by Chinese investors, the foreign entity could still be recognised as a Chinese investor by the Ministry of Commerce and is therefore not subject to foreign ownership restrictions; and the Company may have to incur significant compliance costs in the future;

(f) challenges presented by the extensive law and regulation of various aspects of online game business in the PRC markets and there is no assurance that such laws and regulations would not apply to the Group or be interpreted in ways that could affect the Group's business.

Competition risk

Packaging business

The packaging industries in which the Group operates in the PRC are highly competitive. The Group's ability to compete is, to a significant extent, dependent on its ability to provide high quality products at a reasonable prices that suit our customer's need. The Group's competitors have varying abilities to withstand changes in market conditions. Some of the competitors have larger market shares, have operated their respective businesses longer than the Group has, have wider geographical coverage for its products, have substantially greater financial and other resources than the Group has and may be better established in the market.

Mobile game business

The Group also faces intense competition in the mobile game industry. New technologies such as virtual reality and ever-changing hardware may make the competition fiercer than before. Whether a new game will be commercially successful depends on many factors, inter alia, gamers' evolving preferences and market trends. The industry also sees dominant players with substantial financial and technical resources.

Financial Risk

The financial risk management policies and practices of the Group are shown in Note 5 to the consolidated financial statements. There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

Risk relating to Novel Blaze (in liquidation)

Novel Blaze was incorporated in BVI and is the beneficial owner of 29.62% shareholding in the Company. Novel Blaze is a guarantor of Promissory Note 1 issued by the Company to Chance Talent Management Limited ("Chance Talent"). Promissory Note 1 was in default after 19 June 2019. Chance Talent made an application in BVI to wind up Novel Blaze, and a winding-up order was granted. Since 29 June 2020, Ms. Anita So Kit Yee and Mr. Bailey Roy of Messrs Ernst & Young Ltd were appointed as joint liquidators (the "Joint Liquidators") of Novel Blaze. The Board is of the view that the winding-up order has no material impact on the business and general operations of the Group. However, the Group's business could be adversely affected if the Joint Liquidators attempt to seek further enforcement of its rights.

RELATIONSHIPS WITH STAKEHOLDERS

Employees

The Company recognises that employees are our valuable assets. Thus our Group provide competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and make necessary adjustment to conform to the market standard.

Suppliers

We have developed long-standing relationships with a number of our suppliers and conducts a fair and strict appraisal on an annual basis.

Customers

We are committed to provide our customers with high quality products and deliver on a timely basis. We also stay connected with our customers to keep abreast of the changing customer preference through regular visits of our sales teams.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 41.

The Directors does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 129 to 130 of this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 32 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 43 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's did not have reserves available for distribution (2019: Nil), calculated in accordance with the provisions of the Companies Law of the Cayman Islands and the Company's articles of association (the "Articles of Association").

CONVERTIBLE BONDS

Details of movements in the convertible bonds of the Group during the year are set out in Note 28 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's largest and five largest customers accounted for approximately 4.63% and 17.61% of the total turnover for the year 2020 respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 29.89% and 64.18% of the total purchases for the year 2020 respectively.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2020.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 35 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 16 to the consolidated financial statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make charitable contributions (2019: Nil).

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

The Directors of the Company who hold office during the year and up to the date of this report are:

Executive directors

Mr. Chen Hong Cai *(Chairman)*
Mr. Sun Shao Hua
Ms. Zheng Li Fang (resigned on 21 December 2020)

Independent Non-executive directors

Mr. Wu Ping
Mr. Fang Zhi Xiang (appointed on 30 April 2021)
Mr. Wu Yu Kun (appointed on 30 April 2021)
Mr. Liu Da Jin (resigned on 2 May 2021)
Mr. Ma Yiu Ho, Peter (retired on 28 August 2020)

None of the Directors, including the one proposed for re-election at the forthcoming AGM, has a service agreement which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation on independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

DIRECTORS' REMUNERATION

The remuneration of the directors is determined with reference to directors' duties, responsibilities and performance and the results of the Group.

Details of the remuneration of the directors are set out in Note 11 to the consolidated financial statements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 3 to 4 of this annual report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2020, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

SHARE OPTION SCHEME

The Company adopted a share option scheme pursuant to a shareholder's resolution passed on 13 December 2013 (the "Share Option Scheme") as incentives or rewards to eligible participants who means full-time or part-time employees of our Company or members of our Group, including Executive Directors, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of our Group. The Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Share Option Scheme is valid and effective during the period commencing on 13 January 2014 and ending on 12 January 2024, being the date falling 10 years from the date on which the Share Option Scheme becomes unconditional.

At 31 December 2020, the number of shares in respect of which had been granted and remained outstanding under the Share Option Scheme was nil (2019: nil).

A summary of the Share Option Scheme is as follows:

Basis of determining the exercise/subscription price

The subscription price for the shares subject for any option under the Share Option Scheme shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's share. A total of 80,000,000 share options have been granted under Share Option Scheme since its adoption.

Maximum number of shares

The total number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10 percent of the shares in issue as at 12 December 2013 (i.e. 800,000,000 shares) i.e. 80,000,000 shares unless refreshed by the shareholders. However, the Company may not grant any option if the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other share option schemes adopted by the Group from time to time exceeds 30 percent of the shares in issue.

Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the option granted to a participant under the Share Option Scheme in any 12-month period must not exceed one percent of all the shares in issue from time to time unless a further grant to such participant is approved by the shareholders in general meeting.

Time for acceptance of option

A share option will be offered for acceptance for a period of 28 days from the date on which the option is granted.

Amount payable on application or acceptance of option

HK$1.00

Minimum and maximum period for the holding of a share option before it can be exercised

Unless otherwise determined by the Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of a share option before it can be exercised provided that the period within which the option must be exercised must not be more than 10 years from the date of the grant of the option.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the Directors of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions in shares of the Company

Name of director	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Sun Shao Hua (note)	Interest of a controlled corporation	408,000,000	30.16%
	Beneficial owner	7,500,000	

Note:

These shares are registered in the name of Novel Blaze Limited ("Novel Blaze"), the entire issued share capital of which is wholly and beneficially owned by Ms. Zheng Xue Xia. Ms. Zheng is the spouse of Mr. Sun Shao Hua. Therefore, Mr. Sun is deemed to be interested in all the Shares in which Ms. Zheng is deemed to be interested. In addition, Mr. Sun holds 7,500,000 shares.

As at the date of this report, there has been a change in the nature of Mr. Sun's interest in the 408,000,000 shares of the Company held by Novel Blaze because steps have been taken to enforce a security interest in the shares of Novel Blaze, or rights to such shares held as security. Since 29 June 2020, Ms. Anita So Kit Yee and Mr. Bailey Roy of Messrs Ernst & Young Ltd were appointed as joint liquidators of Novel Blaze (In liquidation) (the "Joint Liquidators"). The Joint Liquidators have taken steps to enforce a security interest in the shares of Novel Blaze, or rights to such shares held as security.

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, so far as is known to the Directors, the following entities, not being a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in shares of the Company

Name of entity	Capacity	Note	Number of Shares held	Approximate percentage of shareholding
Novel Blaze (in liquidation)	Beneficial owner	1, 4	408,000,000	29.62%
Ms. Zheng Xue Xia	Interest of a controlled corporation	1	408,000,000	
	Interest of spouse	2	7,500,000	30.16%
Wealthy Achievers Limited	Beneficial owner	3	151,477,143	11.00%
Mr. Peng Dongmiao	Interest of a controlled corporation	3	151,477,143	11.00%

Notes:

1. Novel Blaze is incorporated in the BVI and the entire issued share capital is beneficially owned by Ms. Zheng Xue Xia. Ms. Zheng, being the controlling shareholder, is deemed to be interested in all the Shares owned by Novel Blaze under the SFO.

2. Ms. Zheng is the wife of Mr. Sun Shao Hua and is deemed to be interested in the shares which are owned by Mr. Sun Shao Hua under the SFO.

3. Wealthy Achievers Limited is incorporated in the BVI and the entire issued share capital is beneficially owned by Mr. Peng Dongmiao. Mr. Peng, being the controlling shareholder, is deemed to be interested in all the Shares owned by Wealthy Achievers Limited under the SFO.

4. Ms. So Kit Yee Anita and Mr. Bailey Roy, both of Messrs Ernst & Young Ltd were appointed as the Joint Liquidators.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2020, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for an indemnity against liability incurred by the Directors.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries was a party and in which the controlling Shareholder or a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, there were no connected transactions and continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are subject to the reporting, announcement and the independent shareholders' approval requirement under the Listing Rules.

The material related party transactions as disclosed in Note 38 to the Consolidated Financial Statements are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

CONTRACTUAL ARRANGEMENTS

Pursuant to applicable PRC Laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting mobile games business (the "Principal Business") and are restricted to conduct value-added telecommunications services and internet cultural business. Accordingly, we cannot acquire equity interest in Behill, which conducts our Principal Business and holds the assets and certain licenses, approvals and permits required for the operation of our Principal Business.

As a result of the foregoing, we, through our wholly-owned subsidiary, Chunxin (Xiamen) Investment Management Company Limited 純新(廈門)投資管理有限公司 ("Chunxin"), entered into a series of contracts (the "Contractual Arrangements") with Behill and Mr. Huang Jianqiang (黃建強) (the "Registered Shareholder") on 29 February 2016 to assert management control over the operations of our Principal Business conducted through Behill, and to enjoy all economic benefits of Behill, and in consideration of which, Chunxin shall provide, among others, technology consulting and service to Behill. Behill is an operating company of the Group established under the laws of the PRC to conduct the Principal Business. The Contractual Arrangements are designed to provide our Group with effective control over the financial and operation policies of Behill and, to the extent permitted by PRC law and regulations, the right to acquire the equity interests in and/or the assets of Behill through Chunxin. As we operate our Principal Business through Behill, which is controlled by Registered Shareholder, we do not hold any direct equity interest in Behill. Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations.

Major terms of the contracts under the Contractual Arrangements

The Contractual Arrangements currently in effect comprise four agreements, namely (i) the Exclusive Technological Support and Management Consulting Service Agreement, (ii) the Exclusive Call Option Agreement, (iii) the Equity Pledge Agreement and (iv) the Business Cooperation Agreement, which were entered into between or amongst Chunxin, Behill and the Registered Shareholder (as the case may be), and the irrevocable power of attorney executed the Registered Shareholder.

A summary of the major terms of the four agreements and the power of attorney of the Contractual Arrangements is as follows:

(a) *Exclusive Technological Support and Management Consulting Service Agreement*

Chunxin and Behill entered into an Exclusive Technological Support and Management Consulting Service Agreement on 29 February 2016, pursuant to which, among others:

i. Behill agreed to engage Chunxin as its exclusive consultant and service provider. The technology advices and services which Chunxin shall provide to Behill include, but are not limited to, (i) research and development of technologies necessary for the operations of Behill, (ii) application and implementation of technologies relevant to the operations of Behill, (iii) technical services related to advertisement design, software design, and webpage production with respect to Behill's advertising business, and provide management advices and recommendations, and (iv) daily maintenance, supervision, commissioning and troubleshooting of Behill's computer network equipment and other technical services; and

ii. Behill shall pay to Chunxin a service fee that is equals to its 100% profit before income tax (net of operating and other tax expenses) on a monthly basis.

The Exclusive Technological Support and Management Consulting Service Agreement may be terminated by Chunxin by giving Behill 30 days' prior written notice of termination or shall be terminated upon the transfer of the entire equity interests in and/or the transfer of all assets of Behill to Chunxin or its designated person(s) pursuant to the Exclusive Call Option Agreement. Behill is not contractually entitled to terminate the Exclusive Technological Support and Management Consulting Service Agreement with Chunxin.

(b) *Exclusive Call Option Agreement*

Chunxin, the Registered Shareholder and Behill entered into an Exclusive Call Option Agreement on 29 February 2016, pursuant to which, among others:

i. the Registered Shareholder irrevocably granted to Chunxin or any person(s) designated by Chunxin, the exclusive option(s) to purchase, to the extent permitted by PRC laws and regulations, his equity interests in Behill, entirely or partially, at an aggregate consideration of RMB1 or a minimum purchase price permitted by PRC laws and regulations (the "Agreed Price") for all option(s) exercised. The registered Shareholder has undertaken to reimburse Chunxin (or the person as designated by Chunxin), any of the difference between the actual consideration Chunxin (or the person as designated by Chunxin) paid pursuant to the exercise of the option(s) and the Agreed Price;

ii. Chunxin may exercise such options at any time until it or the person(s) designated by it has acquired the entire equity interest of Behill; and

iii. without prior written consent from Chunxin, Behill and the Registered Shareholder may not, among other things, (i) dispose of or procure other person(s) to dispose of any material assets of Behill (unless it arises in the ordinary course of business), or (ii) pass or approve any resolution with respect to the liquidation and dissolution of Behill.

The Exclusive Call Option Agreement shall expire when all the equity interests in and assets of Behill have been transferred to Chunxin or its designee, or may be terminated by Chunxin, at its sole discretion, gives Behill and the Registered Shareholder a 30 days' prior written notice of termination. Behill and the Registered Shareholder are not contractually entitled to terminate the Exclusive Call Option Agreement with Chunxin.

