

# 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

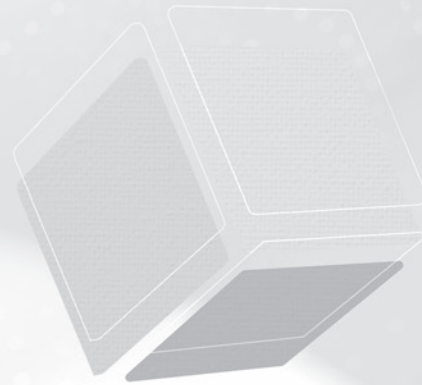
ANNUAL REPORT  
**2021**





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# Corporate Information



## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. Wu Ping  
Mr. So Chi Ming  
Mr. Wu Yu Kun  
Mr. Wang Chen Guang

## BOARD COMMITTEES

### Audit Committee

Mr. So Chi Ming (*Committee Chairman*)  
Mr. Wu Ping  
Mr. Wu Yu Kun

### Remuneration Committee

Mr. Wu Ping (*Committee Chairman*)  
Mr. So Chi Ming  
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

## 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 1008A, 10th Floor, Ocean Centre,  
Harbour City, 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](http://www.hs-pack.com.cn)

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Chen Hong Cai (陳宏才)**, aged 48, 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 50, 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.

**Mr. Wang Yun Fang (王雲芳)**, aged 56, is our Executive Director. He was appointed on 30 June 2021. Mr. Wang is currently participating in the business of investment management of supply chain finance, import-export trading. Mr. Wang has years of experiences in corporate management and capital market operation. Mr. Wang obtained a Major in Hydraulic Engineering Automation (secondary vocational school) from Yangzhou Hydraulic School of Jiangsu in 1983. During July 1983 and 2000, Mr. Wang worked in Sanmenxia Hydraulic Hub Authority of Yellow River Hydraulic Committee (黃河水利委員會三門峽水利樞紐管理局) as a technician, assistant engineer, secretary to the director office, as well as the secretary of the office of hydraulic hub engineering preparation of Xiaolangdi portion of the Yellow River. During the same period, Mr. Wang was also seconded as the authorised representative of Huidong County Guangyu Kaifa Company (惠東縣廣豫開發公司), as a shareholder representative and working staff of Sanya Zhongya Trust Investment Company (三亞中亞信託投資公司), and the managing director of Shenzhen Yellow River Mingzhu Shiye Company Limited (深圳黃河明珠實業有限公司). After 2000, Mr. Wang worked as a freelancer and was principally engaged in capital operation, investment in industry and participated in various investment and acquisitions such as Sanmenxia Car Rim Manufacturing Enterprise (三門峽汽車輪轂製造企業), Sanmenxia Pengfei Electronics Co., Ltd. (三門峽鵬飛電子有限公司), Sanmenxia Junwei Solar Energy Co., Ltd (三門峽俊威太陽能有限公司), Shanghai Shicoh Electronics Co., Ltd. (上海思考電子). Since April 2014, Mr. Wang has been working in Shenzhen Qianhai Jiayu Trading Co., Ltd (深圳前海錦昱貿易股份有限公司) as general manager in charge of overall operation management.

# Biographical Details of Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Wu Ping (吳平)**, aged 59, 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.

**Mr. Wu Yu Kun (伍毓銀)**, aged 38, 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.

**Mr. So Chi Ming (蘇志明)**, aged 52, has over 25 years of experience in audit, financial account field and involvement of corporate governance. He is currently a representative at Nice Talent Capital Limited, a licensed corporation under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") to engage in Type 4 (advising on securities) and Type 9 (asset management) regulated activities. Prior to that, he was a finance manager at Kam Wing International Textile Company Limited, a subsidiary of Kam Hing International Holdings Limited which is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2307), from October 2008 to March 2010. He then served as a finance manager of Semplice Print Production Limited from January 2011 to October 2011. He then became a senior finance manager at Alford Industries Limited, a subsidiary of United Pacific Industries Limited (now known as Superactive Group Company Limited) which is listed on the Stock Exchange (stock code: 0176). He served as the financial controller of Gatekeeper Systems (HK) Limited from October 2014 to November 2018. He then served as the company secretary of Hyfusin Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8512), from May 2019 to May 2020.

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

**Mr. Wang Chen Guang (王晨光)**, aged 42, graduated from Chinese Renmin University majoring in business administration in March 2007. During September 2005 and February 2010, Mr. Wang was employed as sales manager of metal division of the Guangzhou representative office of Hyosung Corp of Korea, and was in charge of the market development of the Korean stainless steel and alloy materials in south China region. During March 2010 and May 2016, Mr. Wang was employed as deputy general manager of Rongcheng Shiye Co., Ltd. (榮晟實業有限公司) in Henan. He was in charge of overall management function, and participated in the redevelopment project of Yuhao Railway and assets disposal along the railway.



## Biographical Details of Directors and Senior Management

Since June 2016, Mr. Wang worked as a freelancer principally engaged in capital operation, project investment, and participated in various projects such as the assets disposal of the Noni fruit juice project, the share reform and investment and financing of Luoyang Harvest Agricultural Machinery Equipment Co., Ltd. before its listing on National Equities Exchange and Quotations (New Third Board), and in the preliminary investigation, research of operating the project of extreme sport event of “風之隊”, and completed the operation of single session. Since October 2020, as one of the major promoters, Mr. Wang established Henan Muyirong Shuzi Technology Co., Ltd. (河南牧易融數字科技有限公司) (a data technological company positioned as an internet platform operator of hog economic industry), and is currently serving as its general manager in charge of overall management function.

# 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 2021.

2021 was a challenging year for us. During the first half of 2021, 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, 2021 saw decrease in business for both of our packaging and mobile game segments. The Group's revenue for 2021 was approximately RMB182.5 million, representing a year on year decline of 14.9%. However, the Group's net loss for 2021 was decreased to approximately RMB189.9 million (2020: RMB238.9 million). The decrease in loss is the combined result of a number of factors, with the decrease in impairment loss on assets and the increase in finance costs for 2021 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 2021. 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, 11 May 2022

# 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 2021 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
Mr. Wang Yun Fang	

#### *Independent Non-Executive Directors:*

Mr. Wu Ping	Chairman of the Remuneration Committee, and member of the Nomination Committee and Audit Committee
Mr. So Chi Ming	Chairman of the Audit Committee and member of the Remuneration Committee (appointed on 13 April 2022)
Mr. Wu Yu Kun	Member of the Audit Committee and Nomination Committee
Mr. Wang Chen Guang	
Mr. Fang Zhi Xiang	Chairman of the Audit Committee and member of the Remuneration Committee (resigned on 14 February 2022)

The Board currently comprises three executive Directors and four 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.



# Corporate Governance Report

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. Fang Zhi Xiang, an independent non-executive director of the Company, resigned on 14 February 2022. Following his resignation, the Company appointed Mr. So Chi Ming as an independent non-executive director on 13 April 2022.

## *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 2021, 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.

# Corporate Governance Report

## *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, Mr. Sun Shao Hua and Mr. Wu Yu Kun will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company. Mr. So Chi Ming will submit himself 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 2021.

During the year ended 31 December 2021, 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 2021.

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

# Corporate Governance Report

## (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. So Chi Ming (Chairman), 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 2021 and the interim financial statements for the six months ended 30 June 2021, 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 2021, of which two 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. Fang Zhi Xiang, resigned on 14 February 2022. Following his resignation, 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. The Company appointed Mr. So Chi Ming as independent non-executive director, chairman of the audit committee and a member of the remuneration committee on 13 April 2022 and became compliant with Rule 3.21 of the Listing Rules.

### *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

# Corporate Governance Report

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. So Chi Ming, and one executive Director, Mr. Sun Shao Hua.

