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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)

PRELIMINARY ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the “Board”) of directors (the “Directors”) of Mobile Internet (China) Holdings Limited (the “Company”, together with its subsidiaries as the “Group”) announces that, due to the novel coronavirus outbreak, the auditing processes of the financial results of the Group for the year ended 31 December 2019 have not yet been completed. As such, the Company is not able to publish the audited annual results announcement of the Group for the year ended 31 December 2019 in accordance with Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). As at the date of this announcement, the Directors are not able to determine the expected date of announcement of the audited annual results of the Group for the year ended 31 December 2019 which shall be agreed with its auditors, HLB Hodgson Impey Cheng Limited (“HLB”).

Rule 13.49(3) of the Listing Rules provides that where an issuer is unable to issue its financial results in accordance with Rules 13.49(1) and 13.49(2), it must, so far as the information is available, announce its results based on the financial results which have yet to be agreed with the auditors. In order to keep the shareholders and potential investors informed of the business operation and financial position of the Group, the Board publishes the unaudited annual results of the Company for the year ended 31 December 2019 together with the audited comparative figures for the corresponding period in 2018 in this announcement.

The Group’s unaudited annual financial results for the year ended 31 December 2019 has been reviewed by the audit committee of the Company (“Audit Committee”).

An announcement relating to the audited results announcement and the annual report will be made when the auditing process is completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants, together with the material differences (if any) as compared with the unaudited annual results contained herein.

It is expected that the auditors' audit will resume as soon as practicable once the travel restrictions to the PRC and the quarantine arrangements are relieved. The Company will despatch the annual report as and when appropriate, according to the Listing Rules and, in any event, not later than Friday, 15 May 2020.

	Year ended 31 December		Change
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)	
Revenue	443,642	690,750	(35.8%)
Gross profit	99,985	165,646	(39.6%)
Gross profit margin (%)	22.5%	24.0%	(6.3%)
Loss attributable to owners of the Company	(326,601)	(345,876)	(5.6%)
Loss per share attributable to owners of the Company			
Basic and diluted (<i>RMB cents</i>)	(23.71)	(25.40)	(6.7%)
Dividends per share (<i>HK cents</i>)	Nil	Nil	N/A

THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Board announces the unaudited consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures for the previous financial year as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Revenue	<i>5</i>	443,642	690,750
Cost of sales		<u>(343,657)</u>	<u>(525,104)</u>
Gross profit		99,985	165,646
Other revenue	<i>6</i>	1,844	3,364
Other income	<i>7</i>	610	1,610
Selling and distribution expenses		(142,482)	(172,587)
Administrative expenses		(47,303)	(82,008)
Amortisation of intangible assets		(9,594)	(5,166)
Impairment loss on goodwill	<i>13</i>	(105,239)	(200,609)
Allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net		(1,187)	(4,693)
Loss on early redemption of promissory notes		<u>—</u>	<u>(348)</u>
Loss from operations before fair value changes		(203,366)	(294,791)
Change in fair value of derivative financial instruments		<u>—</u>	<u>(8,733)</u>
Loss from operations		(203,366)	(303,524)
Finance costs	<i>8</i>	<u>(128,857)</u>	<u>(32,751)</u>
Loss before tax	<i>9</i>	(332,223)	(336,275)
Income tax	<i>10</i>	<u>5,622</u>	<u>(9,601)</u>
Loss for the year		<u>(326,601)</u>	<u>(345,876)</u>

	2019	2018
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Other comprehensive loss for the year, net of tax		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>(6,396)</u>	<u>(14,361)</u>
Total comprehensive loss for the year, net of tax	<u>(332,997)</u>	<u>(360,237)</u>
Loss attributable to owners of the Company	<u>(326,601)</u>	<u>(345,876)</u>
Total comprehensive loss attributable to owners of the Company	<u>(332,997)</u>	<u>(360,237)</u>
Loss per share attributable to owners of the Company		
— Basic and diluted (<i>RMB cents</i>)	<i>12</i> <u>(23.71)</u>	<u>(25.40)</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	<i>Notes</i>	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		186,111	208,779
Prepaid lease payments		—	2,135
Goodwill	<i>13</i>	124,009	229,248
Intangible assets		15,631	15,692
Right-of-use assets		3,616	—
Long-term prepayment		35,727	2,710
		<u>365,094</u>	<u>458,564</u>
Current assets			
Inventories		52,923	42,253
Trade receivables	<i>14</i>	70,967	61,649
Prepayments, deposits and other receivables		5,458	69,191
Cash and bank balances		179,071	268,320
		<u>308,419</u>	<u>441,413</u>
Current liabilities			
Trade, other payables and accruals	<i>15</i>	201,392	60,354
Borrowings		324,408	92,797
Promissory notes		—	258,434
Convertible bonds		—	8,153
Lease liabilities		1,363	—
Contract liabilities		246	1,310
Tax payables		—	—
		<u>527,409</u>	<u>421,048</u>
Net current (liabilities)/assets		<u>(218,990)</u>	<u>20,365</u>
Total assets less current liabilities		<u>146,104</u>	<u>478,929</u>
Non-current liability			
Lease liabilities		<u>172</u>	—
Net assets		<u>145,932</u>	<u>478,929</u>
Capital and reserves			
Share capital		11,161	11,161
Reserves		134,771	467,768
Total equity		<u>145,932</u>	<u>478,929</u>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

The unaudited consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and accounting principles generally accepted in Hong Kong. In addition, the unaudited consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

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 Unit 2604, 26th Floor, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, 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.