(c) *Equity Pledge Agreement*

Chunxin and the Registered Shareholder entered into the Equity Pledge Agreement on 29 February 2016, pursuant to which, among others:

i. the Registered Shareholder agreed to pledge all of the equity interests in Behill to Chunxin to secure the performance of all their obligations and the obligations of Behill under the Contractual Arrangements. Pursuant to the Equity Pledge Agreement, Chunxin has a first priority pledge on all or any part of the equity interests in Behill held by the Registered Shareholder. Under the Equity Pledge Agreement, if the Registered Shareholder and/or Behill breaches any obligation under the Contractual Arrangements, Chunxin, as the pledgee, is entitled to request the Registered Shareholder to transfer the pledged equity interests, entirely or partially to Chunxin and/or any entity or person as designated by Chunxin; and

ii. the Registered Shareholder has undertaken to Chunxin, among other things, not to transfer his interests in Behill and not to create any pledge thereon without Chunxin prior written consent.

The Equity Pledge Agreement may be terminated by Chunxin by giving Behill 30 days' prior written notice of termination or shall terminate when Behill has fulfilled and performed all obligations under the agreements underlying the Contractual Arrangements or upon the termination of the agreements underlying the Contractual Arrangements. Behill and the Registered Shareholder are not contractually entitled to terminate the Equity Pledge Agreement with Chunxin.

(d) *Business Cooperation Agreement*

Chunxin, the Registered Shareholder and Behill entered into a Business Cooperation Agreement on 29 February 2016, pursuant to which, among others:

i. Behill and the Registered Shareholder shall appoint persons to be designated by Chunxin to be the chairman (when applicable), director/executive directors, general manager, chief financial controller and other senior management of Behill. Behill shall be operated in accordance with Chunxin's instruction and the Registered Shareholder has undertaken not to act in any manner that may affect the assets, business, personnel, obligations, rights or the operations of Behill, unless with the prior written consent of Chunxin or its appointee;

ii. unless with the prior written consent of Chunxin or its appointee, the Registered Shareholder will not sell, transfer, lease any of the material assets or rights of Behill or authorise any third party the right to use, including but not limited to, any know- how, trade secrets, domain names, trade marks, patents, copyright of Behill, or any material assets or rights acquired by Behill;

iii. Chunxin shall have the right to obtain and review the business data, financial information and other information relevant to the operations and business of Behill; and

iv. appropriate arrangements have been made to protect Chunxin's interests in the event of death, incapacity, bankruptcy or divorce of the Registered Shareholder or any other circumstances that may affect their exercise of the shareholders' rights to avoid any practical difficulties in enforcing the Business Cooperation Agreement.

The Business Cooperation Agreement shall expire upon the transfer of the entire equity interests in and/or the transfer of all assets of Behill to Chunxin or its designated person(s) pursuant to the Exclusive Call Option Agreement, or may be terminated by Chunxin, at its sole discretion, gives Behill and the Registered Shareholder a 30 days' prior written notice of termination. Behill and the Registered Shareholder are not contractually entitled to terminate the Business Cooperation Agreement with Chunxin.

(e) *Power of Attorney*

On 29 February 2016, the Registered Shareholder executed an irrevocable Power of Attorney to authorise Chunxin to exercise all of his rights and powers as shareholder of Behill. Pursuant to the Power of Attorney, the shareholders' rights exercisable by the proxy include, but not limited to, the rights to (i) attend shareholders' meetings and pass any shareholders' resolution of Behill; (ii) exercise all shareholders' rights in accordance with applicable laws and the articles and constitutional documents of Behill; (iii) submit and/or file any documents or information to relevant companies registry; and (iv) elect and appoint the legal representative, chairman, directors, supervisors, general manager and other senior management of Behill.

Under the Power of Attorney, the Registered Shareholder irrevocably confirmed that the power of attorney shall remain in full force and effect during the term which the Registered Shareholder remains as the shareholder of Behill.

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced among the Group, the Registered Shareholder and Behill during the year ended 31 December 2018.

Risks associated with the Contractual Arrangements

There are certain risks associated with the Contractual Arrangements, which include, but not limited to: (i) there is no assurance that the Contractual Arrangements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the Contractual Arrangements do not comply with applicable regulations; (ii) the Contractual Arrangements may not be as effective as direct ownership in providing control over Behill; (iii) the Registered Shareholder may potentially have a conflict of interests with the Group; (iv) the Contractual Arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed; (v) certain terms of the Contractual Arrangements may not be enforceable under the PRC laws; (vi) a substantial amount of costs and time may be involved in transferring the ownership of Behill to the Group under the Exclusive Option Agreement; (vii) the Company does not have any insurance which covers the risks relating to the Contractual Arrangements and the transactions contemplated thereunder; (viii) the Group may bear economic risk which may arise from difficulties in the operation of Behill. For further details of the risks associated with the Contractual Arrangements, please refer to the section headed "Risk Factors in relation to the VIE Contracts" of the Circular dated 29 February 2016.

Measures adopted by our Group

Our Group has adopted various measures to ensure legal and regulatory compliance and to ensure the sound and effective operation of our Group (including Behill) and the implementation of the Contractual Arrangements, which include, but not limited to: (i) the Group has appointed a representative (the "Representative") to act as the sole executive director of Behill. The Representative will conduct weekly reviews on the operations of Behill and submit the weekly reviews to the Board. The Representative will also check the authenticity of the monthly management accounts of Behill; (ii) the Representative is stationed at Behill and is actively involved in various aspects of the daily managerial and operational activities of Behill; (iii) the Representative will report any major events of Behill to the company secretary of the Company (the "Company Secretary"), who in turn report to the Board; (iv) the Company Secretary will conduct regular site visits to Behill and conduct personnel interviews quarterly and submitted reports to the Board; (v) all seals, chops, incorporation documents and all other legal documents, to the extent permitted by the PRC law, of Behill are kept at the office of Chunxin; (vi) the financial controller (the "FC") of the Company will collect monthly management accounts, bank statements and cash balances and major operational data of Behill for review. Upon discovery of any suspicious matters, the FC will report to the Company Secretary, who in turn report to the Board; (vii) if the payment of the service fees from Behill to Chunxin is delayed, the FC will meet with the shareholder of Behill to investigate, and report any suspicious matters to the Board; (viii) Behill will submit copies of latest bank statements for every bank accounts of Behill within 15 days after the end of each month; (ix) Behill will assist and facilitate the Company to conduct quarterly on-site internal audit on Behill; (x) the independent non-executive Directors will review the compliance of the Contractual Arrangements on an annual basis and their confirmation will be disclosed in the annual report; (xi) if necessary, legal advisors and/or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements and to ensure that the operation and implementation of the Contractual Arrangements as a whole will comply with applicable laws and regulations; and (xii) our Group will unwind the Contractual Arrangements as soon as relevant PRC laws and regulations allow the Principal Business to be conducted and operated by owned subsidiaries of our Company without such arrangements in place.

Revenue and assets subject to the Contractual Arrangements

For the year ended 31 December 2020, the revenue and net loss subject to the Contractual Arrangements are RMB12.6 million and RMB65.5 million (amounted to approximately 5.9% and 27.42% of the total revenue and net loss of the Group), respectively.

As at 31 December 2020, the total assets subject to the Contractual Arrangements is RMB11.8 million, amounted to approximately 2.9% of the total assets of the Group.

Change of circumstances

There had been no material change in the arrangements under the Contractual Arrangements and/or the circumstances under which they were adopted. As of the date of this annual report, the foreign investment restrictions which gave rise to the arrangements under the Contractual Arrangements are still in existence.

Independent non-executive Directors' confirmation

The Independent non-executive Directors of the Company are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, that such transactions are on normal commercial terms and are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

The independent non-executive directors of the Company reviewed the Contractual Arrangements and confirmed that:

(i) the transactions carried out during the year ended 31 December 2020 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, and have been operated so that the profit generated by Behill has been substantially retained by Chunxin;

(ii) no dividends or other distributions have been made by Behill to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

(iii) there were no new contracts entered into, renewed or reproduced between the Group and Behill during the year ended 31 December 2020.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

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

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company gives priority to distributing dividend in cash and shares its profits with its shareholders. The dividend payout ratio shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Company's financial results, future prospects and other factors, and subject to:

— the Articles of Association of the Company;

— the applicable restrictions and requirements under the laws of the Cayman Islands;

— any banking or other funding covenants by which the Company is bound from time to time;

— the investment and operating requirements of the Company; and

— any other factors that have material impact on the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

CORPORATE GOVERNANCE

The Company is committed to adopt corporate governance practice. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 6 to 14.

AUDITORS

The consolidated financial statements for the year ended 31 December 2020 have been audited by HLB Hodgson Impey Cheng Limited which retires, and being eligible, offer itself for re-appointment at 2021 AGM. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorise the Directors to fix its remuneration will be proposed at the 2021 AGM.

On behalf of the Board
Chen Hong Cai
Chairman and Executive Director
Jiangxi Province, the PRC, 14 May 2021

Independent Auditors' Report

国衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF MOBILE INTERNET (CHINA) HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of The Mobile Internet (China) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 128, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and as to whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Material uncertainties relating to the going concern basis

As explained in Note 3 to the consolidated financial statements, the Group incurred a net loss of approximately RMB238,867,000 for the year ended 31 December 2020, and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB378,820,000 and the Group was in net liabilities of approximately RMB177,595,000. The Group's convertible bonds and promissory notes with outstanding principal amounts of approximately HK$6,667,000 (equivalent to approximately RMB5,610,000) and HK$160,000,000 (equivalent to approximately RMB134,645,000) respectively as at 31 December 2020, classified as borrowings in current liabilities in the consolidated statement of financial position, matured and fell due for repayment during the year ended 31 December 2019. These outstanding principals amounts and related overdue interests, amounting to approximately HK$193,690,000 (equivalent to approximately RMB162,996,000) in aggregate, were not repaid as at 31 December 2020.

The factors referred to above, along with other matters as described in Note 3 to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

BASIS FOR DISCLAIMER OF OPINION (continued)

Material uncertainties relating to the going concern basis (continued)

The directors have been undertaking certain measures to improve the Group's liquidity and financial position, which are set out in Note 3 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the outcomes of these measures, which are subject to multiple uncertainties, including (i) whether the Group is able to implement its cost control measures to attain positive cash flows from operations; (ii) whether the Group is able to successfully negotiate with the holders of its promissory notes and convertible bonds to restructure and/or refinance these borrowings, including those with overdue principals and interests, and secure necessary credit facilities to provide additional funds to meet the Group's working capital and financial requirements in the near future; (iii) whether the Company is successful in implementing alternative capital raising initiatives to strengthen the capital base of the Group; and (iv) whether the director of the Company, Mr. Sun Shao Hua is able to provide financial support to the Group to enable the Group to continue as a going concern and to settle the Group's liabilities as and when they fall due.

We have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves about the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements because of the lack of detailed analyses provided by management in relation to its plans and measures for future actions in its going concern assessment which take into account the uncertainty of outcome of these plans and measures and how variability in outcome would affect the future cash flows of the Group.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the carrying values of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements and we were unable to determine whether such adjustments might have been found necessary.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hog Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance and for such internal control as directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditors' report. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

The engagement director on the audit resulting in this independent auditors' report is Tien Sun Kit, Jack.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 14 May 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	7	214,535	443,642
Cost of sales		(177,000)	(343,657)
Gross profit		37,535	99,985
Other revenue	8	1,037	1,844
Other income	9	3,868	610
Selling and distribution expenses		(23,462)	(142,482)
Administrative expenses		(57,428)	(47,303)
Amortisation of intangible assets	18	(8,496)	(9,594)
Allowance for expected credit loss ("ECL") recognised in respect of financial assets carried at amortised costs, net	10	(7,412)	(1,769)
Other operating loss	10	(114,669)	(217,249)
Loss from operations		(169,027)	(315,958)
Finance costs	12	(71,250)	(130,975)
Loss before tax	10	(240,277)	(446,933)
Income tax	13	1,410	5,622
Loss for the year		(238,867)	(441,311)
Other comprehensive income/(loss) for the year, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		27,853	(6,428)
Other comprehensive income/(loss) for the year, net of tax		27,853	(6,428)
Total comprehensive loss for the year, net of tax		(211,014)	(447,739)
Loss for the year attributable to Owners of the Company		(238,867)	(441,311)
Total comprehensive loss for the year attributable to Owners of the Company		(211,014)	(447,739)
Loss per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	15	(17.34)	(32.04)

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	16	**199,688**	186,111
Goodwill	17	**—**	11,999
Intangible assets	18	**—**	15,631
Right-of-use assets	19	**2,209**	3,616
Long-term prepayment	20	**—**	35,727
		201,897	253,084
Current assets			
Inventories	21	**52,240**	52,923
Trade receivables	22	**71,877**	70,385
Prepayments, deposits and other receivables	23	**16,224**	9,978
Cash and bank balances	24	**61,646**	179,071
		201,987	312,357
Current liabilities			
Trade, other payables and accruals	25	**268,648**	208,062
Borrowings	26	**311,304**	324,408
Lease liabilities	29	**461**	1,363
Contract liabilities	30	**60**	246
Tax payable		**334**	—
		580,807	534,079
Net current liabilities		**(378,820)**	(221,722)
Total assets less current liabilities		**(176,923)**	31,362
Non-current liability			
Lease liabilities	29	**672**	172
Net (liabilities)/assets		**(177,595)**	31,190
Equity			
Share capital	32	**11,161**	11,161
Reserves		**(186,796)**	20,029
(Capital deficiency)/total equity		**(177,595)**	31,190