For the year ended 31 December 2021, 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 2021 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.

# Corporate Governance Report

## *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 2021 is set out in the table below:

	Meeting attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
<b>Executive Directors</b>				
Chen Hong Cai	4/4	N/A	N/A	1/1
Sun Shao Hua	4/4	N/A	1/1	N/A
Wang Yun Fang (appointed on 30 June 2021)	2/4	N/A	N/A	N/A
<b>Independent non-executive Directors</b>				
Fang Zhi Xiang (appointed on 30 April 2021)	3/4	3/3	1/1	N/A
Wu Ping	4/4	3/3	1/1	1/1
Wu Yu Kun (appointed on 30 April 2021)	4/4	3/3	1/1	1/1
Wang Chen Guang (appointed on 30 June 2021)	2/4	N/A	N/A	N/A
Liu Da Jin (resigned on 2 May 2021)	2/4	2/3	1/1	1/1

## **(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 2021 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.

# Corporate Governance Report

## Auditor's Remuneration

For the year ended 31 December 2021, 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:

	<b>Amount (RMB'000)</b>
Audit services	746
Non-audit services	—
Total	<b>746</b>

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.

# Corporate Governance Report

## (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. Cheng Kit Hung, 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 2021, Mr. Cheng has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## (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 [enquiry@hspack.com](mailto:enquiry@hspack.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.



# Corporate Governance Report

## **(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 ongoing 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 last AGM of the Company was held on 30 June 2021 at Suite 1501, Greenfield Tower, Concordia Plaza No. 1, Science Museum Road, Kowloon Hong Kong.

### *Constitutional Documents*

There was no change in the constitutional documents of the Company during the year ended 31 December 2021.



# Management Discussion and Analysis

## BUSINESS REVIEW

The Group is currently engaged in two business segments, (i) packaging business and (ii) mobile game business. In 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 2021, 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 37.6 million square meters, representing a year on year decline of 12.1%, as compared to 42.8 million square meters last year. The Group's revenue from the packaging segment was approximately RMB182.0 million, representing a year on year decline of 9.9% with the gross profit margin dropped from 11.9% in 2020 to 8.0% 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 2021.

As a result, the segment revenue decreased sharply to approximately RMB0.6 million in 2021, representing a year on year decline of 95.5% and comprising approximately 0.3% of the total revenue of the Group.

# Management Discussion and Analysis

## FINANCIAL REVIEW

The revenue for the year ended 31 December 2021 was approximately RMB182.5 million, representing a decrease of approximately RMB32.0 million or approximately 14.9% as compared to that of approximately RMB214.5 million in 2020. The

decrease in revenue was attributable to (i) decrease of 10% in revenue from our packaging segment; and (ii) sharp plunge of 95.5% 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

	2021		2020	
	RMB'000	% of Total	RMB'000	% of Total
Flexo-printed cartons	61,277	33.6%	68,673	32.0%
Offset-printed cartons				
— Traditional paper-based cartons	53,483	29.3%	57,951	27.0%
— Stone-paper based cartons	67,224	36.8%	75,360	35.1%
Sub-total	120,707	66.1%	133,311	62.1%
Packaging segment	181,984	99.7%	201,984	94.1%
Mobile game segment	569	0.3%	12,551	5.9%
Total	182,553	100.0%	214,535	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 2021 was approximately RMB61.3 million (2020: approximately RMB68.7 million), which accounted for 33.6% (2020: approximately 32.0%) 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 2021 was approximately RMB120.7 million (2020: approximately RMB133.3 million), which accounted for approximately 66.1% (2020: approximately 62.1%) 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.

# Management Discussion and Analysis

## Revenue by product categories of our customers (Packaging segment)

	2021		2020	
	RMB'000	%	RMB'000	%
Food and beverage	53,390	29.3	57,990	28.7
Department stores	44,820	24.6	48,586	24.1
Metal hardware and chemical products	20,503	11.3	21,681	10.7
Glass and ceramics articles	503	0.3	2,752	1.4
Bamboo articles	732	0.4	1,895	0.9
Others (Note)	62,036	34.1	69,080	34.2
<b>Total</b>	<b>181,984</b>	<b>100.0</b>	<b>201,984</b>	<b>100.0</b>

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 2021, revenue from food and beverage manufacturers was approximately RMB53.4 million (2020: RMB58.0 million), representing approximately 29.3% (2020: 28.7%) of the revenue of packaging segment.

## Mobile game segment

During the year ended 31 December 2021, revenue from mobile game segment was approximately RMB569,000 (2020: RMB12.6 million), accounting for approximately 0.3% of the total revenue (2020: 5.9%). 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 2021 and 2020.

## Revenue by games (Mobile game segment)

	2021		2020	
	RMB'000	%	RMB'000	%
Legend of the Journey to the West (大聖傳說) & updated version	—	—	43	0.3
Chinese Odyssey (大話西遊)	—	—	260	2.1
Swordsman (七絕)	—	—	486	3.9
War of Heroes (天天打魔獸)	36	6.3	2,668	21.2
Hammer of Odin (奧丁之錘)	141	24.8	4,272	34.0
Heroes of Chaos (亂世群英傳)	228	40.1	3,399	27.1
Myths (天旗)	155	27.2	1,315	10.5
Hongyanjue (紅顏決)	—	—	108	0.9
Others	9	1.6	—	—
<b>Total</b>	<b>569</b>	<b>100.0</b>	<b>12,551</b>	<b>100.0</b>

# Management Discussion and Analysis

## GROSS PROFIT AND GROSS PROFIT MARGIN

	2021		2020	
	RMB'000	GP margin (%)	RMB'000	GP margin (%)
Flexo-printed cartons	<b>2,418</b>	<b>3.9</b>	4,302	6.3
Offset-printed cartons				
— Traditional paper-based cartons	<b>2,062</b>	<b>3.9</b>	5,295	9.1
— Stone paper based cartons	<b>10,028</b>	<b>14.9</b>	14,499	19.2
Sub-total	<b>12,090</b>	<b>10.0</b>	19,794	14.8
Packaging segment	<b>14,508</b>	<b>8.0</b>	24,096	11.9
Mobile game segment	<b>534</b>	<b>93.8</b>	12,104	96.4
Total	<b>15,042</b>	<b>8.2</b>	36,200	16.9

The overall gross profit for the Group for the year ended 31 December 2021 was approximately RMB15.0 million, representing a decline in 58.4% or approximately RMB21.2 million as compared to approximately RMB36.2 million in 2020. Overall gross profit margin decreased from approximately 16.9% in 2020 to approximately 8.2% in 2021. 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 2021 was approximately RMB2.4 million, representing a decrease of 43.8% as compared to approximately RMB4.3 million in 2020. Gross profit margin decreased from 6.3% in 2020 to 3.9% in 2021. 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 2021 was approximately RMB12.1 million, representing a decrease of 38.9% as compared to approximately RMB19.8 million in 2020. The gross profit margin of offset-printed cartons decreased to 14.8% in 2021 from 10.0% in 2020. 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 2021 was approximately RMB534,000, representing a decline in approximately 95.6% as compared to approximately RMB12.1 million in 2020. The gross profit margin decreased to approximately 93.8% for the year ended 31 December 2021 from approximately 96.4% in 2020. The gross margin remain relative stable during the year.

# Management Discussion and Analysis

## OTHER REVENUE AND INCOME

Other revenue and income of the Group decreased by 62.4% or approximately RMB3.1 million from approximately RMB4.9 million in 2020 to approximately RMB1.8 million in 2021. The decrease was mainly due to the absence of government subsidies during the year.

## SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group decreased by 40.0% or approximately RMB9.4 million, from approximately RMB23.5 million in 2020 to approximately RMB14.1 million in 2021. 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 decreased by 21.4% or approximately RMB12.0 million from approximately RMB56.1 million in 2020 to approximately RMB44.1 million in 2021. This was primarily because the decrease in administrative staff costs.