Pursuant to a special resolution passed at an extraordinary general meeting on 12 July 2017, the Company changed its name from “China Packaging Holdings Development Limited” to “Mobile Internet (China) Holdings Limited” and the dual foreign name in Chinese of the Company changed from “中華包裝控股發展有限公司” to “移動互聯(中國)控股有限公司”. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 25 July 2017 certifying that the new English name of the Company and the new dual foreign name in Chinese of the Company have been registered in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

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.

Basis of preparation

The unaudited consolidated financial statements have been prepared on the historical cost basis, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. 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 unaudited consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36. 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.

Going Concern

The Group incurred net loss of approximately RMB326,601,000 (2018: approximately RMB345,876,000) for the year ended 31 December 2019 and, as of that date, the Group had net current liabilities of approximately RMB218,990,000 (2018: net current assets of approximately RMB20,365,000). In addition, as at 31 December 2019, the Group's borrowing of approximately RMB166,667,000 matured on 20 May 2019. The ability of the Group to repay the borrowing or extend the maturity date may cast doubt on the Group's ability to continue as a going concern. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis. The validity of the going concern basis is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

In the opinion of the Directors, the Group is able to maintain itself as a going concern in the coming year by taking into consideration that:

- (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 bankers to restructure and/or refinance its borrowings, and secure necessary facilities to meet the Group's working capital and financial requirements in the near future;

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

In light of the measures and arrangements as described above, the Directors have concluded that the Group will have sufficient working capital to meet its financial obligations as and when they fall due. Accordingly, the Directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis. 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 effect of these adjustments has not been reflected in the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the “new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning from 1 January 2019. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

HKFRS 16	Leases
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatment
HKFRS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKFRS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in the consolidated financial statements.

The above new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

(a) **Impact on the consolidated financial statements**

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	At 31 December 2018 RMB'000	Reclassification RMB'000	Recognition of leases RMB'000	At 1 January 2019 RMB'000
Assets				
Non-current assets				
Right-of-use assets	—	2,195	2,949	5,144
Prepaid lease payments	2,135	(2,135)	—	—
Total non-current assets	458,564	60	2,949	461,573
Current assets				
Prepayments, deposits and other receivables	69,191	(60)	—	69,131
Total current assets	441,413	(60)	—	441,353
Current liabilities				
Lease liabilities	—	—	(1,686)	(1,686)
Total current liabilities	(421,048)	—	(1,686)	(422,734)
Net current assets	20,365	(60)	(1,686)	18,619
Total assets less current liabilities	478,929	—	1,263	480,192
Non-current liability				
Lease liabilities	—	—	(1,263)	(1,263)
Total non-current liabilities	—	—	(1,263)	(1,263)
Net assets	478,929	—	—	478,929

(b) HKFRS 16 Leases — Impact of initial application

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. During the year ended 31 December 2019, application of HKFRS 16 by the Group as a lessor has no material impact on the Group’s consolidated financial statements.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- (iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.
- (iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options; and
- (v) relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by the relevant group entities range from 3.1% to 4.60%.

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<i>RMB'000</i>
Operating lease commitment at 31 December 2018	3,151
Less: total future interest expenses	<u>(202)</u>
Lease liabilities as at 1 January 2019	<u><u>2,949</u></u>
Analysis as:	
Non-current	1,263
Current	<u>1,686</u>
	<u><u>2,949</u></u>

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	<i>Notes</i>	<i>RMB'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	<i>(a)</i>	2,949
Add: Reclassification from prepaid lease payments	<i>(b)</i>	<u>2,195</u>
Leases liability as at 1 January 2019		<u><u>5,144</u></u>
Analysis as:		
Buildings		2,949
Leasehold land		<u>2,195</u>
		<u><u>5,144</u></u>

Notes:

- (a) The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of consolidated financial position at 31 December 2018.
- (b) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately RMB60,000 and approximately RMB2,135,000 respectively were reclassified to right-of-use assets.

3. NEW AND AMENDMENTS TO HKFRSs THAT HAVE BEEN ISSUED BUT NOT YET EFFECTIVE

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

HKAS 1 and HKAS 8 (Amendments)	Definition of Material ¹
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform ¹
HKFRS 3 (Amendments)	Definition of a Business ²
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 17	Insurance Contracts ³

¹ Effective for annual periods beginning on or after 1 January 2020.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for annual periods beginning on or after a date to be determined.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the “Amendments to References to the Conceptual Framework in HKFRS Standards” will be effective for annual periods beginning on or after 1 January 2020.

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

4. OPERATING SEGMENT

The board of directors is the Group’s chief operating decision makers.

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/(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 2019 (2018: Nil).