Approved by the board on 14 May 2021 and signed on its behalf by:

Mr. Chen Hong Cai
Chairman

Mr. Sun Shao Hua
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share Capital RMB'000 Note 32(a)	Share premium RMB'000	Convertible bonds reserve RMB'000 Note 33(a)(i)	Statutory reserve RMB'000 Note 33(a)(ii)	Other reserve RMB'000 Note 33(a)(iii)	Exchange reserve RMB'000 Note 33(a)(iv)	Accumulated loss RMB'000	Total equity/ (capital deficiency) RMB'000
As at 1 January 2019	11,161	611,286	426	49,850	15,901	(8,923)	(200,772)	478,929
Loss for the year	—	—	—	—	—	—	(441,311)	(441,311)
Other comprehensive loss for the year	—	—	—	—	—	(6,428)	—	(6,428)
Total comprehensive loss for the year	—	—	—	—	—	(6,428)	(441,311)	(447,739)
Transfer of lapsed conversion rights of matured convertible bonds	—	—	(426)	—	—	—	426	—
Transfer of statutory reserve	—	—	—	623	—	—	(623)	—
As at 31 December 2019 and 1 January 2020	11,161	611,286	—	50,473	15,901	(15,351)	(642,280)	31,190
Loss for the year	—	—	—	—	—	—	(238,867)	(238,867)
Other comprehensive income for the year	—	—	—	—	—	27,853	—	27,853
Total comprehensive income/(loss) for the year	—	—	—	—	—	27,853	(238,867)	(211,014)
Issuance of capital in a subsidiary	—	—	—	—	2,229	—	—	2,229
As at 31 December 2020	**11,161**	**611,286**	**—**	**50,473**	**18,130**	**12,502**	**(881,147)**	**(177,595)**

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Operating activities			
Loss before tax		**(240,277)**	(446,933)
Adjustments for:			
Amortisation of intangible assets	10, 18	**8,496**	9,594
Allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net	5	**7,412**	1,769
Depreciation of property, plant and equipment	10, 16	**25,442**	22,334
Depreciation of right-of-use assets	10, 19	**1,455**	1,504
Finance costs	12	**71,250**	130,975
Gain on disposal of property, plant and equipment	10	**(26)**	(15)
Written off of inventories	10	**1,335**	—
Impairment of property, plant and equipment	10, 16	**58,864**	—
Impairment of goodwill	10, 17	**11,999**	217,249
Impairment of intangible assets	10, 18	**7,135**	—
Impairment of right-of-use assets	10, 19	**944**	—
Impairment of long-term prepayment	10, 20	**35,727**	—
Covid-19-related rent concession	9	**(288)**	—
Interest income	8	**(311)**	(736)
Operating cash flows before movement in working capital		**(10,843)**	(64,259)
Increase in inventories		**(652)**	(10,670)
Increase in trade receivables		**(8,904)**	(10,505)
(Increase)/decrease in prepayments, deposit and other receivables		**(6,263)**	59,159
Increase in trade, other payables and accruals		**693**	25,453
Decrease in contract liabilities		**(186)**	(1,064)
Cash used in operations		**(26,155)**	(1,886)
PRC tax refund, net		**1,744**	5,622
Net cash (used in)/generated from operating activities		**(24,411)**	3,736
Investing activities			
Interest received		**311**	736
Long-term prepayment addition		**—**	(42,550)
Purchase of property, plant and equipment	16	**(97,894)**	(212)
Proceeds from disposal of property, plant and equipment		**35**	561
Net cash used in investing activities		**(97,548)**	(41,465)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Financing activities		
Issuance of capital in a subsidiary	**5,601**	—
Payment of lease liabilities	**(1,138)**	(1,475)
Proceeds from borrowings	**51,474**	52,162
Repayments of borrowings	**(48,060)**	(51,000)
Bank borrowings interest paid	**(3,327)**	(11,326)
Redemption of promissory notes	**—**	(40,992)
Net cash generated from/(used in) financing activities	**4,550**	(52,631)
Net decrease in cash and cash equivalents	**(117,409)**	(90,360)
Cash and cash equivalents at the beginning of the year	**179,071**	268,320
Effect of exchange rate on the balances of cash held in foreign currencies	**(16)**	1,111
Cash and cash equivalents at the end of the year	**61,646**	179,071

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company was incorporated in Cayman Islands on 12 July 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 1501, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 January 2014.

The Company acts as an investment holding company while its principal operating subsidiaries are engaged in manufacturing and sales of packaging materials and development, distribution and operation of mobile game products.

The directors of the Company (the "Directors") consider the parent and the ultimate holding company of the Company to be Novel Blaze Limited ("Novel Blaze"), a company incorporated in the British Virgin Islands (the "BVI") with limited liability. Its ultimate controlling party is Ms. Zheng Xue Xia, who is a spouse of the executive director of the Company, Mr. Sun Shao Hua.

The consolidated financial statements are presented in Renminbi ("RMB") and rounded to the nearest thousand (RMB'000), unless otherwise stated. RMB is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is Hong Kong dollars ("HK$"). The Directors consider that choosing RMB as the presentation currency best suits the needs of the shareholders and investors.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions.

Expect as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the accumulated losses at 1 January 2020. The Group has benefited from 5 months waiver of lease payments on a lease in the People Republic of China (the "PRC"). The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of approximately RMB288,000, which has been recognised as other income in profit or loss for the current year.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKFRS 16	Covid 19 — Related Rent Concession beyond 30 June 2021[5]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.
5 Effective for annual periods beginning on or after 1 April 2021.

The Directors anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by HKICPA and accounting principles generally accepted in Hong Kong. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

There were no transfer between Level 1, 2 and 3 in both years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

Going concern

The Group incurred a net loss of approximately RMB238,867,000 (2019: approximately RMB441,311,000) for the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeds its current assets by approximately RMB378,820,000 (2019: approximately RMB221,722,000) and the Group was in net liabilities of approximately RMB177,595,000. In addition, included in the borrowings of the Group as at 31 December 2020 are promissory notes and convertible bonds of principal amounts of HK$160,000,000 (equivalent to approximately RMB134,645,000) and approximately HK$6,667,000 (equivalent to approximately RMB5,610,000) respectively (2019: HK$160,000,000 (equivalent to approximately RMB143,127,000) and HK$6,667,000 (equivalent to approximately RMB5,964,000) respectively) which were matured on 19 May 2019 and 19 June 2019 and were not repaid as at 31 December 2020. These outstanding principals amounts and related overdue interests amounting to approximately HK$193,690,000 (equivalent to approximately RMB162,996,000), in aggregate were not repaid as at 31 December 2020.

In view of the above circumstances, the Directors have given careful consideration to the future liquidity and financial position of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity position and to improve the Group's financial position which include, but are not limited to the followings:

(i) The Group is taking measures to tighten cost control with an aim to attain positive cash flow from operations;

(ii) The Group is in the process of negotiating with its promissory noteholders and convertible bondholders to restructure and/or refinance its borrowings, and secure necessary facilities to meet the Group's working capital and financial requirements in the near future;

(iii) The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to, seeking new investment and business opportunities (manufacturing of medical supplies), private placements, open offers or rights issue of new shares of the Company;

(iv) The director of the Company, Mr. Sun Shao Hua has stated that he, is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due; and

(v) The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavouring to request them to repay the trade receivables in accordance with the repayment schedules agreed with them.

The Directors are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as they fall due within twelve months from the date of approval of the consolidated financial statements. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, since the execution of the above plans and measures are in progress, significant uncertainties exist as to whether management of the Group will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to achieve these plans and measures, including ability to repay, renew or to restructure and/or refinance its borrowings with the promissory notes holders and convertible bonds holders, generate adequate financing and operating cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

Going concern (continued)

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

(i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

(ii) liabilities or equity instruments related to share-based payment arrangement of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meeting.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit ("CGU") or group of CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant of CGU or any of the cash-generating unit within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Subsidiaries

A subsidiary is a company in which the Company directly or indirectly controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the Company's financial statement at cost less accumulated impairment loss.

Separate Financial Statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income (continued)

Revenue from contracts with customers (continued)

(i) Sales of goods

For sales of paper-based packaging products, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the buyer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when selling the goods and bears the risks of obsolescence and loss in relation to the goods.

(ii) Revenue from mobile and web game operation

Mobile and web games operation — Gross basis (Exclusive operation)

The Group operates certain games developed by game developer and self-developed mobile and web games through the Group's platform. The Group is responsible for technical support. The platforms are responsible for distribution and, collections from players.

The Group primarily operates its mobile and web games under free to play model. Players can purchase virtual currency to obtain in-games items and premium features, commonly known as virtual items. These third-party payment platforms are entitled to service fees which are withheld and deducted from the gross proceeds collected from the players, with the net amounts remitted to the Group. These service fees are commonly referred to as channel costs. The considerations received for purchase of the virtual currency is non-refundable and related channel costs are non-cancellable. The revenue is recognised when the related in-games items and premium features are provided to players. The Group recognises revenue on a gross basis when the Group acting as the principal in these transactions, and records the channel cost under cost of sales in the consolidated statement of profit or loss and other comprehensive income.

Revenue from the virtual currency are recognised ratably over the period the virtual currency are expected consumed. At each reporting date, the income received in respect of unutilised virtual currency is recognised as contract liabilities.

Mobile and web game operation — Net basis (Joint operation)

The Group operated certain web games which were developed by other game developers. The Group is only responsible for promoting the game and is considered as the agents of the game developers. The Group receives commission based on a certain portion of the purchase amount for in game virtual currency remitted by players through different payment platforms. After deducting channel cost charged by the payment platforms and the sharing amount to game developers, the Group recognizes the rest of the amount as revenue. Revenue is recognised over the game player playing periods and recognised upon the purchase action by players.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income (continued)

Revenue from contracts with customers (continued)

(ii) Revenue from mobile and web game operation (continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

(iii) Other services

Revenue from the provision of services is recognised over the period because the customer simultaneously receives and consumes the benefits provided by the Group.

(iv) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "interest income" where it is mainly earned from financial assets that are held for cash management purposes.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand- alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight- line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Lease payments included:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review or expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The lease liability is presented as a separate line in the consolidated statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Items included in the consolidated financial statements of each of the companies now comprising the Group are measures using the currency of the primary environment in which the companies operate (the "functional currency").

In preparing the financial information of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Goodwill and fair value adjustments on identifiable assets acquires arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of exchange reserve.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payment to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

In the reporting period in which an employee has rendered services, the Group recognises the employee benefit expenses for those services in profit or loss.

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs (continued)

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the People's Republic of China (the "PRC"), including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Share option expense

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible persons for their contributions to the Group.

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxable entity by same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

	Useful lives
Machinery	10 years
Computer and office equipment	5 years
Motor vehicles	5 years
Building	20 years
Leasehold improvements	Over the lease terms

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Game, intellectual properties and licences

Game, intellectual properties and licences is initially recognised and measured at cost less amortisation. Acquired game licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised over their estimated useful lives of 1 to 3 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible asset with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible assets, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from Group's ordinary course of business are presented as other revenue and other income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

<u>Amortised cost and interest income</u>

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other revenue" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables and cash and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

Lifetime ECL for certain trade receivablesare considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at FVTPL (continued)

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated loss upon derecognition of the financial liability.

Financial liabilities at amortised costs

Financial liabilities (including Trade, other payables and accruals and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivative are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or losses on fair value changes is recognised in profit or loss.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities, equity and derivatives in accordance with the substance of the contractual arrangements and the definitions of a financial liability, an equity instrument and derivative financial instruments. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and bank balances

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted to use.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties transactions

A party is considered to be related to the Group if:

(1) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(2) An entity is related to the Group if any of the following condition applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligation between related parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next year, are discussed below:

Income taxes and deferred taxation

The Group is subject to PRC income taxes. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment on intangible assets

Determining whether intangible assets are impaired requires an estimation of the value-in- use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. For the year ended 31 December 2020, an impairment of intangible assets of approximately RMB7,135,000 (2019: Nil) was recognised. Details of impairment assessment are disclosed in Note 17.

Estimated impairment on goodwill

Determining whether goodwill is impaired requires an estimation of the value-in- use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. For the year ended 31 December 2020, impairment of goodwill of approximately RMB11,999,000 (2019: RMB217,249,000) was recognised. Details of impairment assessment are disclosed in Note 17.