## LOSS FOR THE YEAR

As a combined result of the factors discussed above, the Group's net loss for 2021 was approximately RMB189.9 million as compared to a net loss of approximately RMB238.9 million for the previous year.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021.

## LIQUIDITY, FINANCIAL RESOURCES AND GOING CONCERN UNCERTAINTY

The Group generally finances its operation with internal resources and borrowings. As at 31 December 2021, cash and bank balances amounted to approximately RMB1.9 million (2020: RMB61.6 million), primarily denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings amounted to approximately RMB274.3 million (2020: RMB311.3 million). As the Group recorded net deficit position as at 31 December 2021, the Group's gearing ratio calculated as total borrowings divided by total equity as at 31 December 2021 is not available (2020: N/A).

Promissory Note and Convertible Bond 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 kept on discussing with its creditors with a view to reaching a settlement on this matter.

On 8 June 2021, the holders of Promissory Note with outstanding principal amount of HK\$90,000,000 extended the mature date to 7 June 2022.

As at 31 December 2021, the Group had net current liabilities of approximately RMB474.2 million (2020: net current liabilities of approximately RMB378.8 million). 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;

# Management Discussion and Analysis

- (iii) The Group is negotiating with the bank for the extending of existing bank borrowings. Taking into accounting the Group's security provided to the banks, the Directors believe that the existing bank loans will have renewal or roll-over in the near future;
- (iv) 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;
- (v) 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
- (vi) The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavoring 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.

## 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 2021.

## CAPITAL COMMITMENTS

As at 31 December 2021, the Group's capital commitments were approximately RMB60.0 million (2020: RMB60.0 million). The capital commitments were mainly related to capital contribution payable to a subsidiary.

## CONTINGENT CONSIDERATION AND LIABILITIES

As at 31 December 2021, the Group did not have any material contingent liabilities or guarantees.

## PLEDGE OF ASSETS

As at 31 December 2021, the Group pledged certain assets with a carrying value of approximately RMB94.4 million (2020: RMB112.0 million) as collateral for the Group's bank borrowings.

## INFORMATION ON EMPLOYEES

As at 31 December 2021, the Group had a total of 300 full time employees, including the Executive Directors (2020: 509). Total staff costs (including Directors' emoluments) were approximately RMB35.8 million, as compared to approximately RMB61.5 million for the year ended 31 December 2020.

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.

# Management Discussion and Analysis

## 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.

# Directors' Report

The Directors are pleased to present its report together with the consolidated financial statements of the Group for the year ended 31 December 2021.

## 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 2021 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 2021 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;



# Directors' Report



- (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.

# Directors' Report

## 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 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 39.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: 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 pages 119 to 120 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 2021 are set out in the consolidated statement of changes in equity on page 41 of this annual report.

## DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's did not have reserves available for distribution (2020: 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 4.75% and 17.55% of the total turnover for the year 2021 respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 27.18% and 62.20% of the total purchases for the year 2021 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 2021.

# Directors' Report

## 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 (2020: 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  
Mr. Wang Yun Fang (appointed on 30 June 2021)

### Independent Non-executive directors

Mr. So Chi Ming (appointed on 13 April 2022)  
Mr. Wu Ping  
Mr. Fang Zhi Xiang (appointed on 30 April 2021 and resigned on 14 February 2022)  
Mr. Wu Yu Kun (appointed on 30 April 2021)  
Mr. Wang Chen Guang (appointed on 30 June 2021)  
Mr. Liu Da Jin (resigned on 2 May 2021)

None of the Directors, including the ones 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 5 of this annual report.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2021, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

# Directors' Report

## 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 2021, the number of shares in respect of which had been granted and remained outstanding under the Share Option Scheme was nil (2020: 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' Report

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

As at 31 December 2021, 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 Beneficial owner	408,000,000 7,500,000	30.16%

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 2021, 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.

# Directors' Report

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

As at 31 December 2021, 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.

# Directors' Report

## PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2021, 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.

# Directors' Report

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.



# Directors' Report

## (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.

# Directors' Report

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

# Directors' Report

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.

## 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 2021 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 2021.

## 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.

# Directors' Report

## 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 publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued Shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the reporting period and up to the date of this annual report.

## AUDITORS

The consolidated financial statements for the year ended 31 December 2021 have been audited by HLB Hodgson Impey Cheng Limited which retires, and being eligible, offer itself for re-appointment at 2022 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 2022 AGM.

On behalf of the Board

**Chen Hong Cai**

*Chairman and Executive Director*

Jiangxi Province, the PRC, 11 May 2022

# Independent Auditors' Report



國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 the Cayman Islands 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 39 to 118, which comprise the consolidated statement of financial position as at 31 December 2021, 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. In all other aspect, in our opinion 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 RMB189,934,000 and operating cash outflow of approximately RMB32,819,000 for the year ended 31 December 2021, and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB474,171,000 and the Group was in net liabilities position of approximately RMB352,468,000. The Group's convertible bonds and promissory notes with outstanding principal amounts of approximately HK\$6,667,000 (equivalent to approximately RMB5,541,000) and HK\$160,000,000 (equivalent to approximately RMB132,997,000) respectively as at 31 December 2021, 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 principal amounts and related overdue interests, amounting to approximately HK\$272,969,000 (equivalent to approximately RMB226,900,000) in aggregate, were not repaid as at 31 December 2021. In addition, the Group had bank borrowings of RMB32,000,000 which matured during the year ended 31 December 2021, and another bank borrowings of RMB12,000,000 which matured on 24 April 2022, which remaining outstanding as at the date of approval for issuance of the consolidated financial statements. As at the same date, the Group's interest-bearing bank borrowing and other borrowing amounted to approximately RMB1,000,000 and RMB75,738,000 respectively were due for repayment or renewal in the next twelve months. As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB1,941,000, which is insufficient to fully repay the matured promissory notes, convertible notes, bank and other borrowings and relevant aggregated interest.

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.

# Independent Auditors' Report

## **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 inherently uncertain and 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 banks, other lenders, and 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 able to successfully implement 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 Hong 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.



# Independent Auditors' Report

## **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, 11 May 2022

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>Revenue</b>	7	<b>182,553</b>	214,535
Cost of sales		<b>(167,511)</b>	(178,335)
<b>Gross profit</b>		<b>15,042</b>	36,200
Other revenue	8	<b>806</b>	1,037
Other income	9	<b>1,037</b>	3,868
Selling and distribution expenses		<b>(14,073)</b>	(23,462)
Administrative expenses		<b>(44,094)</b>	(56,093)
Amortisation of intangible assets	18	—	(8,496)
Allowance for expected credit loss ("ECL") recognised in respect of financial assets carried at amortised costs, net	10	<b>(12,905)</b>	(7,412)
Other operating loss	10	<b>(53,809)</b>	(114,669)
<b>Loss from operations</b>		<b>(107,996)</b>	(169,027)
Finance costs	12	<b>(81,938)</b>	(71,250)
<b>Loss before tax</b>	10	<b>(189,934)</b>	(240,277)
Income tax	13	—	1,410
<b>Loss for the year</b>		<b>(189,934)</b>	(238,867)
<b>Other comprehensive income for the year, net of tax</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>15,061</b>	27,853
Other comprehensive income for the year, net of tax		<b>15,061</b>	27,853
<b>Total comprehensive loss for the year, net of tax</b>		<b>(174,873)</b>	(211,014)
<b>Loss for the year attributable to owners of the Company</b>		<b>(189,934)</b>	(238,867)
<b>Total comprehensive loss for the year attributable to owners of the Company</b>		<b>(174,873)</b>	(211,014)
<b>Loss per share attributable to owners of the Company</b>			
— Basic and diluted (RMB cents)	15	<b>(13.79)</b>	(17.34)



# Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	16	119,688	199,688
Right-of-use assets	19	2,015	2,209
		<b>121,703</b>	201,897
<b>Current assets</b>			
Inventories	21	51,961	52,240
Trade receivables	22	60,011	71,877
Prepayments, deposits and other receivables	23	7,756	16,224
Cash and bank balances	24	1,941	61,646
		<b>121,669</b>	201,987
<b>Current liabilities</b>			
Trade, other payables and accruals	25	321,590	268,648
Borrowings	26	274,250	311,304
Lease liabilities	29	—	461
Contract liabilities	30	—	60
Tax payable		—	334
		<b>595,840</b>	580,807
<b>Net current liabilities</b>		<b>(474,171)</b>	(378,820)
<b>Total assets less current liabilities</b>		<b>(352,468)</b>	(176,923)
<b>Non-current liability</b>			
Lease liabilities	29	—	672
<b>Net liabilities</b>		<b>(352,468)</b>	(177,595)
<b>Equity</b>			
Share capital	32	11,161	11,161
Reserves		(363,629)	(186,796)
<b>Capital deficiency</b>		<b>(352,468)</b>	(177,595)

The consolidated financial statements were approved and authorised for issue by the board of directors on 11 May 2022 and are 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 2021

	Share capital RMB'000 Note 32(a)	Share premium RMB'000	Statutory reserve RMB'000 Note 33(a)(i)	Other reserve RMB'000 Note 33(a)(ii)	Exchange reserve RMB'000 Note 33(a)(iii)	Accumulated loss RMB'000	Total equity/ (capital deficiency) RMB'000
As at 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 and 1 January 2021	11,161	611,286	50,473	18,130	12,502	(881,147)	(177,595)
Loss for the year	—	—	—	—	—	(189,934)	(189,934)
Other comprehensive income for the year	—	—	—	—	15,061	—	15,061
Total comprehensive income/(loss) for the year	—	—	—	—	15,061	(189,934)	(174,873)
<b>As at 31 December 2021</b>	<b>11,161</b>	<b>611,286</b>	<b>50,473</b>	<b>18,130</b>	<b>27,563</b>	<b>(1,071,081)</b>	<b>(352,468)</b>

# Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>Operating activities</b>			
Loss before tax		(189,934)	(240,277)
Adjustments for:			
Amortisation of intangible assets	10, 18	—	8,496
Allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net	5	12,905	7,412
Depreciation of property, plant and equipment	10, 16	26,191	25,442
Depreciation of right-of-use assets	10, 19	194	1,455
Finance costs	12	81,938	71,250
Gain on disposal of property, plant and equipment	10	—	(26)
Written off of inventories	10	7,497	1,335
Impairment of property, plant and equipment	10, 16	53,809	58,864
Impairment of goodwill	10, 17	—	11,999
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
Gain on lease termination	9	(827)	—
Covid-19-related rent concession	9	—	(288)
Interest income	8	(67)	(311)
<b>Operating cash flows before movement in working capital</b>		<b>(8,294)</b>	<b>(10,843)</b>
Increase in inventories		(7,218)	(652)
Increase in trade receivables		(1,039)	(8,904)
Decrease/(increase) in prepayments, deposits and other receivables		8,640	(6,263)
(Decrease)/increase in trade, other payables and accruals		(24,514)	693
Decrease in contract liabilities		(60)	(186)
<b>Cash used in operations</b>		<b>(32,485)</b>	<b>(26,155)</b>
PRC tax (paid)/refund, net		(334)	1,744
<b>Net cash used in operating activities</b>		<b>(32,819)</b>	<b>(24,411)</b>
<b>Investing activities</b>			
Interest received		67	311
Purchase of property, plant and equipment	16	(82)	(97,894)
Proceeds from disposal of property, plant and equipment		—	35
<b>Net cash used in investing activities</b>		<b>(15)</b>	<b>(97,548)</b>

# Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
<b>Financing activities</b>		
Issuance of capital in a subsidiary	—	5,601
Payment of lease liabilities	<b>(576)</b>	(1,138)
Proceeds from borrowings	<b>3,490</b>	51,474
Repayments of borrowings	<b>(33,292)</b>	(48,060)
Bank borrowings interest paid	<b>(1,186)</b>	(3,327)
	<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>	<b>(31,564)</b>	4,550
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	<b>(64,398)</b>	(117,409)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>61,646</b>	179,071
Effect of exchange rate on the balances of cash held in foreign currencies	<b>4,693</b>	(16)
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,941</b>	61,646
	<hr/>	<hr/>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 1008A, 10th Floor, Ocean Centre, Harbour City, 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKFRS 16	Covid-19 Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The application of the amendments to HKFRSs in the current year has 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2. APPLICATION OF 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 <sup>3</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 <sup>1</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>3</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>3</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>3</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>3</sup>
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 <sup>2</sup>
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 April 2021.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

The directors estimated the application of the new and amendments to HKFRSs in issue but not yet effective 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation (continued)

#### *Going concern*

The Group incurred a net loss of approximately RMB189,934,000 (2020: RMB238,867,000) and operating cash outflow of approximately RMB32,819,000 (2020: RMB24,411,000) for the year ended 31 December 2021 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB474,171,000 (2020: RMB378,820,000) and the Group was in net liabilities position of approximately RMB352,468,000 (2020: RMB177,595,000). In addition, included in the borrowings of the Group as at 31 December 2021 are promissory notes and convertible bonds of principal amounts of approximately HK\$160,000,000 (equivalent to RMB132,997,000) and approximately HK\$6,667,000 (equivalent to RMB5,541,000) respectively (2020: approximately HK\$160,000,000 (equivalent to RMB134,645,000) and HK\$6,667,000 (equivalent to RMB5,610,000) respectively) which were matured on 19 May 2019 and 19 June 2019 and were not repaid as at 31 December 2021. These outstanding principal amounts and related overdue interests amounting to approximately HK\$272,969,000 (equivalent to RMB226,900,000) (2020: HK\$193,690,000 (equivalent to RMB162,996,000)), in aggregate were not repaid as at 31 December 2021. In addition, the Group had bank borrowings of RMB32,000,000 and RMB12,000,000 which matured on 17 June 2021 and 24 April 2022 respectively, which remaining outstanding as at the date of approval for issuance of the consolidated financial statements. As at the same date, the Group's interest-bearing bank borrowing and other borrowing amounted to approximately RMB1,000,000 and RMB75,738,000 respectively were due for repayment or renewal in the next twelve months. As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB1,941,000, which is insufficient to fully repay the matured promissory notes, convertible notes, bank and other borrowings and relevant aggregated interest.

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 Group is negotiating with the bank for the extending of existing bank borrowings. Taking into accounting the Group's security provided to the banks, the Directors believe that the existing bank loans will be renewal or roll-over in the near future;
- (iv) 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;
- (v) 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
- (vi) 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation (continued)

#### *Going concern (continued)*

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 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 and the future outcomes are inherently uncertain, material 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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 Financial Instruments ("HKFRS 9") 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 Leases ("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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

Goodwill and fair value adjustments on identifiable assets acquired 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 Revenue from Contracts with Customers. 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 sundry income which are derived from Group's ordinary course of business are presented as other revenue and other income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 ("HKFRS 3") 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.

#### Amortised cost and interest income

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 receivables are 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 instrument 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties transactions (continued)

(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.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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:

### **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 2021, the carrying amounts of property, plant and equipment and right-of-use assets subject to impairment assessment were approximately RMB119,688,000 and RMB2,015,000 (2020: RMB199,688,000 and RMB2,209,000) respectively, after taking into account the impairment losses of approximately RMB53,809,000 and RMBNil (2020: RMB944,000 and RMB58,864,000) in respect of property, plant and equipment and right-of-use assets respectively that have been recognized in consolidated profit or loss for the year ended 31 December 2021. Details of impairment assessment of property, plant and equipment and right-of-use assets are disclosed in Notes 16 and 19 respectively.