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	
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Revenue	<u>347,652</u>	<u>455,361</u>	<u>95,990</u>	<u>235,389</u>	<u>443,642</u>	<u>690,750</u>
Segment results	<u>7,076</u>	<u>(52,803)</u>	<u>(201,424)</u>	<u>(228,898)</u>	<u>(194,348)</u>	<u>(281,701)</u>
Unallocated corporate expenses					<u>(12,287)</u>	<u>(25,311)</u>
Unallocated finance costs					<u>(125,588)</u>	<u>(29,263)</u>
Loss before tax					<u>(332,223)</u>	<u>(336,275)</u>
Income tax					<u>5,622</u>	<u>(9,601)</u>
Loss for the year					<u>(326,601)</u>	<u>(345,876)</u>

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

	Paper-based packaging products		Development, distribution and operation of mobile game products		Consolidated	
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Segment assets	470,936	499,187	200,740	399,675	671,676	898,862
Unallocated corporate assets					<u>1,837</u>	<u>1,115</u>
Total assets					<u>673,513</u>	<u>899,977</u>
Segment liabilities	90,669	86,973	9,293	11,969	99,962	98,942
Unallocated corporate liabilities					<u>427,619</u>	<u>322,106</u>
Total liabilities					<u>527,581</u>	<u>421,048</u>

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

Other segment information

For the year ended 31 December 2019

	Paper-based packaging products <i>RMB'000</i> (Unaudited)	Development, distribution and operation of mobile game products <i>RMB'000</i> (Unaudited)	Unallocated <i>RMB'000</i> (Unaudited)	Consolidated <i>RMB'000</i> (Unaudited)
Depreciation of right-of-use assets	(59)	(683)	(762)	(1,504)
Capital expenditure	(212)	—	—	(212)
Depreciation of property, plant and equipment	(1,680)	(57)	(70)	(1,807)
Amortisation of intangible assets	—	(9,594)	—	(9,594)
Allowance for expected credit loss recognised in respect of financial assets carried at amortised cost, net	(1,049)	(138)	—	(1,187)
Gain on disposal of property, plant and equipment	16	—	—	16
Impairment loss on goodwill	—	(105,239)	—	(105,239)
Finance costs	(3,103)	(166)	(125,588)	(128,857)

For the year ended 31 December 2018

	Paper-based packaging products <i>RMB'000</i> (Audited)	Development, distribution and operation of mobile game products <i>RMB'000</i> (Audited)	Unallocated <i>RMB'000</i> (Audited)	Consolidated <i>RMB'000</i> (Audited)
Capital expenditure	(94,967)	(8,000)	(53)	(103,020)
Depreciation of property, plant and equipment	(16,233)	(121)	(48)	(16,402)
Amortisation of intangible assets	—	(5,166)	—	(5,166)
Impairment loss on goodwill	—	(200,609)	—	(200,609)
Change in fair value of derivative financial instruments	—	—	(8,733)	(8,733)
Finance costs	(3,318)	(171)	(29,262)	(32,751)

During the years ended 31 December 2019 and 2018, all revenue is derived from customers in the PRC.

As at 31 December 2019 and 2018, 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 2019, included in development, distribution and operation of mobile game products segment, approximately RMB1,355,000 (2018: RMB17,361,000) revenue arisen from the Group's largest distribution channel for the year ended 31 December 2019. For the year ended 31 December 2019, included in paper-based packaging products segment, approximately RMB16,523,000 (2018: RMB10,446,000) revenue arisen from the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2019 (2018: Nil).

5. 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:

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Revenue recognised at a point in time:		
Sales of paper-based packaging products	347,652	455,361
Revenue recognised over time:		
Development, distribution and operation of mobile game products	<u>95,990</u>	<u>235,389</u>
	<u>443,642</u>	<u>690,750</u>

As at 31 December 2019, the aggregate amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is approximately RMB246,000 (2018: RMB1,310,000) and the Group will recognise this revenue in 2020.

6. OTHER REVENUE

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Sales of residual materials	1,108	2,066
Bank interest income	<u>736</u>	<u>1,298</u>
	<u>1,844</u>	<u>3,364</u>

7. OTHER INCOME

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Government subsidies (<i>Note</i>)	530	1,606
Sundry income	<u>80</u>	<u>4</u>
	<u>610</u>	<u>1,610</u>

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.

8. FINANCE COSTS

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Interest expenses on borrowings	11,326	6,785
Imputed interest on promissory notes	115,340	23,848
Imputed interest on convertible bonds	2,106	2,118
Interest expenses on lease liabilities	<u>85</u>	<u>—</u>
	<u>128,857</u>	<u>32,751</u>

9. LOSS BEFORE TAX

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Staff costs:		
Employee benefit expense (including directors' remuneration):		
Wages and salaries	54,972	66,479
Retirement benefit schemes contributions	5,807	6,922
	<u>60,779</u>	<u>73,401</u>
Other items:		
Cost of inventories sold	295,066	379,202
Depreciation of property, plant and equipment	1,807	16,402
Depreciation of right-of-use assets	1,504	—
Auditors' remuneration		
— Audit service	1,146	1,097
Amortisation of prepaid lease payments	—	60
Amortisation of intangible assets	9,594	5,166
Allowance for expected credit loss recognised in respect of financial assets carried at amortised cost, net	1,187	4,693
Impairment loss on goodwill	105,239	200,609
(Gain)/loss on disposal of property, plant and equipment	(16)	2,364
Minimum lease payments under operating leases of rented premises	—	1,548
Research and development costs	5,482	16,186

10. INCOME TAX

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Current tax		
— The PRC Enterprise Income Tax	1,743	7,365
— (Over)/under provision in prior year	(7,365)	2,236
Total income tax recognised in profit or loss	<u>(5,622)</u>	<u>9,601</u>

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

The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% during the year (2018: 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 2017, HongSheng renewed the qualification of HNTE and entitled to the reduced tax rate of 15% until the year ended 31 December 2019.