Impairment on tangible assets

The Group assesses at each reporting date whether there are any indicators of impairment for all non-financial assets, including its property, plant and equipment and right-of-use assets at each reporting date. To determine whether there is any objective evidence of impairment, the Company considers external factors including decline in asset values, significant changes with an adverse effect in the market or economic or legal environment in which the entity operates and internal factors such as evidence from internal reporting. Tangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. As at 31 December 2020, the carrying amounts of property, plant and equipment and right-of-use assets subject to impairment assessment were approximately RMB199,688,000 and RMB2,209,000 (2019: RMB186,111,000 and RMB3,616,000) respectively, after taking into account the impairment losses of approximately RMB944,000 and RMB58,864,000 (2019: Nil) in respect of property, plant and equipment and right-of-use assets that have been recognized respectively. Details of impairment assessment of property, plant and equipment and right-of-use assets are disclosed in Note 16.

Impairment of inventories

The management reviews an aging analysis at the end of the reporting period, and makes impairment for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes impairment for obsolete and slow-moving items, when necessary. During the year ended 31 December 2020, written off of inventories of approximately RMB1,335,000 (2019: Nil) was recognised.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Self-developed mobile and web game operation revenue recognition

Self-developed mobile and web game revenue is recognised based on the actual consumption of the virtual items. Income received in respect of unutilised virtual item is recognised as deferred revenue. The Group determines the deferred revenue based on amount of unutilised virtual items and estimated average selling price of virtual currency.

For games operated by the Group and data of unutilised virtual items and currency are applicable, the Group recognises deferred revenue based on amount of unutilised virtual items and virtual currency; and estimated average selling price of virtual currency.

Serval in game promotion was conducted to promote purchase of virtual currency. In assessing the amount of average sales value for the virtual currency, management considers the promotional virtual currency and virtual currency purchased by game player are same. The average sales value of virtual currency is then determined by divide total income received to the total virtual currency granted to game player. If the actual sales value of the virtual currency differs from management's assessment, the amount of deferred income as well as mobile and web game operation revenue recognised would be affected.

Principal versus agent consideration (principal)

The Group engages in sales of packaging material and operation of mobile game products. Upon application of HKFRS 15, the Group reassessed whether the Group should continue to recognise revenue on gross basis based on the requirements in HKFRS 15. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods. The Group has inventory risk.

Principal versus agent consideration (agent)

The Group is considered as an agent, the performance obligation is to arrange for the provision of promotion service of game products as the Group did not obtain the control over the goods before passing on to customers taking into consideration indicators such as the Group is not primarily responsible for fulfilling the promise to provide the mobile game products in specified quality and not exposed to inventory risk.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 5.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Going concern basis

As disclosed in Note 3, the directors have prepared the consolidated financial statements on a going concern basis after taking into consideration the following factors:

(i) The Group is taking measures to tighten cost control with an aim to attain positive cash flow from operations;

(ii) The Group is in the process of negotiating with its promissory noteholders and convertible bondholders to restructure and/or refinance its borrowings, and secure necessary facilities to meet the Group's working capital and financial requirements in the near future;

(iii) The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to, seeking new investment and business opportunities, private placements, open offers or rights issue of new shares of the Company;

(iv) The director of the Company, Mr. Sun Shao Hua has stated that he, is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due; and

(v) The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavouring to request them to repay the trade receivables in accordance with the repayment schedules agreed with them.

5. FINANCIAL INSTRUMENTS

Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follow:

	2020 RMB'000	2019 RMB'000
Financial assets		
At amortised cost		
— Trade receivables	71,877	70,385
— Deposits and other receivable	174	543
— Cash and bank balances	61,646	179,071
	133,697	249,999
Financial liabilities		
At amortised cost		
— Trade, other payables and accruals	264,779	208,062
— Borrowings	311,304	324,408
— Lease liabilities	1,133	1,535
	577,216	534,005

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies

The Company's major financial instruments include trade receivables, deposits and other receivables, cash and bank balances, trade, other payables and accruals, borrowings and lease liabilities. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The credit risk of the Group mainly arises from cash and bank balances, trade receivables and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2020, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause the carrying amount of each financial asset in the consolidated statement of financial position, net of total carrying amounts of RMB133,697,000 (2019: RMB249,999,000). The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables arising from contracts with customers

In determining the recoverability of the trade receivables, the Group consider any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Allowances for ECL are recognised against trade receivables based on simplified approach under expected credit loss model determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position and forward-looking information.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. No customer represents more than 5% of the total balance of trade receivables for both years and hence the concentration of credit risk is limited.

The Group performs impairment assessment under ECL model on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 5 years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Credit risk (continued)

Deposits and other receivables

As at 31 December 2020 and 2019, the management considers the ECL on deposits and other receivables to be immaterial.

Cash and bank balances

As at 31 December 2020 and 2019, all cash and bank balances were deposited in state owned banks and reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties.

Provision matrix — debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its manufacturing and sales of packaging materials operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL.

As at 31 December 2020

Trade receivables	**Expected loss rate**	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**1.75%**	**73,155**	**1,278**
181–365 days past due	**—**	**—**	**—**
Individual assessment	**100%**	**4,888**	**4,888**
		78,043	**6,166**

As at 31 December 2019

Trade receivables	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.13%	70,448	93
181–365 days past due	18.43%	37	7
		70,485	100

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Credit risk (continued)

Provision matrix — debtors' aging (continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2020, the Group provided approximately RMB1,278,000 (2019: RMB100,000) impairment allowance for trade receivables, based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019	105	—	105
— Impairment losses recognised, net (Note 10)	(5)	1,774	1,769
— Write-offs	—	(1,774)	(1,774)
As at 31 December 2019 and 1 January 2020	100	—	100
— Impairment losses recognised, net (Note 10)	1,178	6,234	7,412
— Write-offs	—	(1,346)	(1,346)
As at 31 December 2020	**1,278**	**4,888**	**6,166**

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, have significant financial difficulty, or when the trade receivables are over two years past due, whichever occurs earlier.

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Liquidity risk (continued)

The Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective end of the reporting periods to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

	Weighted average interest rate %	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000
As at 31 December 2020						
Non-derivative financial liabilities						
Trade, other payables and accruals	—	264,779	264,779	—	—	264,779
Borrowings	15.72	311,304	320,723	—	—	320,723
Lease liabilities	13.72	1,133	582	409	361	1,352
		577,216	586,084	409	361	586,854

	Weighted average interest rate %	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted cash flows RMB'000
As at 31 December 2019					
Non-derivative financial liabilities					
Trade, other payables and accruals	—	208,062	208,062	—	208,062
Borrowings	15.53	324,408	325,954	—	325,954
Lease liabilities	3.92	1,535	1,412	180	1,592
		534,005	535,428	180	535,608

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Interest rate risk

The Group considers that there is no significant cash flow interest rate risk and fair value interest rate risk as the Group does not have variable rate borrowings. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

No sensitivity analysis is prepared since the Group is not subject to significant cash flow interest rate risk and fair value interest rate risk.

Currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The main operations of the Group were in the PRC and most of the transactions were denominated in RMB. The Company did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the years.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions are not significant to the Group.

The Directors consider that the currency risk of the Group's operations is immaterial due to the relatively low proportion of the Group's foreign currency denominated assets, liabilities, income and expense, as compared to the Group's total assets, liabilities, income and expense. Hence, no future analysis is presented.

5. FINANCIAL INSTRUMENTS (continued)

Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value. The Group manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years.

The Group has adopted a higher finance leverage compared to the last year. The Directors monitor capital using a gearing ratio, which is total debts divided by total equity. The Group's policy aims to keep the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting periods are as follows:

	2020 **RMB'000**	2019 RMB'000
Total debts (Note)	**311,304**	324,408
Total equity	**(177,595)**	31,190
Gearing ratio	**NA**	1,040.1%

Note:

Total debts comprise borrowings.

6. OPERATING SEGMENT

The board of directors is the Group's chief operating decision makers ("CODM").

The Group engaged in two operating segments which are sales of paper-based packaging products and development, distribution and operation of mobile game products. The chief operating decision makers allocated resources and assessed performance based on the profit or loss for the year for the entire business comprehensively.

Segment revenue reported represents revenue generated from external customers. There were no intersegment sales for the year ended 31 December 2020 (2019: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segments profit/(loss) represents the profit earned from/(loss incurred from) each segments without allocation of unallocated corporate expenses, unallocated finance costs and income tax. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

6. OPERATING SEGMENT (continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

	Paper-based packaging products		Development, distribution and operation of mobile game products		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	**201,984**	347,652	**12,551**	95,990	**214,535**	443,642
Segment results	**(79,897)**	7,076	**(77,515)**	(314,016)	**(157,412)**	(306,940)
Unallocated corporate expenses					**(14,970)**	(12,287)
Unallocated finance costs					**(67,895)**	(127,706)
Loss before tax					**(240,277)**	(446,933)
Income tax					**1,410**	5,622
Loss for the year					**(238,867)**	(441,311)

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	Paper-based packaging products		Development, distribution and operation of mobile game products		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**391,544**	475,456	**11,789**	88,148	**403,333**	563,604
Unallocated corporate assets					**551**	1,837
Total assets					**403,884**	565,441
Segment liabilities	**85,392**	95,189	**13,730**	9,293	**99,122**	104,482
Unallocated corporate liabilities					**482,357**	427,619
Total liabilities					**581,479**	532,101

The Company's and some dormant companies' assets are not considered to be segment assets for reporting to the CODM as they are managed by the central treasury function.

The Company's and some dormant companies' liabilities are not considered to be segment liabilities for reporting to the CODM as they are managed by the central treasury function.

6. OPERATING SEGMENT (continued)

Other segment information

For the year ended 31 December 2020

	Paper-based packaging products RMB'000	Development, distribution and operation of mobile game products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditure (Note)	**(97,825)**	**—**	**(69)**	**(97,894)**
Depreciation of right-of-use assets	**(60)**	**(662)**	**(733)**	**(1,455)**
Depreciation of property, plant and equipment	**(25,384)**	**(9)**	**(49)**	**(25,442)**
Amortisation of intangible assets	**—**	**(8,496)**	**—**	**(8,496)**
Allowance for expected credit loss recognised in respect of financial assets carried at amortised cost, net	**(7,419)**	**7**	**—**	**(7,412)**
Gain on disposal of property, plant and equipment	**26**	**—**	**—**	**26**
Written off of inventories	**(1,335)**	**—**	**—**	**(1,335)**
Impairment of property, plant and equipments	**(58,772)**	**(8)**	**(84)**	**(58,864)**
Impairment loss on goodwill	**—**	**(11,999)**	**—**	**(11,999)**
Impairment of intangible assets	**—**	**(7,135)**	**—**	**(7,135)**
Impairment of right-of-use assets	**—**	**—**	**(944)**	**(944)**
Impairment of long-term prepayment	**—**	**(35,727)**	**—**	**(35,727)**
Finance costs	**(3,232)**	**(123)**	**(67,895)**	**(71,250)**

For the year ended 31 December 2019

	Paper-based packaging products RMB'000	Development, distribution and operation of mobile game products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditure (Note)	(212)	—	—	(212)
Depreciation of right-of-use assets	(60)	(683)	(761)	(1,504)
Depreciation of property, plant and equipment	(22,207)	(57)	(70)	(22,334)
Amortisation of intangible assets	—	(9,594)	—	(9,594)
Allowance for expected credit loss recognised in respect of financial assets carried at amortised cost, net	(1,049)	(720)	—	(1,769)
Gain on disposal of property, plant and equipment	15	—	—	15
Impairment loss on goodwill	—	(217,249)	—	(217,249)
Finance costs	(3,103)	(166)	(127,706)	(130,975)

Note: Capital expenditure includes addition to property, plant and equipment.

6. OPERATING SEGMENT (continued)

Other segment information (continued)

During the years ended 31 December 2020 and 2019, all revenue is derived from customers in the PRC.

As at 31 December 2020 and 2019, most of the Group's non-current assets were located in the PRC. Accordingly, no analysis of the Group's result and assets by geographical area is disclosed.

For the year ended 31 December 2020, included in development, distribution and operation of mobile game products segment, approximately RMB1,321,000 (2019: RMB1,355,000) revenue arose from the Group's largest distribution channel for the year ended 31 December 2020. For the year ended 31 December 2020, included in paper-based packaging products segment, approximately RMB9,925,000 (2019: RMB16,523,000) revenue arisen from the Group's largest customer. No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2020 (2019: Nil).

7. REVENUE

Revenue represents the net amounts received and receivable for goods sold, net of discounts and excludes value-added tax, service fees and commission received and sales of in-game virtual items:

Disaggregation of revenue from customers by major products or services line and timing is as follows:

	2020 **RMB'000**	2019 RMB'000
Revenue recognised at a point in time:		
Sales of paper-based packaging products	**201,984**	347,652
Revenue recognised over time:		
Development, distribution and operation of mobile game products	**12,551**	95,990
	214,535	443,642

8. OTHER REVENUE

	2020 **RMB'000**	2019 RMB'000
Sales of residual materials	**726**	1,108
Bank interest income	**311**	736
	1,037	1,844

9. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Government subsidies (Note)	**3,505**	530
Covid-19-related rent concession	**288**	—
Sundry income	**75**	80
	3,868	610

Note:

Government subsidies represent the financial subsidies given by the local government to encourage the Group's operation in the PRC. No unfulfilled condition and other contingencies attached to these government subsidies.