### **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 2021, written off of inventories of approximately RMB7,497,000 (2020: RMB1,335,000) was recognised.

### **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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 Group is negotiating with the bank for the extending of existing bank borrowings. Taking into accounting the Group's security provided to the banks, the Directors believe that the existing bank loans will be renewal or roll-over in the near future;
- (iv) 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;
- (v) The Director, 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
- (vi) 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:

	2021 RMB'000	2020 RMB'000
<b>Financial assets</b>		
<i>At amortised cost</i>		
— Trade receivables	60,011	71,877
— Deposits and other receivables	3	174
— Cash and bank balances	1,941	61,646
	<b>61,955</b>	133,697
<b>Financial liabilities</b>		
<i>At amortised cost</i>		
— Trade, other payables and accruals	317,686	264,779
— Borrowings	274,250	311,304
— Lease liabilities	—	1,133
	<b>591,936</b>	577,216



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 2021, 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 RMB61,955,000 (2020: RMB133,697,000). 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 5. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objective and policies (continued)

#### Credit risk (continued)

##### Deposits and other receivables

As at 31 December 2021 and 2020, the management considers the ECL on deposits and other receivables to be immaterial.

##### Cash and bank balances

As at 31 December 2021 and 2020, 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 2021

Trade receivables	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due) to 90 days past due	1.11%	45,449	507
91–185 days past due	53.77%	32,597	17,528
Individual assessment	100%	1,036	1,036
		<b>79,082</b>	<b>19,071</b>

#### 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
Individual assessment	100%	4,888	4,888
		<b>78,043</b>	<b>6,166</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 2021, the Group provided approximately RMB18,035,000 (2020: RMB1,278,000) 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 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 and 1 January 2021	1,278	4,888	6,166
— Impairment losses recognised, net (Note 10)	16,757	(3,852)	12,905
<b>As at 31 December 2021</b>	<b>18,035</b>	<b>1,036</b>	<b>19,071</b>

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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
<b>As at 31 December 2021</b>						
<b>Non-derivative financial liabilities</b>						
Trade, other payables and accruals	—	317,686	317,686	—	—	317,686
Borrowings	15.43	274,250	282,010	—	—	282,010
		<b>591,936</b>	<b>599,696</b>	<b>—</b>	<b>—</b>	<b>599,696</b>

	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
<b>As at 31 December 2020</b>						
<b>Non-derivative financial liabilities</b>						
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
		<b>577,216</b>	<b>586,084</b>	<b>409</b>	<b>361</b>	<b>586,854</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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:

	2021 RMB'000	2020 RMB'000
Total debts (Note)	<b>274,250</b>	311,304
Total equity	<b>(352,468)</b>	(177,595)
Gearing ratio	<b>NA</b>	NA

Note:

Total debts comprise total 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 2021 (2020: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segments loss represents the 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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	
	2021	2020	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<b>181,984</b>	201,984	<b>569</b>	12,551	<b>182,553</b>	214,535
Segment results	<b>(95,577)</b>	(79,897)	<b>(5,816)</b>	(77,515)	<b>(101,393)</b>	(157,412)
Unallocated corporate expenses					<b>(8,380)</b>	(14,970)
Unallocated finance costs					<b>(80,161)</b>	(67,895)
Loss before tax					<b>(189,934)</b>	(240,277)
Income tax					—	1,410
Loss for the year					<b>(189,934)</b>	(238,867)

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	
	2021	2020	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	<b>243,124</b>	391,544	<b>4</b>	11,789	<b>243,128</b>	403,333
Unallocated corporate assets					<b>244</b>	551
Total assets					<b>243,372</b>	403,884
Segment liabilities	<b>63,532</b>	85,392	<b>10,877</b>	13,730	<b>74,409</b>	99,122
Unallocated corporate liabilities					<b>521,431</b>	482,357
Total liabilities					<b>595,840</b>	581,479

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 6. OPERATING SEGMENT (continued)

### Other segment information

For the year ended 31 December 2021

	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)	(82)	—	—	(82)
Depreciation of right-of-use assets	(60)	(134)	—	(194)
Depreciation of property, plant and equipment	(26,191)	—	—	(26,191)
Allowance for expected credit loss recognised in respect of financial assets carried at amortised cost, net	(12,905)	—	—	(12,905)
Written off of inventories	(7,497)	—	—	(7,497)
Impairment of property, plant and equipments	(53,787)	(22)	—	(53,809)
Finance costs	(1,627)	(150)	(80,161)	(81,938)

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)

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 6. OPERATING SEGMENT (continued)

### Other segment information (continued)

During the years ended 31 December 2021 and 2020, all revenue is derived from customers in the PRC.

As at 31 December 2021 and 2020, 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 2021, included in development, distribution and operation of mobile game products segment, no (2020: RMB1,321,000 arose from the Group largest distribution channel) revenue arose from the Group's distribution channel for the year ended 31 December 2021. For the year ended 31 December 2021, included in paper-based packaging products segment, approximately RMB8,679,000 (2020: RMB9,925,000) 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 2021 (2020: 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:

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Revenue recognised at a point in time:		
Sales of paper-based packaging products	<b>181,984</b>	201,984
Revenue recognised over time:		
Development, distribution and operation of mobile game products	<b>569</b>	12,551
	<b>182,553</b>	214,535

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 8. OTHER REVENUE

	2021 RMB'000	2020 RMB'000
Sales of residual materials	739	726
Bank interest income	67	311
	<b>806</b>	1,037

## 9. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Government subsidies (Note)	85	3,505
Covid-19-related rent concession	—	288
Gain on lease termination	827	—
Sundry income	125	75
	<b>1,037</b>	3,868

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 10. LOSS BEFORE TAX

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

	2021 RMB'000	2020 RMB'000
<b>Staff costs:</b>		
Employee benefit expense (including directors' emoluments (Note 11)):		
Wages and salaries	31,948	59,206
Retirement benefit schemes contributions	3,833	2,339
	<b>35,781</b>	61,545
<b>Other operating losses:</b>		
Impairment of properties, plant and equipment (Note 16)	53,809	58,864
Impairment of goodwill (Note 17)	—	11,999
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
	<b>53,809</b>	114,669
<b>Other items:</b>		
Depreciation charge		
— Owned property, plant and equipment (Note 16)	26,191	25,442
— Right-of-use assets (Note 19)	194	1,455
	<b>26,385</b>	26,897
Auditors' remuneration	746	781
Amortisation of intangible assets (Note 18)	—	8,496
Allowance for ECL recognised in respect of financial assets carried at amortised cost, net (Note 5)	12,905	7,412
Written off of inventories	7,497	1,335
Gain on disposal of property, plant and equipment	—	(26)
Expense relating to short-term lease (Note 19)	364	118
Research and development costs	—	4,347
Cost of inventories sold	159,979	176,544

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

### (a) Directors' emoluments

Details of directors' emoluments are as follows:

	2021 RMB'000	2020 RMB'000
Fees	191	259
Other emoluments:		
Salaries, allowances and benefits in kind	6,058	8,750
Retirement benefits schemes contributions	42	57
	6,291	9,066