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

11. DIVIDENDS

The board of directors does not recommend payment of a final dividend for the years ended 31 December 2019 and 2018.

12. 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

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Loss attributable to the owners of the Company for the purpose of basic loss per share	<u>(326,601)</u>	<u>(345,876)</u>

Number of shares

	2019 <i>'000</i> (Unaudited)	2018 <i>'000</i> (Audited)
Weighted average number of ordinary shares per share	<u>1,377,498</u>	<u>1,361,651</u>

Basic loss per share for the years ended 31 December 2019 and 2018 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 2019 and 2018, the computation of diluted loss per share does not assume the conversion of the Company’s outstanding convertible bonds and the effect of exercise the share options since it would result in an anti-dilutive effect on loss per share.

13. GOODWILL

RMB'000

Cost

At 1 January 2018, 31 December 2018, 1 January 2019 and
31 December 2019 (*Note*) 429,857

Accumulated impairment

At 1 January 2018 —
Impairment loss recognised for the year 200,609

At 31 December 2018 and 1 January 2019 200,609
Impairment loss recognised for the year 105,239

At 31 December 2019 305,848

Carrying amount

At 31 December 2019 (*Unaudited*) 124,009

At 31 December 2018 (*Audited*) 229,248

Note: Goodwill amounted to approximately RMB429,857,000 were arisen from the acquisition of Cable King Group during the year ended 31 December 2016 which are allocated to cash generating unit of development, distribution and operation of mobile game products business segment (“CGU”).

The recoverable amount of Cable King Group as at 31 December 2019 and 2018 has been determined based on value in use calculation. Such calculation is based on 1) profit forecast prepared by Cable King Group’s management covering a five year period and 2) a discount rate of 26.92% (2018: 23.94%) per annum which reflects current market assessment of the time value of money and the credit risk specific to the cash-generating unit. The cash flows beyond five year period are extrapolated using a steady 3% (2018: 3%) growth rate. This growth rate is based on the relevant industry growth forecast and does not exceed the long term average growth rate for the relevant industry. Other key assumptions for the value in use calculations are related to the estimation of cash inflows/outflows which include budgeted sales with a compound average growth rate of 3% and stable gross margin, such estimation is based on the CGU’s past performance and its management’s expectations for the market development.

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

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

Based on the valuation report issued by an independent professional valuer, the carrying amount of the CGU exceeds its recoverable amount and an impairment loss of approximately RMB105,239,000 (2018: RMB200,609,000) was provided during the year.

14. TRADE RECEIVABLES

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Trade receivables	71,198	61,754
Less: Allowance for credit losses	<u>(231)</u>	<u>(105)</u>
	<u>70,967</u>	<u>61,649</u>

The following is an analysis of trade receivables by age, presented based on the invoice date. The analysis below is net of allowance for credit losses:

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
0–30 days	30,484	26,465
31–60 days	29,188	26,607
61–90 days	10,683	8,577
91–180 days	581	—
181–365 days	<u>31</u>	<u>—</u>
	<u>70,967</u>	<u>61,649</u>

15. TRADE, OTHER PAYABLES AND ACCRUALS

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Trade payables	36,126	31,512
Accruals	164,344	27,920
Other payables	922	922
	<u>201,392</u>	<u>60,354</u>

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

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
0–30 days	17,777	15,785
31–60 days	18,349	15,727
61–90 days	—	—
91–180 days	—	—
	<u>36,126</u>	<u>31,512</u>

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.

16. EVENTS AFTER THE REPORTING PERIOD

a) Impact of COVID-19 on the Group

Since January 2020, the outbreak of Novel Coronavirus (“COVID-19”) has impact on the global business environment. Up to the date of this announcement, COVID-19 has not resulted in material impact to the Group. Amid the development and spread of COVID-19 subsequent to the date of this announcement, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

17. COMPARATIVES

The Group has initially applied HKFRS 16 at 1 January 2019. Under the transition methods design, comparative information is not restated.

Certain comparative figure have been reclassified to conform with current year presentation as detailed in Note 2.

BUSINESS REVIEW

The Group is currently engaged in two business segments, (i) mobile game business and (ii) packaging business. In its mobile game business, the Group offers free-to-play mobile, browser and client-based online games. In its packaging business, the Group manufactures and sells paper-based packaging products with operation in Jiangxi Province in the PRC. Our products are generally 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.