10. LOSS BEFORE TAX

Loss before tax has been arrived at after charging/(crediting):

	2020 RMB'000	2019 RMB'000
Staff costs:		
Employee benefit expense (including directors' emoluments (Note 11)):		
Wages and salaries	**59,206**	54,972
Retirement benefit schemes contributions	**2,339**	5,819
	61,545	60,791
Other operating loss:		
Impairment of properties, plant and equipment (Note 16)	**58,864**	—
Impairment of goodwill (Note 17)	**11,999**	217,249
Impairment of intangible assets (Note 18)	**7,135**	—
Impairment of right-of-use assets (Note 19)	**944**	—
Impairment of long-term prepayment (Note 20)	**35,727**	—
	114,669	217,249
Other items:		
Depreciation charge		
— Owned property, plant and equipment (Note 16)	**25,442**	22,334
— Right-of-use assets (Note 19)	**1,455**	1,504
	26,897	23,838
Auditors' remuneration		
— Audit service	**781**	1,146
Amortisation of intangible assets (Note 18)	**8,496**	9,594
Allowance for ECL recognised in respect of financial assets carried at amortised cost, net (Note 5)	**7,412**	1,769
Written off of inventories	**1,335**	—
Gain on disposal of property, plant and equipment	**(26)**	(15)
Expense relating to short-term lease	**118**	288
Research and development costs	**4,347**	5,482
Cost of inventories sold	**176,544**	295,066

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2020 RMB'000	2019 RMB'000
Fees	259	308
Other emoluments:		
Salaries, allowances and benefits in kind	8,750	8,980
Retirement benefits schemes contributions	57	63
	9,066	9,351

(b) Directors' emoluments

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit schemes contributions RMB'000	Total remuneration RMB'000
For the year ended 31 December 2020				
Executive Directors				
Mr. Chen Hong Cai	—	3,167	21	3,188
Ms. Zheng Li Fang (Resigned on 21 December 2020)	—	2,277	20	2,297
Mr. Sun Shao Hua	—	3,306	16	3,322
Independent Non-executive Directors				
Mr. Fang Zhi Xiang (appointed on 30 April 2021)	—	—	—	—
Mr. Wu Yu Kun (appointed on 30 April 2021)	—	—	—	—
Mr. Liu Da Jin (Retired on 2 May 2021)	86	—	—	86
Mr. Ma Yiu Ho, Peter (Retired on 28 August 2020)	87	—	—	87
Mr. Wu Ping	86	—	—	86
	259	8,750	57	9,066

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(b) Directors' emoluments (continued)

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit schemes contributions RMB'000	Total remuneration RMB'000
For the year ended 31 December 2019				
Executive Directors				
Mr. Chen Hong Cai	—	3,116	27	3,143
Ms. Zheng Li Fang	—	2,402	20	2,422
Mr. Sun Shao Hua	—	3,462	16	3,478
Independent Non-executive Directors				
Mr. Liu Da Jin	88	—	—	88
Mr. Ma Yiu Ho, Peter	132	—	—	132
Mr. Wu Ping	88	—	—	88
	308	8,980	63	9,351

The Group does not have any chief executive officer during the years.

During the years, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the years.

(c) Five highest paid employees

The five highest paid employees of the Group are analysed as follows:

	2020 RMB'000	2019 RMB'000
Directors	**8,807**	9,043
Non-directors	**1,810**	2,078
	10,617	11,121

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(c) Five highest paid employees (continued)

The five highest paid individuals in the Group during both years included 3 (2019: 3) directors; details of whose emoluments are set out in Note 11(b). The emoluments of the remaining 2 (2019: 2) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	**1,792**	2,057
Retirement benefits schemes contributions	**18**	21
	1,810	2,078

The number of these non-directors, being the five highest paid employees, whose remuneration fell within the following band is as follows:

	2020	2019
Nil to HK$1,000,000	**1**	—
HK$1,000,001 to HK$2,000,000	**1**	2
	2	2

Included in the five highest paid employees, the number of senior management (being the non-director employees) whose remuneration fell within the following band is at follows:

	2020	2019
Nil to HK$1,000,000	**1**	—
HK$1,000,001 to HK$2,000,000	**1**	2
	2	2

Note: The band was denominated in HK$ and the remuneration of the respective employees was translated at the average rate of RMB to HK$ for each year for the disclosure purpose.

During the years, no emoluments were paid by the Group to the non-directors, being the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-director, highest paid employees waived or agreed to waive any emoluments during the years.

12. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest expenses on borrowings	**71,187**	120,713
Imputed interest on promissory notes	**—**	9,651
Imputed interest on convertible bonds	**—**	526
Interest expenses on lease liabilities	**63**	85
	71,250	130,975

13. INCOME TAX

	2020 RMB'000	2019 RMB'000
Current tax		
— The PRC Enterprise Income Tax	**333**	1,743
— Over provision in prior year	**(1,743)**	(7,365)
Total income tax credit recognised in profit or loss	**(1,410)**	(5,622)

For the years ended 31 December 2020 and 2019, Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits. On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 ("Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rate regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. No Hong Kong profit tax is provided as the Group does not have any assessable profit from the Group's operation in Hong Kong.

The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% during the year (2019: 25%). Pursuant to the relevant laws and regulations in the PRC, HongSheng (Jiangxi) Color Printing Packaging Co., Ltd ("HongSheng"), which qualified as a High and New Technology Enterprise ("HNTE") in August 2014, was entitled to a reduced enterprise income tax rate of 15% from 1 January 2014 to 31 December 2016. During the year ended 31 December 2019, HongSheng renewed the qualification of HNTE and entitled to the reduced tax rate of 15% until the year ended 31 December 2019.

During the year ended 31 December 2019, Behill Science Technology Co., Limited was qualified as a HNTE and entitled to a reduced enterprise income tax rate of 15% from 1 January 2018 to 31 December 2020.

At the end of the reporting period, the Group has unused tax losses of RMB243,797,000 (2019: RMB168,759,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

13. INCOME TAX (continued)

The unrecognised tax losses will expiry at following table:

	2020 RMB'000	2019 RMB'000
2028	**72,063**	72,063
2029	**96,696**	96,696
2030	**75,038**	—
	243,797	168,759

The reconciliation between the income tax and accounting loss at applicable income tax rates is as follows:

	2020 RMB'000	2020 %	2019 RMB'000	2019 %
Loss before tax	**(240,277)**		(446,933)	
Tax at applicable income tax rate	**(53,138)**	**22.12**	(99,835)	22.34
Preferential income tax treatments	**11,635**	**(4.84)**	30,694	(6.87)
Tax effect of expenses not deductible or income not taxable for tax purpose	**23,513**	**(9.79)**	32,587	(7.29)
Over-provision in prior year	**(1,743)**	**0.73**	(7,365)	1.65
Tax effect of tax loss not recognised	**18,323**	**(7.63)**	38,297	(8.57)
	(1,410)	**0.59**	(5,622)	1.26

14. DIVIDENDS

The board of directors does not recommend payment of any dividend for the years ended 31 December 2020 and 2019.

15. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Basic and diluted loss per share

	2020 RMB'000	2019 RMB'000
Loss attributable to the owners of the Company for the purpose of basic loss per share	**(238,867)**	(441,311)

Number of shares

	2020 '000	2019 '000
Weighted average number of ordinary shares	**1,377,498**	1,377,498

Basic loss per share for the years ended 31 December 2020 and 2019 are calculated by dividing the loss for the year attributable to owners of the Company by the weighted average number of shares in issue during the year.

For the year ended 31 December 2020, the diluted loss per share and basic loss per share is the same as there was no potential dilutive event.

For the year ended 31 December 2019, the computation of diluted loss per share does not assume the exercise of the outstanding convertible bonds since it would result in an anti-dilutive effect on loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Ownership interest in buildings RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost						
As at 1 January 2019	210,253	847	388	71,285	151	282,924
Additions	212	—	—	—	—	212
Disposal	(8,261)	—	(263)	—	—	(8,524)
Exchange realignment	—	—	—	—	3	3
As at 31 December 2019 and 1 January 2020	202,204	847	125	71,285	154	274,615
Addition	52,760	618	43	—	44,473	97,894
Disposal	(171)	—	—	—	—	(171)
Exchange realignment	—	(2)	—	—	(12)	(14)
As at 31 December 2020	**254,793**	**1,463**	**168**	**71,285**	**44,615**	**372,324**
Accumulated depreciation and impairment						
As at 1 January 2019	52,179	574	245	21,081	66	74,145
Change of the year	18,804	98	4	3,386	42	22,334
Write back on disposal	(7,847)	—	(131)	—	—	(7,978)
Exchange realignment	—	—	—	—	3	3
As at 31 December 2019 and 1 January 2020	63,136	672	118	24,467	111	88,504
Charge for the year	18,965	89	2	3,386	3,000	25,442
Impairment loss	34,646	187	10	—	24,021	58,864
Write back on disposal	(162)	—	—	—	—	(162)
Exchange realignment	—	(2)	—	—	(10)	(12)
As at 31 December 2020	**116,585**	**946**	**130**	**27,853**	**27,122**	**172,636**
Carrying amount						
As at 31 December 2020	**138,208**	**517**	**38**	**43,432**	**17,493**	**199,688**
As at 31 December 2019	139,068	175	7	46,818	43	186,111

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Assets pledged as security

As at 31 December 2020, machinery with a carrying amount of approximately RMB71,821,000 (2019: RMB98,686,000) have been pledged to secure bank borrowings (Note 26) granted to the Group.

As at 31 December 2020, buildings with a carrying amount of approximately RMB38,107,000 (2019: RMB41,171,000) have been pledged to secure bank borrowings (Note 26) granted to the Group.

Impairment assessment

Due to the significant decrease in revenue and loss for all business segments during the year, the Directors concluded there was indications for impairment and conducted impairment assessment on recoverable amounts of certain property, plant and equipment and right-of-use assets with finite useful life with carrying amounts of RMB258,552,000 and RMB3,153,000 respectively.

The Group has carried out an impairment assessment of the property, plant and equipment and right-of-use assets allocated to cash generating unit of paper-based packing products segment ("Packaging CGU"). As a result, the carrying amount of the plant and machinery of the Packaging CGU has written down to its recoverable amount and an impairment loss of RMB58,772,000 on property, plant and equipment and no impairment loss on right-of-use assets were recognised during the year under "other operating loss" (Note 10).

The Group estimates the recoverable amount of the individual assets allocated to the Packaging CGU based on their fair values less cost of disposal under level 3 fair value hierarchy. The fair values were established based on the cost of reproducing or replacing assets, less depreciation from physical deterioration and all relevant forms of obsolescence and optimisation. The fair values have been arrived by a valuation carried out at the end of the reporting period by an independent professional valuer not connected by the Group.

Also, the Group has carried out an impairment assessment of the property, plant and equipment and right-of-use assets allocated to cash generating unit of development, distribution and operation of mobile game products segment ("Gaming CGU") based on the value-in-use calculation as stated in Note 17. As at 31 December 2020, in view of the unfavourable future prospects of Gaming CGU, the management of the Group concluded an impairment loss of RMB8,000 on property, plant and equipment and no impairment loss on right-of-use assets were recognised during the year under "other operating loss" (Note 10).

17. GOODWILL

	RMB'000
Cost	
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**429,857**
Accumulated impairment	
As at 1 January 2019	200,609
Impairment loss recognised for the year	217,249
As at 31 December 2019 and 1 January 2020	417,858
Impairment loss recognised for the year	11,999
As at 31 December 2020	**429,857**
Carrying amount	
As at 31 December 2020	**—**
As at 31 December 2019	11,999

Goodwill amounted to approximately RMB429,857,000 were arisen from the acquisition of Cable King Limited and its subsidiaries ("Cable King Group") during the year ended 31 December 2016 which are allocated to Gaming CGU.

For the year ended 31 December 2020

The mobile game industry in China is highly competitive, with frequent introduction of new games and rapid adoption of technological and product advancements. The industry also sees dominant players with substantial financial and technical resources.

The Group's existing games are at the recession stage of their respective life cycle, resulting in significant shrinkage in contribution to the segment results for the year under review. The Group has been making efforts to review its strategies and resources for the segment, and there is no new game launched during the year ended 31 December 2020 and in forseeable future.

In view of the unfavourable operating results of Cable King Group, it is uncertain that Cable King Group will be able to generate positive cash flow in the future, the recoverable amount of Cable King Group has been determined based on value in use calculation. The Directors expect that the recoverable amount of Cable King Group will be minimal and, as such, the Directors have decided to fully impaired the goodwill of approximately RMB11,999,000 and the intangible assets of approximately RMB7,135,000 related to the Cable King Group as stated in Note 18 under "other operating loss" (Note 10).

17. GOODWILL (continued)

For the year ended 31 December 2019

The recoverable amount of Cable King Group as at 31 December 2019 has been determined based on value in use calculation. Such calculation is based on (1) profit forecast prepared by Cable King Group's management covering a five year period and (2) a discount rate of 25.02% per annum which reflects current market assessment of the time value of money and the credit risk specific to the cash-generating unit. The cash flows beyond five year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecast and does not exceed the long term average growth rate for the relevant industry. Other key assumptions for the value in use calculations are related to the estimation of cash inflows/outflows which include budgeted sales with a compound average growth rate of 3% and stable gross margin, such estimation is based on the Gaming CGU's past performance and its management's expectations for the market development.