### (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
<b>For the year ended 31 December 2021</b>				
<i>Executive Directors</i>				
Mr. Chen Hong Cai	—	3,073	27	3,100
Mr. Wang Yun Fang (Appointed on 30 June 2021)	—	—	—	—
Mr. Sun Shao Hua	—	2,985	15	3,000
<i>Independent Non-executive Directors</i>				
Mr. Fang Zhi Xiang (Appointed on 30 April 2021 and resigned on 14 February 2022)	40	—	—	40
Mr. Wu Yu Kun (Appointed on 30 April 2021)	40	—	—	40
Mr. Liu Da Jin (Retired on 2 May 2021)	28	—	—	28
Mr. Wang Chen Guang (Appointed on 30 June 2021)	—	—	—	—
Mr. Wu Ping	83	—	—	83
	191	6,058	42	6,291

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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
<b>For the year ended 31 December 2020</b>				
<i>Executive Directors</i>				
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
<i>Independent Non-executive Directors</i>				
Mr. Liu Da Jin	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

The Group does not have any chief executive officer during both 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:

	2021 RMB'000	2020 RMB'000
Directors	6,100	8,807
Non-directors	1,063	1,810
	7,163	10,617

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 2 (2020: 3) directors; details of whose emoluments are set out in Note 11(b). The emoluments of the remaining 3 (2020: 2) individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	1,026	1,792
Retirement benefits schemes contributions	37	18
	<b>1,063</b>	<b>1,810</b>

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

	2021	2020
Nil to HK\$1,000,000	3	1
HK\$1,000,001 to HK\$1,500,000	—	1
	<b>3</b>	<b>2</b>

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:

	2021	2020
Nil to HK\$1,000,000	3	1
HK\$1,000,001 to HK\$1,500,000	—	1
	<b>3</b>	<b>2</b>

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 12. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest expenses on borrowings	81,820	71,187
Interest expenses on lease liabilities	118	63
	<b>81,938</b>	71,250

## 13. INCOME TAX

	2021 RMB'000	2020 RMB'000
Current tax		
— The PRC Enterprise Income Tax	—	333
— Over provision in prior year	—	(1,743)
Total income tax credit recognised in profit or loss	—	(1,410)

No Hong Kong profit tax is provided as the Group does not have any assessable profit from the Group's operation in Hong Kong for the years ended 31 December 2021 and 2020.

The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% during the year (2020: 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 2021, HongSheng renewed the qualification of HNTE and entitled to the reduced tax rate of 15% until the year ended 31 December 2021.

During the year ended 31 December 2021, Behill Science Technology Co., Limited was qualified as a HNTE and entitled to a reduced enterprise income tax rate of 15% from 1 January 2020 to 31 December 2021.

At the end of the reporting period, the Group has unused tax losses of approximately RMB291,702,000 (2020: RMB243,797,000) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 13. INCOME TAX (continued)

The unrecognised tax losses will expiry at following table:

	2021 RMB'000	2020 RMB'000
2028	72,063	72,063
2029	96,696	96,696
2030	75,038	75,038
2031	47,905	—
	<b>291,702</b>	<b>243,797</b>

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

	2021		2020	
	RMB'000	%	RMB'000	%
Loss before tax	<b>(189,934)</b>		(240,277)	
Tax at applicable income tax rate	<b>(39,957)</b>	<b>21.03</b>	(53,138)	22.12
Preferential income tax treatments	<b>7,942</b>	<b>(4.18)</b>	11,635	(4.84)
Tax effect of expenses not deductible or income not taxable for tax purpose	<b>14,613</b>	<b>(7.69)</b>	23,513	(9.79)
Over-provision in prior year	—	—	(1,743)	0.73
Tax effect of tax loss not recognised	<b>17,402</b>	<b>(9.16)</b>	18,323	(7.63)
	—	—	(1,410)	0.59

## 14. DIVIDENDS

The board of directors does not recommend payment of any dividend for the years ended 31 December 2021 and 2020.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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

	2021 RMB'000	2020 RMB'000
Loss attributable to the owners of the Company for the purpose of basic loss per share	<b>(189,934)</b>	(238,867)

### Number of shares

	2021 '000	2020 '000
Weighted average number of ordinary shares	<b>1,377,498</b>	1,377,498

Basic loss per share for the years ended 31 December 2021 and 2020 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 years ended 31 December 2021 and 2020, the diluted loss per share and basic loss per share are the same as there was no potential ordinary shares outstanding during the years.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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
As at 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 and 1 January 2021	254,793	1,463	168	71,285	44,615	372,324
Addition	—	82	—	—	—	82
Written off	—	(35)	—	—	(210)	(245)
Exchange realignment	—	(109)	—	—	(14)	(123)
<b>As at 31 December 2021</b>	<b>254,793</b>	<b>1,401</b>	<b>168</b>	<b>71,285</b>	<b>44,391</b>	<b>372,038</b>
<b>Accumulated depreciation and impairment</b>						
As at 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 and 1 January 2021	116,585	946	130	27,853	27,122	172,636
Charge for the year	18,945	104	7	3,386	3,749	26,191
Impairment loss	53,771	38	—	—	—	53,809
Eliminated on written off	—	(35)	—	—	(210)	(245)
Exchange realignment	—	(27)	—	—	(14)	(41)
<b>As at 31 December 2021</b>	<b>189,301</b>	<b>1,026</b>	<b>137</b>	<b>31,239</b>	<b>30,647</b>	<b>252,350</b>
<b>Carrying amount</b>						
<b>As at 31 December 2021</b>	<b>65,492</b>	<b>375</b>	<b>31</b>	<b>40,046</b>	<b>13,744</b>	<b>119,688</b>
As at 31 December 2020	138,208	517	38	43,432	17,493	199,688

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

### Assets pledged as security

As at 31 December 2021, machinery with a carrying amount of approximately RMB59,552,000 (2020: RMB71,821,000) have been pledged to secure bank borrowings (Note 26) granted to the Group.

As at 31 December 2021, buildings with a carrying amount of approximately RMB32,811,000 (2020: RMB38,107,000) 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 were 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 approximately RMB173,497,000 (2020: RMB258,552,000) and RMB2,015,000 (2020: RMB 3,153,000) respectively before adjustments for impairment losses for the year ended 31 December 2021.

The Group has carried out the impairment assessment of the property, plant and equipment and right-of-use assets which belong to the 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 been written down to its recoverable amount and an impairment loss of approximately RMB53,787,000 (2020: RMB58,772,000) on property, plant and equipment and no (2020: no) impairment loss on right-of-use assets were recognised during the year under "other operating losses" (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 the 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 which belong to the 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 2021, in view of the unfavourable future prospects of Gaming CGU, the management of the Group concluded an impairment loss of approximately RMB22,000 (2020: RMB8,000) on property, plant and equipment and no (2020: no) impairment loss on right-of-use assets were recognised during the year under "other operating losses" (Note 10).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 17. GOODWILL

RMB'000

### Cost

As at 1 January 2020, 31 December 2020, 1 January 2021 and  
31 December 2021

429,857

### Accumulated impairment

As at 1 January 2020

417,858

Impairment loss recognised for the year

11,999

As at 31 December 2020, 1 January 2021 and 31 December 2021

429,857

### Carrying amount

As at 31 December 2021

—

As at 31 December 2020

—

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 was allocated to Gaming CGU.

### For the year ended 31 December 2020

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

The Group's existing games were 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 had been making efforts to review its strategies and resources for the segment, and there was no new game launched during the year ended 31 December 2020 and in foreseeable future.