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. 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. Policy wise, laws and regulations regulating the industry may continue to develop, which may make it difficult for the Group to obtain applicable permits and approvals in a timeline it expects, for example, the games industry in China was disrupted in 2018 leading to a sudden halt in the licensing of new games. New policies were also proposed to limit the number of new games available at the market and to restrict children's daily time spent on electronic devices.

To achieve business growth, a mobile game business must retain and expand its gamer base. Several of 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.

Although licensing procedures were resumed in December 2018, it inevitably slowed down the overall licensing progress. In addition, the Group's existing games are primarily based on Chinese legends such as the Journey to the West, the Three Kingdoms, etc. With new policy proposed to limit the number of new games available at the market and the similarity in game designs, the Group's game segment took a hard hit.

Specifically, the Group has officially launched a new mobile game "Heroes of Chaos (亂世群英傳)" in January 2019, a H5 game "Myths (天旗)" in February 2019, an updated version of "Legend of the Journey to the West (大聖傳說)" in March 2019, as well as a new licensed game "Hongyanjue (紅顏決)".

As a result of the combined factors outlined above, the revenue decreased sharply as compared to previous year. The revenue from mobile game segment was approximately RMB96.0 million, representing a year on year decline of 59.2% and comprising approximately 21.6% of the total revenue of the Group.

The Group will make efforts to review its strategies and resources with a view to turning around the business.

Packaging business

On the demand side, with the continuing effects of the intense tariffs levied upon China from the recent US-China Trade War, previously export-oriented packaging peers have been exploring ways to utilise their idle capacity by entering into the domestic market. As a result, the competition in the already competitive domestic packaging industry was further intensified during the year. The Group was inevitably impacted, leading to lower demand from some customers and lower profit margin for its packaging products.

On the supply side, the Chinese government continued to promote economic and environmental development reforms and strictly implement environmental protection regulations. It has strengthened control over the reduction in volume of imported waste paper and strictly implement environmental protection regulations in the domestic paper industry by aggressive removal of the outdated production capacities. This has led to a tightened supply of imported waste paper and domestically produced 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, the Group recorded a shrinkage in both revenue and profit. The Group recorded a sales volume of approximately 77.2 million square meters, representing a year on year decline of 30.1%, as compared to 110.4 million square meters last year. The Group's revenue from the packaging segment was approximately RMB347.7 million, representing a year on year decline of 23.7% with the gross profit margin dropped from 16.7% in 2018 to 15.1% this year.

FINANCIAL REVIEW

The revenue for the year ended 31 December 2019 was approximately RMB443.6 million, representing a decrease of approximately RMB247.2 million or approximately 35.8% as compared to that of approximately RMB690.8 million in 2018. The decrease in revenue was attributable to (i) decrease of 23.7% in revenue from our packaging segment; and (ii) sharp plunge of 59.2% 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

	2019		2018	
	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>
Flexo-printed cartons	128,169	28.9%	195,594	28.3
Offset-printed cartons				
— Traditional paper-based cartons	93,641	21.1%	111,316	16.1
— Stone-paper based cartons	125,842	28.4%	148,451	21.5
Sub-total	219,483	49.5%	259,767	37.6
Packaging segment	347,652	78.4%	455,361	65.9
Mobile game segment	95,990	21.6%	235,389	34.1
Total	443,642	100.0%	690,750	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 2019 was approximately RMB128.2 million (2018: approximately RMB195.6 million), which accounted for 28.9% (2018: approximately 28.3%) 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 2019 was approximately RMB219.5 million (2018: approximately RMB259.8 million), which accounted for approximately 49.5% (2018: approximately 37.6%) of our total revenue. The decrease in revenue was mainly due to the decrease in sales of both traditional paper-based cartons and stone-paper based cartons resulted from the overall challenging market environment.

Revenue by product categories of our customers (Packaging segment)

	2019		2018	
	RMB'000	%	RMB'000	%
Food and beverage	96,048	27.6%	140,810	30.9
Glass and ceramics articles	8,612	2.5%	41,870	9.2
Metal hardware and chemical products	47,615	13.7%	52,374	11.5
Bamboo articles	7,044	2.0%	11,996	2.6
Department stores	62,436	18.0%	79,431	17.5
Others (<i>Note</i>)	125,897	36.2%	128,880	28.3
Total	<u>347,652</u>	<u>100.00%</u>	<u>455,361</u>	<u>100.0</u>

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 2019, revenue from food and beverage manufacturers was approximately RMB96.0 million (2018: 140.8 million), representing approximately 27.6% (2018: 30.9%) of the revenue of packaging segment.

Mobile game segment

During the year ended 31 December 2019, revenue from mobile game segment was approximately RMB96.0 million (2018: RMB235.4 million), accounting for approximately 21.6% of the total revenue (2018: 34.1%). The significant decrease in revenue contributed by the mobile game segment was mainly attributable to (i) the significant shrinking of contribution from some of the existing games when they enter into the recession stage; and (ii) the contribution of the new games yet to shore up.