During the year ended 31 December 2019, the Cable King Group's performance was not in line with previous expectation mainly due to (i) underperformance of existing games when several of them entered into the recession stage of their respective life cycle; and (ii) revenue from new games yet to shore up.

The mobile game industry in China is highly competitive, with frequent introduction of new games and rapid adoption of technological and product advancements. Whether a new game will be commercially successful depends on many factors, inter alia, gamers' evolving preferences and market trends. Further, laws and regulations regulating the industry may continue to develop, which may make it difficult for the Group to obtain applicable permits and approvals in a timeline it expects. With all considerations taken, the management of the Company prepared the forecast based on revenue of the Cable King Group for the year ended 31 December 2019, existing market condition and foreseeable future development of games industry. The management believe the forecast reflect their best knowledge of the Cable King Group. Other than the aforesaid revision, key assumptions and valuation method have no material change for the value-in-use calculation at previous valuation. The management believes that any adverse change in any of these assumptions used in calculation of its recoverable amount would result in further losses.

Based on the valuation report issued by an independent professional valuer, the carrying amount of the Gaming CGU to which goodwill allocated exceeds its recoverable amount and an impairment loss of approximately RMB217,249,000 was provided during the year ended 31 December 2019 under "other operating loss" (Note 10).

18. INTANGIBLE ASSETS

	Game, Intellectual Properties and Licences RMB'000	Online Platform RMB'000	Total RMB'000
Cost			
As at 1 January 2019	69,046	260	69,306
Addition	9,533	—	9,533
As at 31 December 2019, 1 January 2020 and 31 December 2020	**78,579**	**260**	**78,839**
Accumulated amortisation and impairment			
As at 1 January 2019	53,354	260	53,614
Charge of the year	9,594	—	9,594
As at 31 December 2019 and 1 January 2020	62,948	260	63,208
Impairment (Note 17)	7,135	—	7,135
Charge of the year	8,496	—	8,496
As at 31 December 2020	**78,579**	**260**	**78,839**
Carrying amount			
As at 31 December 2020	**—**	**—**	**—**
As at 31 December 2019	15,631	—	15,631

19. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased properties RMB'000	Total RMB'000
Cost			
As at 1 January 2019	3,000	2,949	5,949
Additions (Note)	—	182	182
Movement due to modification on lease	—	(221)	(221)
Exchange realignment	—	26	26
As at 31 December 2019 and 1 January 2020	3,000	2,936	5,936
Additions (Note)	—	1,012	1,012
Exchange realignment	—	(118)	(118)
As at 31 December 2020	**3,000**	**3,830**	**6,830**
Accumulated depreciation and impairment			
As at 1 January 2019	805	—	805
Charge provided for the year	60	1,444	1,504
Exchange realignment	—	11	11
As at 31 December 2019 and 1 January 2020	865	1,455	2,320
Charge provided for the year	60	1,395	1,455
Impairment	—	944	944
Exchange realignment	—	(98)	(98)
As at 31 December 2020	**925**	**3,696**	**4,621**
Carrying amount			
As at 31 December 2020	**2,075**	**134**	**2,209**
As at 31 December 2019	2,135	1,481	3,616

Note: Amount includes right-of-use assets resulting from new leases for office premises entered.

Lease liabilities of approximately RMB1,133,000 (2019: RMB1,535,000) are recognised with related right-of-use assets of approximately RMB134,000 (2019: RMB1,481,000) as at 31 December 2020. As at 31 December 2020, leasehold land with a carrying amount of approximately RMB2,075,000 (2019: RMB2,135,000) have been pledged to secure bank borrowings (Note 26) granted to the Group.

19. RIGHT-OF-USE ASSETS (continued)

Total cash outflow from leases for the year ended 31 December 2020 was approximately RMB1,256,000 (2019: RMB1,763,000), including payments of principal and interest portion of lease liabilities of RMB1,138,000 (2019: RMB1,475,000) and short-term leases approximately RMB118,000 (2019: approximately RMB288,000).

Due to the significant decrease in revenue and loss for all business segments during the year, the Directors concluded the right-of-use assets of head office has written down to its recoverable amount. As a result, impairment of approximately RMB944,000 (2019: nil) was recognised for the year ended 31 December 2020 under "other operating loss" (Note 10).

For both years, the Group leases various offices, for its operations. Lease contracts are entered into for fixed term of 1 year to 3 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

20. LONG-TERM PREPAYMENT

Long-term prepayment represents the expenditure incurred on developing new game products but not yet met the recognition requirements of intangible asset. Due to the unsuccessful game development during the year ended 31 December 2020, the amount was full impaired and recognised as expenses under "other operating loss" (Note 10).

21. INVENTORIES

	2020 **RMB'000**	2019 RMB'000
Raw materials	**46,247**	45,529
Work in progress	**4,926**	5,608
Finished goods	**1,067**	1,786
	52,240	52,923

22. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**78,043**	70,485
Less: Allowance for ECL (Note 5)	**(6,166)**	(100)
	71,877	70,385

The following is an aged analysis of trade receivables, presented based on the invoice date. The analysis, net of allowance for ECL, is as follows:

	2020 RMB'000	2019 RMB'000
0–30 days	**22,228**	30,484
31–60 days	**20,686**	29,188
61–90 days	**17,239**	10,683
91–180 days	**11,724**	—
181–365 days	**—**	30
	71,877	70,385

The average credit period on sales of goods is from 60 to 150 days (2019: 30 to 90 days).

Details of impairment assessment on trade receivables are set out in Note 5.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Prepayments (Note)	**16,050**	9,435
Deposits	**171**	240
Other receivables	**3**	303
	16,224	9,978

Note: The amounts mainly represented the prepaid value-added tax, prepayments of commission charges to game distribution channels and advertising expenses.

24. CASH AND BANK BALANCES

Included in the cash and bank balances as at 31 December 2020, amount of approximately RMB61,335,000 (2019: RMB177,417,000) are subject to the foreign exchange control restrictions imposed by the government of the PRC.

Bank balances carry interest at market rates which range from 0% to 0.35% per annum (2019: 0.30% to 0.35% per annum) for the year ended 31 December 2020.

25. TRADE, OTHER PAYABLES AND ACCRUALS

	2020 **RMB'000**	2019 RMB'000
Trade payables	**32,223**	40,646
Accruals	**34,559**	31,034
Interest payable (Note)	**193,219**	135,460
Other payables	**8,647**	922
	268,648	208,062

Note:

Included in interest payable as at 31 December 2020 was overdue interest on promissory notes and convertible notes reclassified under borrowings of approximately RMB162,996,000 (2019: RMB122,696,000).

An aged analysis of the trade payables, based on invoice date, is as follows:

	2020 **RMB'000**	2019 RMB'000
0–30 days	**17,390**	22,297
31–60 days	**14,833**	18,349
	32,223	40,646

The average credit period on purchases of certain goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

26. BORROWINGS

	2020 RMB'000	2019 RMB'000
Secured bank borrowings — repayable within one year (Note 1)	**44,000**	48,000
Non-secured bank borrowings — contain repayable on demand clause (Note 2)	**2,940**	—
Secured other borrowings — repayable on demand (Note 3)	**140,255**	149,091
Non-secured other borrowings — repayable within one year (Note 4)	**124,109**	127,317
	311,304	324,408

Notes:

1. All the bank borrowings were denominated in RMB. As at 31 December 2020 and 2019, the bank borrowings were secured by certain property, plant and equipment and right-of-use assets held by the Group as set out in Notes 16 and 19 respectively.

2. The amounts are repayable with three years but with on demand clause and shown under current liabilities. The carrying amount repayable:

	2020 RMB'000	2019 RMB'000
Within one year	**60**	—
Within a period of more than one year but not exceeding two years	**60**	—
Within a period of more than two years but not exceeding five years	**2,820**	—
	2,940	—

3. The amounts represent overdue promissory notes (Promissory Note 1 and Promissory Note 3 (Note 27)) and convertible bond (Note 28), bearing interest at default interest rate of 22% per annum. Details are disclosed in Note 27 and Note 28.

4. On 8 June 2020, the holders of Promissory Note 4 agreed to extend the maturity date of borrowings amounting to RMB75,738,000 (equivalent to approximately HKD90,000,000) to 7 June 2021 and carried at interest rate of 7% from 1 January 2020. The remaining amount of the balance represents borrowings from independent third parties which maturity during June to December 2021 and carried interest at 18% per annum.

The ranges of effective interest rates (which are equal to the contracted interest rates) on bank borrowings are as follows:

	2020 RMB'000	2019 RMB'000
Fixed rate — bank borrowings	**5.0% to 10.2%**	5.7% to 7.8%
Fixed rate — other borrowings	**7.0% to 22.0%**	4.0% to 22.0%

27. PROMISSORY NOTES

The promissory notes issued had been split as to the derivative financial assets component (term extension derivative component and redemption option derivative component embedded in promissory notes) and the financial liability component (promissory notes liabilities). The following tables summarise the movements of derivative financial assets and financial liability components during the years ended 31 December 2020 and 2019.

Derivative financial assets — Term extension derivative component:

	Promissory Note 1 RMB'000	Promissory Note 3 RMB'000	Total RMB'000
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	—	—	—

Derivative financial assets — Redemption option derivative component:

	Promissory Note 1 RMB'000	Promissory Note 2 RMB'000	Promissory Note 3 RMB'000	Promissory Note 4 RMB'000	Total RMB'000
As at 1 January 2019, 31 December 2019, at 1 January 2020 and 31 December 2020	—	—	—	—	—

Financial liability component — Promissory notes liabilities:

	Promissory Note 1 RMB'000	Promissory Note 2 RMB'000	Promissory Note 3 RMB'000	Promissory Note 4 RMB'000	Total RMB'000
As at 1 January 2019	35,119	40,602	105,357	77,356	258,434
Imputed interest charged	1,420	1,408	3,424	3,399	9,651
Coupon interest payable	(1,420)	(1,183)	(3,424)	(1,730)	(7,757)
Redemption of promissory note	—	(40,992)	—	—	(40,992)
Transfer to borrowings upon maturity	(35,782)	—	(107,345)	(80,509)	(223,636)
Exchange realignment	663	165	1,988	1,484	4,300
As at 31 December 2019, 1 January 2020 and 31 December 2020	—	—	—	—	—

27. PROMISSORY NOTES (continued)

Promissory Note 1

On 19 June 2015, the Company issued a redeemable 7.5% promissory note with the principal amount of HK$80,000,000 and interest payable half yearly (the "Promissory Note 1").

The Promissory Note 1 has a term of one year and the holder shall extend the Promissory Note 1 on the same terms and conditions of the Promissory Note 1 for a further period of one year (the "Extend Term of the Promissory Note 1") provided that the Group's earnings before interest, taxes, depreciation and amortisation ("EBITDA") for the financial year before the end of the term is not less that RMB52,000,000 and the consolidated net asset value of the Group is not less than RMB220,000,000. The Promissory Note 1 may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The Company may, prior to the maturity date of the Promissory Note 1 from and including the date falling 12 months from the date of issue redeem the outstanding principal amount of the Promissory Note 1, with all amounts of accrued interests, handling fee and all other outstanding amount payable by the Company to the holder of the Promissory Note 1, and without penalty.

The Promissory Note 1 has the benefit of the security constituted by the share charges created by Rich Kirin Holdings Limited and Big Wealth Limited; the guarantee of Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and the guarantee of Novel Blaze Limited, the ultimate holding company of the Company.

The Promissory Note 1 contains three components: term extension derivative component, redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 1 at the date of issue was estimated to be approximately RMB64,534,000 based on the effective interest rate of 6.3% per annum. The term extension derivative component and redemption option derivative component are measured at fair value with changes in fair value recognised in profit or loss.

On 19 June 2016, the maturity date of Promissory Note 1 was extended to 19 June 2017. As a result, the effective interest rate of Promissory Note 1 changed to 8.5%.

On 19 June 2017, the maturity date of Promissory Note 1 was further extended to 19 June 2018. The effective interest rate of Promissory Note 1 remained unchanged.

On 20 June 2018, the Promissory Note 1 with principal amount of HK$40,000,000 was redeemed. The remaining amount of HK$40,000,000 was further extended to 19 June 2019. The effective interest rate of Promissory Note 1 changed to 10.5%.

On 19 June 2019, the Promissory Note 1 with outstanding principal amount of HK$40,000,000 was matured without redemption and was in default after 19 June 2019. After the default, Promissory Note 1 was reclassified as borrowings and carried default interest of 22% per annum.

Promissory Note 2

On 28 April 2016, the Company issued a redeemable 9% promissory note with the principal amount of HK$200,000,000 and interest payable yearly (the "Promissory Note 2").

The Promissory Note 2 has a term of three years. The Company may, at any time prior to the maturity date of the Promissory Note 2, redeem the outstanding principal amount of the Promissory Note 2, with all amounts of accrued interests and all other outstanding amount payable by the Company to the holder of the Promissory Note 2.