In view of the unfavourable operating results of Cable King Group, it was uncertain that Cable King Group would be able to generate positive cash flow in the future, the recoverable amount of Cable King Group had been determined based on value in use calculation. The Directors expected that the recoverable amount of Cable King Group would be minimal and, as such, the Directors had decided to fully impair the goodwill of approximately RMB11,999,000 and the intangible assets of approximately RMB7,135,000 related to the Cable King Group during the year ended 31 December 2020 under "other operating losses" (Note 10).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 18. INTANGIBLE ASSETS

	Game, intellectual properties and licences RMB'000	Online platform RMB'000	Total RMB'000
<b>Cost</b>			
<b>As at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021</b>	<b>78,579</b>	<b>260</b>	<b>78,839</b>
<b>Accumulated amortisation and impairment</b>			
As at 1 January 2020	62,948	260	63,208
Impairment (Note 17)	7,135	—	7,135
Charge of the year	8,496	—	8,496
<b>As at 31 December 2020, 1 January 2021 and 31 December 2021</b>	<b>78,579</b>	<b>260</b>	<b>78,839</b>
<b>Carrying amount</b>			
<b>As at 31 December 2021</b>	<b>—</b>	<b>—</b>	<b>—</b>
As at 31 December 2020	—	—	—

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 19. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased properties RMB'000	Total RMB'000
<b>Cost</b>			
As at 1 January 2020	3,000	2,936	5,936
Additions (Note)	—	1,012	1,012
Exchange realignment	—	(118)	(118)
As at 31 December 2020 and 1 January 2021	3,000	3,830	6,830
Lease termination	—	(2,318)	(2,318)
Expire of lease term	—	(1,478)	(1,478)
Exchange realignment	—	(34)	(34)
<b>As at 31 December 2021</b>	<b>3,000</b>	<b>—</b>	<b>3,000</b>
<b>Accumulated depreciation and impairment</b>			
As at 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 and 1 January 2021	925	3,696	4,621
Charge provided for the year	60	134	194
Lease termination	—	(2,318)	(2,318)
Expire of lease term	—	(1,478)	(1,478)
Exchange realignment	—	(34)	(34)
<b>As at 31 December 2021</b>	<b>985</b>	<b>—</b>	<b>985</b>
<b>Carrying amount</b>			
<b>As at 31 December 2021</b>	<b>2,015</b>	<b>—</b>	<b>2,015</b>
As at 31 December 2020	2,075	134	2,209

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

Lease liabilities of approximately RMB1,133,000 are recognised with related right-of-use assets of approximately RMB134,000 as at 31 December 2020. As at 31 December 2021, leasehold land with a carrying amount of approximately RMB2,015,000 (2020: RMB2,075,000) have been pledged to secure bank borrowings (Note 26) granted to the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 19. RIGHT-OF-USE ASSETS (continued)

Total cash outflow from leases for the year ended 31 December 2021 was approximately RMB940,000 (2020: RMB1,256,000), including payments of principal and interest portion of lease liabilities of RMB576,000 (2020: RMB1,138,000) and short-term leases approximately RMB364,000 (2020: RMB118,000).

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 at 31 December 2020. No impairment (2020: RMB944,000) was recognised for the year ended 31 December 2021 (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 losses" (Note 10).

## 21. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	45,850	46,247
Work in progress	5,124	4,926
Finished goods	987	1,067
	<b>51,961</b>	<b>52,240</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 22. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	<b>79,082</b>	78,043
Less: Allowance for ECL (Note 5)	<b>(19,071)</b>	(6,166)
	<b>60,011</b>	71,877

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:

	2021 RMB'000	2020 RMB'000
0-30 days	<b>9,955</b>	22,228
31-60 days	<b>9,263</b>	20,686
61-90 days	<b>5,254</b>	17,239
91-180 days	<b>20,470</b>	11,724
181-365 days	<b>15,069</b>	—
	<b>60,011</b>	71,877

The average credit period on sales of goods is from 60 to 150 days (2020: 60 to 150 days).

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

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Prepayments (Note)	<b>7,753</b>	16,050
Deposits	—	171
Other receivables	<b>3</b>	3
	<b>7,756</b>	16,224

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 24. CASH AND BANK BALANCES

Included in the cash and bank balances as at 31 December 2021, amount of approximately RMB1,738,000 (2020: RMB61,335,000) 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 (2020: 0% to 0.35% per annum) for the year ended 31 December 2021.

## 25. TRADE, OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Trade payables	15,529	32,223
Accruals	34,875	34,559
Interest payable (Note)	266,399	193,219
Other payables	4,787	8,647
	<b>321,590</b>	268,648

Note:

Included in interest payable as at 31 December 2021 was overdue interest on promissory notes and convertible notes reclassified under borrowings of approximately RMB226,900,000 (2020: RMB162,996,000).

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

	2021 RMB'000	2020 RMB'000
0-30 days	8,671	17,390
31-60 days	6,858	14,833
	<b>15,529</b>	32,223

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 26. BORROWINGS

	2021 RMB'000	2020 RMB'000
Secured bank borrowings — repayable within one year (Note i)	44,000	44,000
Non-secured bank borrowings — contain repayable on demand clause (Note ii)	2,880	2,940
Secured other borrowings — repayable on demand (Note iii)	138,538	140,255
Non-secured other borrowings — repayable within one year (Note iv)	88,832	124,109
	<b>274,250</b>	<b>311,304</b>

Notes:

- i. All the bank borrowings were denominated in RMB. As at 31 December 2021 and 2020, 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.
- ii. The amounts were repayable within two years (2020: within three years) but with on demand clause and shown under current liabilities. The carrying amount repayables based on repayment terms are as follow:

	2021 RMB'000	2020 RMB'000
Within one year	60	60
Within a period of more than one year but not exceeding two years	2,820	60
Within a period of more than two years but not exceeding five years	—	2,820
	<b>2,880</b>	<b>2,940</b>

The amount was guarantee by Mr. Sun Shao Hua and Ms. Zheng Xue Xia.

- iii. The amounts represent overdue promissory notes (Promissory Note 1 and Promissory Note 2 (Note 27)) and convertible bond (Note 28), bearing interest at default interest rate of 22% per annum. Details are disclosed in Notes 27 and 28 respectively. The amounts 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.
- iv. On 8 June 2020, the holder of Promissory Note 3, Mr. Peng Dongmiao agreed to extend the maturity date of borrowings amounting to RMB40,841,000 (equivalent to approximately HKD50,000,000) to 7 June 2022 and carried at interest rate of 7% from 1 January 2020. The remaining amount of the balance represents borrowings from independent third parties which repayable on demand and carried interest at 18% per annum. Details is disclosed in Note 27.

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

	2021 RMB'000	2020 RMB'000
Fixed rate — bank borrowings	5.0% to 10.2%	5.0% to 10.2%
Fixed rate — other borrowings	7.0% to 22.0%	7.0% to 22.0%

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27. PROMISSORY NOTES

### 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 maturity date of Promissory Note 1 was originally fallen on 19 June 2016, and further extended to 19 June 2019.

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 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 2").

The maturity date of Promissory Note 2 was originally fallen on 20 May 2017 and further extended to 19 May 2019.

On 19 May 2019, the Promissory Note 2 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 2 was reclassified as borrowings and carried default interest at 22% per annum.

### Promissory Note 3

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 3").

The maturity date of Promissory Note 3 was fallen on 19 July 2019.

On 19 July 2019, the Promissory Note 3 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

On 20 May 2016, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK\$30,000,000 and interest payable half yearly ("Convertible Bond").

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.

The maturity date of remaining Convertible Bond was originally fallen on 20 May 2017 and further extended to 20 May 2019.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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% 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	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	461	582
After 1 year but within 2 years	334	409
After 2 years but within 5 years	338	361
	672	770
	<u>1,133</u>	1,352
Less: total future interest expenses		<u>(219)</u>
Present value of the lease liabilities		<u>1,133</u>

Note:

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 30. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Contract liabilities (Note)	—	60

As at 1 January 2020, contract liabilities amounted to approximately RMB246,000.

Note:

As at 31 December 2020, 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.