Revenue by games (Mobile game segment)

	2019		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Legend of the Journey to the West (大聖傳說) & updated version Chinese Odyssey (大話西遊)	2,438	2.5%	14,288	6.1
Heroes of the Imperial Empire (帝國英雄)	—	—	3,883	1.6
Legend of the Reign of the Assassins (劍雨傳說)	—	—	46,183	19.6
Swordsman (七絕)	18,701	19.5%	69,688	29.6
War of Heroes (天天打魔獸)	20,495	21.4%	55,065	23.4
Hammer of Odin (奧丁之錘)	20,757	21.6%	43,889	18.7
Heroes of Chaos (亂世群英傳)	16,637	17.3%	—	—
Myths (天旗)	10,323	10.8%	—	—
Hongyanjue (紅顏決)	6,553	6.8%	—	—
Others*	86	0.1%	2,393	1.0
Total	<u>95,990</u>	<u>100.0%</u>	<u>235,389</u>	<u>100.0</u>

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

	2019		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Self-developed games	48,099	50.1	177,931	75.6
Licensed games	47,891	49.9	57,458	24.4
Total	<u>95,990</u>	<u>100</u>	<u>235,389</u>	<u>100.0</u>

GROSS PROFIT AND GROSS PROFIT MARGIN

	2019		2018	
	<i>RMB'000</i>	<i>GP margin (%)</i>	<i>RMB'000</i>	<i>GP margin (%)</i>
Flexo-printed cartons	<u>12,630</u>	<u>9.9%</u>	<u>25,878</u>	<u>13.2</u>
Offset-printed cartons				
— Traditional paper-based cartons	<u>12,045</u>	<u>12.9%</u>	<u>15,060</u>	<u>13.5</u>
— Stone paper based cartons	<u>27,911</u>	<u>22.2%</u>	<u>35,221</u>	<u>23.7</u>
Sub-total	<u>39,956</u>	<u>18.2%</u>	<u>50,281</u>	<u>19.4</u>
Packaging segment	<u>52,586</u>	<u>15.1%</u>	<u>76,159</u>	<u>16.7</u>
Mobile game segment	<u>47,399</u>	<u>49.4%</u>	<u>89,487</u>	<u>38.0</u>
Total	<u><u>99,985</u></u>	<u><u>22.5%</u></u>	<u><u>165,646</u></u>	<u><u>24.0</u></u>

The overall gross profit for the Group for the year ended 31 December 2019 was approximately RMB100.0 million, representing a decline in 39.6% or approximately RMB65.7 million as compared to approximately RMB165.6 million in 2018. Overall gross profit margin decreased from approximately 24.0% in 2018 to approximately 22.5% in 2019. 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 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 2019 was approximately RMB12.6 million, representing a decrease of 51.2% as compared to approximately RMB25.9 million in 2018. Gross profit margin decreased from 13.2% in 2018 to 9.9% in 2019. The sharp decrease in the gross profit was due to the combined effect of sharp 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 2019 was approximately RMB40 million, representing a decrease of 20.5% as compared to approximately RMB50.3 million in 2018. The gross profit margin of offset-printed cartons decreased to 18.2% in 2019 from 19.4% in 2018. 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 only a small decrease in a gross profit margin.

The gross profit from our mobile game segment for the year ended 31 December 2019 was approximately RMB47.4 million, representing a decline in approximately 47.1% as compared to approximately RMB89.5 million in 2018. The gross profit margin increased to approximately 49.4% for the year ended 31 December 2019 from approximately 38% in 2018. The deterioration in gross profit was mainly attributable to the sharp decrease in revenue. The improvement in gross margin is primarily because a higher proportion of games were run on the Group's self-operating platform in 2019, which enabled the Group to enjoy higher margin than if jointly run with or independently run on third party platforms.

OTHER REVENUE AND INCOME

Other revenue and income of the Group decreased by 50% or approximately RMB2.5 million from approximately RMB5.0 million in 2018 to approximately RMB2.5 million in 2019. The decrease was mainly due to the reduction in government subsidy granted for the development of software and information service during the year and reduction in sales of residual materials.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group decreased by 17.4% or approximately RMB30.1 million, from approximately RMB172.6 million in 2018 to approximately RMB142.5 million in 2019. The decrease was mainly due to the reduction in the incurred marketing expenses for the Group's stone paper products in the packaging segment for the period under review.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group decreased by 42.3% or approximately RMB34.7 million from approximately RMB82.0 million in 2018 to approximately RMB47.3 million in 2019. The decrease was primarily because the Group has strictly controlled various expenditures during the period under review. Consequently, the administrative expenses as a percentage of our total turnover decreased to approximately 10.7% for 2019 as compared to approximately 11.9% for 2018.

CHANGE IN FAIR VALUE OF CONTINGENT CONSIDERATION PAYABLE

There was no contingent consideration payable for the year ended 31 December 2018.

IMPAIRMENT OF GOODWILL

The Group has recognised impairment loss on goodwill of Cable King Group of approximately RMB105.2 million for the year ended 31 December 2019. During the year ended 31 December 2019, the Cable King Group's performance was not in line with previous expectation mainly due to (i) underperformance of existing games when several of them entered into the recession stage of their respective life cycle; and (ii) revenue from new games yet to shore up.