27. PROMISSORY NOTES (continued)

Promissory Note 2 (continued)

The Promissory Note 2 contains two components: redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 2 at the date of issue was estimated to be approximately RMB159,859,000 based on the effective interest rate of 10.9% per annum. The redemption option derivative component is measured at fair value with changes in fair value recognised in profit or loss.

During the year ended 31 December 2016, the Promissory Note 2 with principal amount of HK$130,000,000 was early redeemed. The excess of the fair value of the consideration to settle the Promissory Note 2 over (i) the carrying value of the financial liability component; and (ii) fair value of early redemption component of the redeemed portion of the Promissory Note 2 of approximately RMB5,112,000 was recognised by the Group as a loss on early redemption of promissory note and debited to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

On 18 April 2018, the Promissory Note 2 with principal amount of HK$23,500,000 was early redeemed. The excess of the fair value of the consideration to settle the Promissory Note 2 over (i) the carrying value of the financial liability component; and (ii) fair value of early redemption component of the redeemed portion of the Promissory Note 2 of approximately RMB348,000 was recognised by the Group as loss on early redemption of promissory note and debited to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

On 31 May 2019, the Promissory Note 2 with principal amount of RMB40,992,000 (approximately HK$46,500,000) was redeemed.

Promissory Note 3

On 20 May 2016, the Company issued a redeemable 8.5% promissory note with the principal amount of HK$120,000,000 and interest payable yearly (the "Promissory Note 3").

The Promissory Note 3 has a term of one year and the holder shall extend the Promissory Note 3 on the same terms and conditions of the Promissory Note 3 for a further period of one year (the "Extended Term of the Promissory Note 3") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000. The Promissory Note 3 may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The Promissory Note 3 contains three components: the extension derivative component, redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 3 at the date of issue was estimated to be approximately RMB100,015,000 based on the effective interest rate of 9.1% per annum. The term extension derivative component and redemption option derivative component are measured at fair value with changes in fair value recognised in profit or loss.

The Promissory Note 3 has the benefit of the security constituted by the share charges created on Cable King Limited, Wealthy Top (China) Limited and Novel Blaze Limited, the ultimate holding company of the Company; the guarantee Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and Ms. Zheng Xue Xia, a controlling shareholder of the Company and the spouse of Mr. Sun Shao Hua.

27. PROMISSORY NOTES (continued)

Promissory Note 3 (continued)

On 20 May 2017, the maturity date of Promissory Note 3 was extended to 20 May 2018. As a result, the effective interest rate of Promissory Note 3 changed to 8.5%.

On 20 May 2018, the maturity date of Promissory Note 3 was extended to 20 May 2019. The effective interest rate of Promissory Note 3 remained unchanged.

On 19 May 2019, the Promissory Note 3 with outstanding principal amount of HK$120,000,000 was matured without redemption and was default after 19 May 2019. After the default, Promissory Note 3 was reclassified as borrowings and carried default interest at 22% per annum.

Promissory Note 4

On 19 July 2017, the Company issued a redeemable 4% promissory note with the principal amount of HK$90,000,000 and interest payable yearly (the "Promissory Note 4").

The Promissory Note 4 has a term of two years. The Company may, at any time prior to the maturity date of the Promissory Note 4, redeem the outstanding principal amount of the Promissory Note 4, with all amounts of accrued interests and all other outstanding amount payable by the Company to the holder of the Promissory Note 4.

The Promissory Note 4 contains two components: redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 4 at the date of issue was estimated to be approximately RMB70,590,000 based on the effective interest rate of 8.2% per annum. The redemption option derivative component is measured at fair value with changes in fair value recognised in profit or loss.

On 19 July 2019, the Promissory Note 4 with outstanding principal amount of HK$90,000,000 was matured without redemption and reclassified as borrowings and carried interest at 4% per annum.

28. CONVERTIBLE BONDS

The convertible bonds issued have been split as to the derivative financial asset component (redemption option derivative component embedded in convertible bonds); the derivative financial liability component (term extension derivative component embedded in convertible bonds); the financial liability component (convertible bonds) and equity component (convertible bonds reserve). The following tables summarise the movements of the derivative financial assets; derivative financial liabilities; financial liabilities and equity component during the years ended 31 December 2020 and 2019.

Derivative financial assets — Redemption option derivative component:

	RMB'000
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	—

28. CONVERTIBLE BONDS (continued)

Derivative financial liabilities — Term extension derivative component:

	RMB'000
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**—**

Financial liabilities — Financial liability component:

	RMB'000
As at 1 January 2019	8,153
Imputed interest charged	526
Coupon interest payable	(190)
Transfer to interest payable upon expiry of conversion rights	(2,751)
Transfer to borrowings upon expiry of conversion rights	(5,964)
Exchange realignment	226
As at 31 December 2019, 1 January 2020 and 31 December 2020	**—**

Financial liabilities — Equity component:

	RMB'000
As at 1 January 2019	426
Transfer of lapsed conversion rights of matured convertible bonds	(426)
As at 31 December 2019, 1 January 2020 and 31 December 2020	**—**

On 20 May 2016, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK$30,000,000 with handling fee charging at 1% per annum and interest payable half yearly ("Convertible Bond 2"). The Convertible Bond entitle the holder to convert to ordinary shares of the Company at a conversion price of HK$0.75 per share and will be converted into 40,000,000 shares assuming full conversion.

Conversion may occur at any time during the term of the Convertible Bond.

The Convertible Bond have a term of one year and the holder shall extend the Convertible Bond on the same terms and conditions of the Convertible Bond for a further period of one year (the "Extended Term of the Convertible Bond") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000 ("Condition 1"), provided that the holder of Convertible Bond may only make up to two extensions under Condition 1 and the aggregate extended term for the above extensions shall not exceed two years.

28. CONVERTIBLE BONDS (continued)

Financial liabilities — Equity component: (continued)

Subject to the Promissory Note 3 (Note 28) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bond at any time during the period between the first day of the sixth month following the date of issue of the Convertible Bond and the last day immediately preceding the maturity date of the Convertible Bond.

Unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bond shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond to be redeemed, (ii) return of 15%per annum on the outstanding principal amount of the Convertible Bond from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

The Convertible Bond has the benefit of the security constituted by the share charges created on Cable King Limited, Wealthy Top (China) Limited and Novel Blaze Limited, the ultimate holding company of the Company; the guarantee Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and Ms. Zheng Xue Xia, a controlling shareholder of the Company and the spouse of Mr. Sun Shao Hua.

The effective interest rate at issue of Convertible Bond is 11.6%.

In valuing the derivative components the Black-Scholes model with Trinomial Tree method was used.

The key inputs used for calculation of the fair value of the derivative financial assets component were as follow:

	As at 20 May 2016
Time to maturity	3 years
Share price	HK$0.71
Share price volatility	55.45%
Price-to-EBITDA ratio	5.67
Conversion price	HK$0.75
Discount rate	10.03%

On 12 August 2016, Convertible Bond was partly converted into 26,666,666 ordinary shares of the Company.

On 10 April 2017, Convertible Bond was partly converted into 4,444,443 ordinary shares of the Company.

On 20 May 2017, the maturity date of Convertible Bond extended to 20 May 2018. As a result, the effective interest rate of Convertible Bond changed to 20.4%.

On 20 May 2018, the maturity date of Convertible Bond was extended to 20 May 2019. As a result, the effective interest rate of Convertible Bond changed to 18.1%.

On 19 May 2019, the Convertible Bond with outstanding principal amount of HK$6,666,667 was matured without conversion and was default after 19 May 2019. After the default, Convertible Bond was reallocated to borrowings and carried at default interest of 22% per annum.

29. LEASE LIABILITIES

The Group's lease liabilities arise from the leasing leased properties with a fixed lease term ranged from 3–5 years. Interest rates underlying all leases are fixed at respective incremental borrowing rate of 3% to 15.3% (2019: 2% to 4.5%) per annum. These liabilities were measured at the net present value of the lease payments during the lease terms that are not yet paid.

The following table shows the remaining contractual maturities of the Group's lease liabilities

	2020		2019	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**461**	**582**	1,363	1,412
After 1 year but within 2 years	**334**	**409**	172	180
After 2 years but within 5 years	**338**	**361**	—	—
	672	**770**	172	180
	1,133	**1,352**	1,535	1,592
Less: total future interest expenses		**(219)**		(57)
Present value of the lease liabilities		**1,133**		1,535

Note:

The Group's lease liabilities are denominated in Hong Kong dollars and Renminbi, being the functional currency of the relevant group entity.

30. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Contract liabilities (Note)	**60**	246

As at 1 January 2019, contract liabilities amounted to approximately RMB1,310,000.

Note:

As at 31 December 2020 and 2019, contract liabilities comprised in advance cash receipt from sale of virtual currency through their online and mobile game that is being recognised through profit or loss when the related in game items and premium and feature provided to players. The Company require the game player pay in advance before revenue recognition.

The following table shows how much of the revenue recognised in the current year relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of virtual currency of mobile and web game	**246**	1,310

31. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Authorised and contracted for capital contributions payable to subsidiaries	**60,000**	60,000

32. SHARE CAPITAL AND SHARE OPTION SCHEME

(a) Share capital

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	8,000,000	80,000

32. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(a) Share capital (continued)

	Number of shares '000	Share capital HK$'000	RMB'000
Issued and fully paid			
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**1,377,498**	**13,775**	**11,161**

(b) Share option scheme

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. Eligible participants of the Scheme included any full-time or part-time employee of the Company or any member of the Group, including any executive directors, non-executive directors and independent non-executive directors, advisors, consultants of the Group. The Scheme was valid and effective on 13 January 2014 and, unless otherwise altered or terminated, will remain in full force for a period of ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme (the "Scheme Mandate Limit"). Subject to the approval of shareholders in general meeting, the Company may refresh the Scheme Mandate Limit to the extent that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme under the Scheme Mandate Limit as refreshed must not exceed 10% of the shares in issue as at the date of such shareholders' approval.

In addition, the maximum number of shares in respect of which share options may be granted to any eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

32. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(b) Share option scheme (continued)

The subscription price for the shares subject to options will be a price determined by the Board and notified to each participant and shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a share.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the participant. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by our Board to each participant provided that the period within which the option must be exercised shall not be more than 10 years from the date of the grant of option. The exercise of an option may be subject to the administration of our Board whose decision as to all matters arising from or in relation to the Scheme as its interpretation or effect shall (save as otherwise provided herein) be final and binding on all parties to the Scheme.

As at 31 December 2020 and 2019, no shares in respect of which share options had been granted and remained outstanding under the Scheme.

No share options granted during the year (2019: Nil), of which no share option expense was recognised (2019: Nil) during the year ended 31 December 2020.

33. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

(i) Convertible bonds reserve

The amount represented the equity component of the convertible bonds issued.

(ii) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiary established in the PRC are required to provide for PRC statutory reserve, by way of transfer 10% of the profit after taxation to the statutory reserve until such reserve reaches 50% of the registered capital of the PRC subsidiary. Subject to the certain restrictions set out in the Company Law of the PRC, part of the statutory reserve may be converted to increase paid-up capital/issued capital of the PRC subsidiary, provided that the remaining balance after capitalisation is not less than 25% of the registered capital. The statutory reserve of the PRC subsidiary was RMB50,473,000 as at 31 December 2020 (2019: RMB50,473,000).

33. RESERVES (continued)

(a) The Group (continued)

(iii) Other reserve

Other reserve represented the difference between the Group's shares of nominal value of the paid-up capital of the subsidiary acquired over the Group's cost of acquisition of the subsidiary under common control upon reorganisation.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange difference arising from the translation of the financial statements of operations that have functional currency other than RMB which are dealt with in accordance with the accounting policies as set out in Note 3.