	2021 RMB'000	2020 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	60	246

## 31. CAPITAL COMMITMENTS

	2021 RMB'000	2020 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
<b>Authorised:</b>		
Ordinary shares of HK\$0.01 each		
As at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	8,000,000	80,000

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 32. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

### (a) Share capital (continued)

	Number of shares '000	Share capital HK\$'000	RMB'000
<b>Issued and fully paid</b>			
<b>As at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021</b>	<b>1,377,498</b>	<b>13,775</b>	<b>11,161</b>

### (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 2021 and 2020, no shares in respect of which share options had been granted and remained outstanding under the Scheme.

No share options granted during the year (2020: Nil), of which no share option expense was recognised (2020: Nil) during the year ended 31 December 2021.

## 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) 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 2021 (2020: RMB50,473,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 33. RESERVES (continued)

### (a) The Group (continued)

#### (ii) 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.

#### (iii) 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	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 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 income/(loss) for the year	—	19,228	(266,672)	(247,444)
As at 31 December 2020 and 1 January 2021	611,286	31,189	(1,088,141)	(445,666)
Loss of the year	—	—	(85,450)	(85,450)
Other comprehensive income for the year	—	14,025	—	14,025
Total comprehensive income/(loss) for the year	—	14,025	(85,450)	71,425
As at 31 December 2021	611,286	45,214	(1,173,591)	(517,091)



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2021 RMB'000	2020 RMB'000
<b>Non-current asset</b>			
Interest in subsidiaries		19,875	20,476
<b>Current assets</b>			
Prepayments, deposits and other receivables		61	238
Amounts due from subsidiaries		66,803	68,808
Cash and bank balances		195	302
		67,059	69,348
<b>Current liabilities</b>			
Accruals and other payables		294,052	219,061
Borrowings		227,370	264,364
Amount due to a subsidiary		71,442	39,942
Lease liabilities		—	290
		592,864	523,657
<b>Net current liabilities</b>		(525,805)	(454,309)
<b>Total assets less current liabilities</b>		(505,930)	(433,833)
<b>Non-current liability</b>			
Lease liabilities		—	672
<b>Net liabilities</b>		(505,930)	(434,505)
<b>Equity</b>			
Share capital		11,161	11,161
Reserves	33(b)	(517,091)	(445,666)
<b>Capital deficiency</b>		(505,930)	(434,505)

Approved and authorised for issue by the board of directors on 11 May 2022 and are signed on its behalf by:

**Mr. Chen Hong Cai**  
Chairman

**Mr. Sun Shao Hua**  
Executive Director

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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				Principal activities
			2021		2020		
			Direct	Indirect	Direct	Indirect	
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 ("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

### Notes:

- (i) The registered capital of Hongkun is RMB60,000,000. As at 31 December 2021 and 2020, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 36. STRUCTURED ARRANGEMENTS

As at 31 December 2021 and 2020, 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 data, financial information and other information relevant to the operations and business of Behill.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 36. STRUCTURED ARRANGEMENTS (continued)

### Revenue and assets subject to the contractual arrangements

	2021 RMB'000	2020 RMB'000
Revenue	569	12,551
Net loss	(5,816)	(65,426)
	2021 RMB'000	2020 RMB'000
Total assets (Note)	3,119	11,784

Note: The amount include amount due from related companies within the Group.

### *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 OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 26) of the Group.

	2021 RMB'000	2020 RMB'000
Machinery (Note 16)	59,552	71,821
Buildings (Note 16)	32,811	38,107
Right-of-use assets (Note 19)	2,015	2,075
	94,378	112,003

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

	2021 RMB'000	2020 RMB'000
Fees	191	260
Other emoluments:		
Salaries, allowances and benefits in kind	6,526	9,004
Retirement benefit schemes contributions	54	74
Total	<b>6,771</b>	9,338

### (b) Transaction

Name of related parties	Relationship	Nature of transactions	2021 RMB'000	2020 RMB'000
鴻聖信息科技(廈門)有限公司	Company controlled by a Director	Office premise rental expenses	406	403
Mr. Peng Dongmiao (Note)	Substantial shareholder	Interest expenses on borrowings	<b>5,269</b>	5,469

Note: During the year ended 31 December 2021, interest expenses of approximately RMB5,269,000 (equivalent to HK\$6,300,000) (2020: RMB5,469,000 (equivalent to HK\$6,300,000)) was incurred in relation to Promissory Notes 3 held by Mr. Peng Dongmiao. The Promissory Note 3 of HKD90,000,000 was reclassified to borrowings (Note 26) during the year ended 31 December 2019, HK\$40,000,000 was repaid during the year ended 31 December 2021, and the maturity date of the remaining HK\$50,000,000 was extended to 7 June 2022 (Note 26).

### (c) Outstanding balance with related parties

The Group had borrowings due to its substantial shareholder, Mr. Peng Dongmiao, as at 31 December 2021 and 2020, for details, please refer to Note 26.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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.

	<b>Borrowings</b> RMB'000 (Note 26)	<b>Interest payable</b> RMB'000 (Note 25)	<b>Lease liabilities</b> RMB'000 (Note 29)	<b>Total</b> RMB'000
As at 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
Exchange realignment	(16,518)	(10,101)	(51)	(26,670)
As at 31 December 2020 and 1 January 2021	311,304	193,219	1,133	505,656
Cash flows	(29,802)	(1,186)	(576)	(31,564)
Interest expense	81,820	—	118	81,938
Lease termination	—	—	(827)	(827)
Other non-cash movements	(81,820)	81,820	175	175
Exchange realignment	(7,252)	(7,454)	(23)	(14,729)
<b>As at 31 December 2021</b>	<b>274,250</b>	<b>266,399</b>	<b>—</b>	<b>540,649</b>

## 40. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## **40. LEGAL PROCEEDING AGAINST A SUBSTANTIAL SHAREHOLDER (continued)**

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. COMPARATIVE FIGURES**

Certain comparative amounts have been reclassified to be consistent with the current's presentation.

## **42. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 11 May 2022.

# Five-Year Financial Summary

For the year ended 31 December 2021

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				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	<b>182,553</b>	214,535	443,642	690,750	1,020,012
Cost of sales	<b>(167,511)</b>	(178,335)	(343,657)	(525,104)	(637,953)
Gross profit	<b>15,042</b>	36,200	99,985	165,646	382,059
Other revenue	<b>806</b>	1,037	1,844	3,364	4,589
Other income	<b>1,037</b>	3,868	610	1,610	7,365
Selling and distribution expenses	<b>(14,073)</b>	(23,462)	(142,482)	(172,587)	(175,698)
Administrative expenses	<b>(44,094)</b>	(56,093)	(47,303)	(82,008)	(51,739)
Amortisation of intangible assets	—	(8,496)	(9,594)	(5,166)	(21,010)
Allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net	<b>(12,905)</b>	(7,412)	(1,769)	(4,693)	—
Impairment of property, plant and equipment	<b>(53,809)</b>	(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
Change in fair value of contingent consideration payable	—	—	—	—	(143,376)
Loss on early redemption of promissory notes	—	—	—	(348)	—
Finance costs	<b>(81,938)</b>	(71,250)	(130,975)	(32,751)	(33,033)
Loss before tax	<b>(189,934)</b>	(240,277)	(446,933)	(336,275)	(28,983)
Income tax	—	1,410	5,622	(9,601)	(21,668)
<b>Loss for the year</b>	<b>(189,934)</b>	(238,867)	(441,311)	(345,876)	(50,651)



# Five-Year Financial Summary

For the year ended 31 December 2021

## Assets and Liabilities

	As at 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	<b>243,372</b>	403,884	565,441	899,977	1,310,933
Total liabilities	<b>(595,840)</b>	(581,479)	(534,251)	(421,048)	(516,854)
Net (liabilities)/assets	<b>(352,468)</b>	(177,595)	31,190	478,929	794,079

Note:

- (i) The summary above does not form part of the audited financial statements.