Value-in-use Approach

The value-in-use (“VIU”) method of discounted cash flow was adopted for the calculation of the recoverable amount of the Cable King Group cash-generating unit (“CGU”). In accordance with Hong Kong Accounting Standard 36 Impairment of Assets, a CGU to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the CGU may be impaired, by comparing its carrying amount, including the goodwill, with its recoverable amount (i.e. the higher of the VIU or the fair value less costs of disposal). The basis of fair value less costs of disposal was not adopted because there is no reasonable basis for making a reliable estimate of the price at which an orderly transaction to sell the CGU would take place between market participants at the measurement date under the then prevailing market condition. In addition, costs of disposal of the CGU may vary on a case-by-case basis and such information could not be easily measured. As such, VIU was used as the recoverable amount of the CGU. Such calculation is based on (i) profit forecast prepared by Cable King Group’s management covering a five year period and (ii) a discount rate of 26.92% per annum which reflects current market assessment of the time value of money and the credit risk specific to the CGU. Profit forecast was prepared based on budgeted income and budgeted cost of sales during the budgeted period. Budgeted gross margins were determined based on management’s expectation for future market development and past experience, and the management believes the forecast reflects their best knowledge of the Cable King Group. The VIU method of discounted cash flow has been consistently applied in the valuation on the CGU since 2016. The Group engaged the external professional independent valuers to perform the valuations of the CGU of the Cable King Group as at 31 December 2018 and 2019.

Details of the Value of the Inputs and Key Assumptions

The key assumptions used in the VIU calculations are those regarding the discount rates, budgeted income during the period and growth rates.

The Weighted Average Cost of Capital (“WACC”) was adopted as the discount rate for the valuation. The WACC comprises two components: the cost of equity and the cost of debt. The cost of equity of 26.17% was estimated by the Capital Asset Pricing Model, with consideration of company-specific risk premium of 8.00% which represented the premium for additional risks associated with the operation of CGU and a size premium of 5.22% which considered the small size of CGU. The post-tax cost of debt of 3.7% was determined by the expected borrowing rate of CGU in the PRC, with a tax rate of 25%. The capital structure of the market comparable companies was also taken into account in determining the WACC. The weight of debt of 12.7% was determined by the average of the weights of debt of the comparable companies assuming that the weight of debt of CGU moves toward that of the average of the comparable companies over time. Accordingly, the weight of equity of 87.3% was adopted. As a result, the discount rates of CGU were calculated as 26.92% and as 23.94% for the years ended 31 December 2019 and 2018 respectively.

The growth rate used to extrapolate the cash flows of the relevant games beyond the five year periods was 3% which was the same as that previously adopted. This growth rate is based on the relevant industry growth forecast and does not exceed the long term average growth rate for the relevant industry. There were no significant changes in the value of the inputs and assumptions adopted in the preparation of the projected cash flows in 2019 as compared with those adopted in 2018, except for the estimate of budgeted sales and budget costs. Due to the uncertainties faced by the Group, the management of the Group revised the forecast in a more prudent manner which resulted in the decrease in the recoverable amount of the Cable King Group CGU.

FINANCE COSTS

Finance costs of the Group increased substantially to approximately RMB128.9 million in 2019 as compared to approximately RMB32.8 million in 2018, representing an increase of RMB96.1 million. Promissory Note 1, Promissory Note 3 and Convertible Bond 2 with outstanding principal amount of HK\$40,000,000, HK\$120,000,000 and HK\$6,666,667, respectively, matured On 20 May 2019. In accordance with the agreements thereof, default interest will be accrued on the outstanding principal such that the total payable by the Company shall be the sum of the outstanding principal and such amount as would result in an internal rate of return of 22% per annum on the outstanding principal. The Group's finance costs increased sharply for the period under review primarily due to such interest accrued as a result.

The Company has kept on discussing with the Noteholder and the Convertible Bond Holder (together "Lender") with a view to reaching a settlement on this matter. Further announcement(s) will be made as and when appropriate in accordance with the Listing Rules.

INCOME TAX

Income tax of the Group decreased by 158.3% or approximately RMB15.2 million from income tax expenses of approximately RMB9.6 million in 2018 to income tax credit approximately RMB5.6 million in 2019. The decrease was consistent to the decrease in taxable profit. Both of our packaging and mobile game segment were qualified as High and New Technology Enterprises and entitled to a preferential income tax rate of 15%.

LOSS FOR THE YEAR

As a combined result of the factors discussed above, the Group's net loss for 2019 was approximately RMB326.6 million as compared to a net loss of approximately RMB345.9 million for the previous year.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation with internal resources, borrowings, promissory notes and convertible bonds. As at 31 December 2019, cash and bank balances amounted to approximately RMB179.1 million (2018: RMB268.3 million), primarily denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings amounted to approximately RMB324.4 million (2018: RMB359.4 million). As at 31 December 2019, 14.8% (2018: 14.2%) of the total borrowings were denominated in Renminbi and 85.2% (2018: 85.8%) of the total borrowings were denominated in Hong Kong Dollars. The Group's gearing ratio is calculated as total borrowings, which is the summation of bank borrowings, promissory note and convertible bonds, divided by total equity. The gearing ratio of the Group as at 31 December 2019 and 2018 were 222% and 75.0% respectively.