(b) Statement of changes in equity of the Company

	Share premium RMB'000	Convertible bonds reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2019	611,286	426	14,040	(479,299)	146,453
Loss of the year	—	—	—	(342,596)	(342,596)
Other comprehensive loss for the year	—	—	(2,079)	—	(2,079)
Total comprehensive loss for the year	—	—	(2,079)	(342,596)	(344,675)
Transfer of lapsed conversion rights of matured convertible bonds	—	(426)	—	426	—
As at 31 December 2019 and 1 January 2020	611,286	—	11,961	(821,469)	(198,222)
Loss of the year	—	—	—	(266,672)	(266,672)
Other comprehensive income for the year	—	—	19,228	—	19,228
Total comprehensive loss for the year	—	—	19,228	(266,672)	(247,444)
As at 31 December 2020	**611,286**	—	**31,189**	**(1,088,141)**	**(445,666)**

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Interest in subsidiaries		**20,476**	211,690
Right-of-use assets		**—**	686
Property, plant and equipment		**—**	66
		20,476	212,442
Current assets			
Prepayments, deposits and other receivables		**238**	307
Amount due from subsidiaries		**68,808**	71,105
Cash and bank balances		**302**	450
		69,348	71,862
Current liabilities			
Accruals and other payables		**219,061**	152,665
Borrowings		**264,364**	276,408
Amount due to a subsidiary		**39,942**	41,597
Lease liabilities		**290**	695
		523,657	471,365
Net current liabilities		**(454,309)**	(399,503)
Total assets less current liabilities		**(433,833)**	(187,061)
Non-current liability			
Lease liabilities		**672**	—
Net liabilities		**(434,505)**	(187,061)
Equity			
Share capital		**11,161**	11,161
Reserves	33(b)	**(445,666)**	(198,222)
Capital deficiency		**(434,505)**	(187,061)

Approved by the board on 14 May 2021 and signed on its behalf by:

Mr. Chen Hong Cai
Chairman

Mr. Sun Shao Hua
Executive Director

35. PARTICULARS OF THE SUBSIDIARIES

Name of subsidiaries	Place and date of incorporation/ establishment/ operation	Nominal value of issued share capital/ registered capital/ paid-up capital	Percentage of attributable equity interest and voting power held by the Company 2020 Direct	2020 Indirect	2019 Direct	2019 Indirect	Principal activities
Rich Kirin Holdings Limited ("Rich Kirin")	The BVI, 13 June 2013	US$1	**100**	**—**	100	—	Investment holding
Big Wealth Limited ("Big Wealth")	The BVI, 18 November 2005	US$100	**—**	**100**	—	100	Investment holding
HongSheng (Jiangxi) Color Printing Packaging Co., Ltd ("HongSheng") (Note (ii))	The PRC, wholly-owned foreign enterprise 29 November 2005	Registered capital HK$106,300,000 Paid-up capital HK$106,300,000	**—**	**100**	—	100	Sales of packaging materials
Jiangxi Hongkun Medical Technology Co., Ltd (Formerly known as Jiangxi Hongyu New Materials Environmental Friendly Paper Co., Ltd) ("Hongkun") (Note (i))	The PRC, 6 May 2015	Registered capital RMB60,000,000 Paid-up capital Nil	**—**	**100**	—	100	Manufacture and sale of cleaning products, disposable medical supplies and environmental friendly stone-paper based products
Cable King Limited ("Cable King")	The BVI, 15 July 2015	US$1	**100**	**—**	100	—	Investment holding
Wealthy Top (China) Limited ("Wealthy Top")	The BVI, 27 May 2015	HK$1	**—**	**100**	—	100	Investment holding
Chunxin (Xiamen) Investment Management Company Limited ("Chunxin")	The PRC, wholly-owned foreign enterprise 12 February 2017	Registered capital RMB1,000,000 Paid-up capital RMB1,000,000	**—**	**100**	—	100	Provision of consultancy services
Megasea International Limited ("Megasea")	The BVI, 7 January 2019	US$100	**100**	**—**	100	—	Investment holding
Hongkong Immortal Business Trading Limited ("Hongkong Immortal")	Hong Kong, 28 March 2019	HK$100	**—**	**100**	—	100	Investment holding

Note:

(i) The registered capital of Hongkun is RMB60,000,000. As at 31 December 2019, the Group had not injected any capital to Hongkun and the amount will be injected prior to 5 May 2024.

(ii) As at 28 August 2020, the registered capital of HongSheng increase from HK$100,000,000 to HK$106,300,000 by way of capital contribution.

36. STRUCTURED ARRANGEMENTS

As at 31 December 2020 and 2019, the Group has an operating entity controlled through contractual arrangements in Cable King Group.

Particulars and main business of the operating entity

冰河(廈門)信息技術有限公司 (Behill Science Technology Co., Ltd) ("Behill") is a limited liability company established under the laws of the PRC and is wholly owned by Mr. Huang Jianqiang (黃建強) ("Mr. Huang"). Behill is controlled by the Group through Chunxin by way of certain structured contracts in relation to controlling the Behill by Chunxin (the "Structured Contracts"). Behill is principally engaged in development, distribution and operation of game products.

Major terms of the structured contracts

Power of attorney

Mr. Huang executed an irrevocable power of attorney which enables Chunxin to exercise all the powers of the shareholders of Behill.

Exclusive call option agreement

Mr. Huang irrevocably and without any additional conditions grant an exclusive option to Chunxin under which Chunxin shall have the right to require Mr. Huang to transfer his equity interest in Behill on demand to Chunxin or its designated entity or individual.

Exclusive Technological Support and Management Consulting Service Agreement

Chunxin shall serve as the exclusive consultant and service provider to Behill, to provide a variety of consulting technical support services to Behill for its business. Behill shall pay to Chunxin a service fee that is equal to its 100% profits before income tax (net of operating and other tax expenses) on a monthly basis.

Business Cooperation Agreement

Behill and Mr. Huang shall appoint persons to be designated by Chunxin to be the chairman (when applicable), directors/executive directors, general manager, chief financial controller and other senior management of Behill. Behill shall be operated in accordance with the instruction of Chunxin and Mr. Huang has undertaken not to act in any manner that may affect the assets, business, personnel, obligations, rights or the operations of Behill, unless with the prior written consent of the Chunxin or its appointee. In addition Chunxin shall have the right to obtain and review the business date, financial information and other information relevant to the operations and business of Behill.

36. STRUCTURED ARRANGEMENTS (continued)

Revenue and assets subject to the contractual arrangements

	2020 RMB'000	2019 RMB'000
Revenue	**12,551**	95,990
Net loss	**(65,426)**	(91,600)

	2020 RMB'000	2019 RMB'000
Total assets	**11,784**	76,144

Equity pledge agreement

Mr. Huang agreed to pledge all equity interests in Behill to Chunxin as a security for Mr. Huang's and Behill's performance of their obligation under the aforesaid agreements.

Significance of business of Behill to the Group

The Structured Contracts enabled the Group to enter into the development, distribution and operation of game products business and enhance the profitability of the Group.

37. PLEDGE ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 26) of the Group.

	2020 RMB'000	2019 RMB'000
Machinery (Note 16)	**71,821**	98,686
Buildings (Note 16)	**38,107**	41,171
Right-of-use assets (Note 19)	**2,075**	2,135
	112,003	141,992

38. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into the following related party transactions, which in the opinion of the Directors of the Company, were carried out on normal commercial terms and in the ordinary course of the Group.

(a) Key management personnel compensation

Compensation of key management personnel of the Group, including directors' remuneration as detailed in Note 11 above.

	2020 RMB'000	2019 RMB'000
Fees	**260**	309
Other emoluments:		
Salaries, allowances and benefits in kind	**9,004**	11,312
Retirement benefit schemes contributions	**74**	83
Total	**9,338**	11,704

(b) Transaction

Name of related parties	**Relationship**	**Nature of transactions**	**2020 RMB'000**	2019 RMB'000
鴻聖信息科技(廈門)有限責任公司	Company controlled by a Director	Office premise rental expenses	**403**	691
Mr. Peng Dongmiao (Note)	Substantial shareholder	Interest expenses on promissory note 2	**—**	1,408
		Interest expenses on promissory note 4	**—**	3,399
		Interest expenses on borrowings	**5,469**	1,439
		Redemption of promissory note 2	**—**	40,992

Note: As a result of business combination, the Company issued consideration shares and Promissory Note 2 to Mr. Peng Dongmiao for the consideration of acquisition of the entire equity interest of Cable King Limited. Mr. Peng Dongmiao become the substantial shareholder of the Company. During the year ended 31 December 2020, interest expenses of approximately RMB5,469,000 (equivalent to approximately HK$6,300,000) (2019: RMB6,246,000 (equivalent to approximately HK$7,085,000)) was incurred in relation to Promissory Notes 2 and 4 held by Mr. Peng Dongmiao. The Promissory Note 2 was redeemed during the year ended 31 December 2019, the Promissory Note 4 was reclassified to borrowings (Note 26) during the year ended 31 December 2019.

(c) Outstanding balance with related parties

The Group had borrowings due to its substantial shareholder, Mr. Peng Dongmiao, as at the end of the reporting period, for details, please refer to Note 26.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Borrowings RMB'000 (Note 26)	Promissory notes RMB'000 (Note 27)	Convertible bonds RMB'000 (Note 28)	Interest payable RMB'000 (Note 25)	Lease liabilities RMB'000 (Note 29)	Total RMB'000
As at 1 January 2019	92,797	258,434	8,153	5,163	2,949	367,496
Cash flows	1,162	(40,992)	—	(11,326)	(1,475)	(52,631)
Interest expense	120,713	9,651	526	—	85	130,975
Other non-cash movements	(120,713)	(7,757)	(2,941)	139,632	(39)	8,182
Reallocation	229,600	(223,636)	(5,964)	—	—	—
Foreign exchange adjustments	849	4,300	226	1,991	15	7,381
As at 31 December 2019 and 1 January 2020	324,408	—	—	135,460	1,535	461,403
Cash flows	3,414	—	—	(3,327)	(1,138)	(1,051)
Interest expense	71,187	—	—	—	63	71,250
Other non-cash movements	(71,187)	—	—	71,187	724	724
Foreign exchange adjustments	(16,518)	—	—	(10,101)	(51)	(26,670)
As at 31 December 2020	**311,304**	**—**	**—**	**193,219**	**1,133**	**505,656**

40. EVENTS AFTER REPORTING PERIOD

Legal proceeding against a substantial shareholder

Novel Blaze is a guarantor of the Promissory Note 1 (Note 27) issued by the Company to Chance Talent Management Limited ("Chance Talent") on 19 June 2015.

On 19 September 2019, Chance Talent sought to redeem the Note without success. On 17 October 2019, Chance Talent sent a letter of demand for the outstanding amount under the Note to Novel Blaze, as guarantor. Novel Blaze did not answer the letter of demand. On or around 29 November 2019, Chance Talent served a statutory demand on Novel Blaze for repayment of the total sum of HK$76,185,100, being the outstanding principal amount plus interest due under the Note. Novel Blaze did not answer the statutory demand as a result of an administrative oversight and a failure to appreciate its significance, and therefore did not apply to set aside the statutory demand.

On 3 March 2020, Chance Talent issued an application in the Commercial Court of the British Virgin Islands ("BVI") to wind up Novel Blaze (the "Application") on the basis that Novel Blaze had failed to comply with the statutory demand and that Novel Blaze was unable to pay its debts as they fell due and hence insolvent.

The hearing of the Application was adjourned to allow for on-going settlement discussions but ultimately proceeded on 8 June 2020. The judge granted the Application and made an Order (the "Winding-Up Order") appointing Roy Bailey of Ernest & Young Ltd, and Matt Ng and So Kit Tee Anita, both of Ernst & Young Transactions Limited, as joint liquidators of Novel Blaze (collectively, the "Liquidators"). The Winding-Up Order appointing the Liquidators came into effect on 29 June 2020.

On 22 June 2020, Novel Blaze filed the Appeal and on 25 June 2020, Novel Blaze filed an application on an urgent basis for a stay of the Winding-Up Order pending the determination of the Appeal (the "Stay Application").

On 9 July 2020, the BVI Court handed down judgment refusing the Stay Application. The Appeal was heard on 23 November 2020 and the decision of the BVI Court denying Novel Blaze's appeal against its winding-up was handed down on 16 April 2021.

41. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 14 May 2021.

Five-Year Financial Summary

For the year ended 31 December 2020

A summary of the results and of the assets and liabilities of the Group for the last five financial years as extracted from the published consolidated financial statements is set out below:

Results

	Year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**214,535**	443,642	690,750	1,020,012	868,593
Cost of sales	**(177,000)**	(343,657)	(525,104)	(637,953)	(602,711)
Gross profit	**37,535**	99,985	165,646	382,059	265,882
Other revenue	**1,037**	1,844	3,364	4,589	2,428
Other income	**3,868**	610	1,610	7,365	3,595
Selling and distribution expenses	**(23,462)**	(142,482)	(172,587)	(175,698)	(96,752)
Administrative expenses	**(57,428)**	(47,303)	(82,008)	(51,739)	(43,418)
Amortisation of intangible assets	**(8,496)**	(9,594)	(5,166)	(21,010)	(27,438)
Allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net	**(7,412)**	(1,769)	(4,693)	—	—
Impairment of property, plant and equipment	**(58,864)**	—	—	—	—
Impairment of goodwill	**(11,999)**	(217,249)	(200,609)	—	—
Impairment of intangible assets	**(7,135)**	—	—	—	—
Impairment of right-of-use assets	**(944)**	—	—	—	—
Impairment of long-term prepayments	**(35,727)**	—	—	—	—
Change in fair value of derivative financial instruments	**—**	—	(8,733)	1,860	4,030
Change in fair value of contingent consideration payable	**—**	—	—	(143,376)	(51,963)
Loss on early redemption of promissory notes	**—**	—	(348)	—	(5,185)
Equity-settled share option expenses	**—**	—	—	—	(2,389)
Finance costs	**(71,250)**	(130,975)	(32,751)	(33,033)	(26,269)
(Loss)/profit before tax	**(240,277)**	(446,933)	(336,275)	(28,983)	22,521
Income tax	**1,410**	5,622	(9,601)	(21,668)	(14,600)
(Loss)/profit for the year	**(238,867)**	(441,311)	(345,876)	(50,651)	7,921

Five-Year Financial Summary

For the year ended 31 December 2020

Assets and Liabilities

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**403,884**	565,441	899,977	1,310,933	1,305,796
Total liabilities	**581,479**	(534,251)	(421,048)	(516,854)	(725,896)
Net (liabilities)/assets	**(177,595)**	31,190	478,929	794,079	579,900

Note:

(i) The summery above does not from part of the audited financial statements.