The promissory notes and convertible bond with outstanding principal amount of HK\$40,000,000, HK\$120,000,000 and HK\$6,666,667, respectively, matured On 20 May 2019. The Company has kept on discussing with the Lender with a view to reaching a settlement on this matter. Further announcement(s) will be made as and when appropriate in accordance with the Listing Rules.

INVENTORIES

As at 31 December 2019, inventories amounted to approximately RMB52.9 million (2018: RMB42.3 million). The number of inventory turnover days was approximately 59 days (2018: 35 days).

TRADE RECEIVABLES

As at 31 December 2019, trade receivables amounted to approximately RMB71.0 million (2018: RMB61.6 million). The Group granted customers from our packaging segment a credit period of 30 to 90 days following the day of delivery. The number of turnover days for trade receivables was approximately 55 days (2018: 53 days).

TRADE PAYABLES

As at 31 December 2019, trade payables amounted to approximately RMB36.1 million (2018: RMB31.5 million). The Group managed to obtain a credit period of an average of approximately 60 days from the majority of its suppliers. The turnover day for trade payables was approximately 36 days (2018: 38 days).

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC while most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year ended 31 December 2019.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group's capital commitments were approximately RMB60.0 million (2018: RMB60.0 million). The capital commitments were mainly related to capital contribution payable to a subsidiary.

CONTINGENT CONSIDERATION AND LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December 2019, the Group pledged certain assets with a carrying value of approximately RMB98.7 million (2018: RMB78.3 million) as collateral for the Group's bank borrowings.

INFORMATION ON EMPLOYEES

As at 31 December 2019, the Group had a total of 586 full time employees, including the Executive Directors (2018: 729). Total staff costs (including Directors' emoluments) were approximately RMB60.8 million, as compared to approximately RMB73.4 million for the year ended 31 December 2018.

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

OUTLOOK

Mobile game segment

Going forward, the Group will continue to review the mobile game market and take actions accordingly.

Strategically, the Group will make efforts to sharpen its market acumen and formulate game development plans based on deeper understanding of evolving gamer preferences and market trends, so as to effectively launch new games, upgrade game versions, launch new game functions or adjust distribution strategies.

Technically, the Group will strive to enhance product technologies and enrich the graphics, design, and content of its self-developed games, in an effort to retain existing gamers and attract new gamers.

On operational efficiency, the Group will continue to optimize operating costs in this segment with an aim to achieve better operational results.

Packaging segment

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

Despite the challenging commercial environment created by the US-China Trade War, 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.

At the same time, the Group will continue to take various cost control measures through prudent inventories and procurement management and stringent credit control and financial management, 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.

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 2019, the number of shares in respect of which had been granted and remained outstanding under the Share Option Scheme was nil (2018: nil).

The following table disclosed movements in the Company's share options granted under the Share Option Scheme during the year ended 31 December 2018:

Name and Category of grantees	Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price per share HK\$	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding at end of the year
Employees	24/04/15	24/04/15 to 23/04/18	1.09	20,000,000	—	20,000,000	—	—
	24/04/15	24/04/16 to 23/04/18	1.09	20,000,000	—	20,000,000	—	—
				<u>40,000,000</u>	<u>—</u>	<u>40,000,000</u>	<u>—</u>	<u>—</u>

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company has adopted the Code Provisions in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board confirms that, save as disclosed below, the Company has complied with the CG Code throughout the year ended 31 December 2019.

CG CODE PROVISION A.2.1

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". 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 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. 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.

The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstance arise.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, with Mr. Ma Yiu Ho, Peter as the chairman. Other two members are Mr. Liu Da Jin and Mr. Wu Ping. Mr. Ma Yiu Ho, Peter, the chairman of the Company’s Audit Committee, has considerable experience in accounting and financial management, which is in line with the requirement of Rule 3.10(2) of the Listing Rules. 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 and risk management systems of the Company.

The Audit Committee has reviewed the unaudited consolidated management accounts for the year ended 31 December 2019, including the accounting principles and practices adopted by the Company and the Group, and this preliminary announcement of the Group’s unaudited annual results for the year ended 31 December 2019. The Audit Committee has no disagreement on the contents contained in this announcement.

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This preliminary results announcement is required to be published on the websites of the Stock Exchange at www.hkexnews.hk under “Latest Listed Company Information” and the designated website of the Company at <http://www.hs-pack.com.cn>.

PUBLICATION OF FURTHER ANNOUNCEMENT(S) AND ANNUAL REPORT

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to the COVID-19 coronavirus outbreak.

Following completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the accounting adjustment or material differences (if any) as compared with the unaudited annual results contained herein, and (ii) the proposed convention date, book closure period and record date of the 2020 AGM. The 2019 annual report will be published on the websites of the Stock Exchange and the Company website and also be dispatched to the Shareholders in due course.

The financial information contained in this announcement in respect of the annual results of the Group has not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Mobile Internet (China) Holdings Limited
Chen Hong Cai
Chairman

Jiangxi Province, the PRC, 31 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. Chen Hong Cai (Chairman), Mr. Sun Shao Hua and Ms. Zheng Li Fang; and the independent non-executive directors of the Company are Mr. Liu Da Jin, Mr. Ma Yiu Ho, Peter and Mr. Wu Ping.