

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 2019



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Corporate Profile

Mobile Internet (China) Holdings Limited (“Mobile Internet” or the “Group”) is a leading innovator in mobile game and packaging. The Group has a vision to transform itself from traditional packaging business to be at the forefront of the rise of Chinese consumerism – mobile game business, actively expands and leverages its business in the field of Internet technology and related to bring highest return to stockholders. After successfully acquired Cable King Limited, a mobile game developer based in the silicon-valley of China, Xiamen in 2016, the Group registered a significant performance in the field of the game industry. Mobile Internet is engaged in two major business segments: the mobile game segment based in Xiamen and the packaging segment based in Jiangxi. The Group was successfully listed on the Hong Kong Stock Exchange in 2014 with a stock code of 1439.

Mobile Internet has a track record of delivering innovative and industry-leading products and will continue this culture after the acquisition of the mobile game business. The Group has consistently adhered to the strategy of self-developing mobile games and browser games while also enhancing cooperation with diverse game platforms.

In packaging segment, apart from the paper-based packaging products, the Group partnered with Wuhan University to develop its proprietary stone-paper packaging products that are environmentally friendly, ultra-durable, waterproof and fireproof as well as easy to write on.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Hong Cai (*Chairman*)
Mr. Sun Shao Hua
Ms. Zheng Li Fang

Independent Non-executive Directors

Mr. Liu Da Jin
Mr. Ma Yiu Ho, Peter
Mr. Wu Ping

BOARD COMMITTEES

Audit Committee

Mr. Ma Yiu Ho, Peter (*Chairman*)
Mr. Liu Da Jin
Mr. Wu Ping

Remuneration Committee

Mr. Liu Da Jin (*Chairman*)
Mr. Wu Ping
Mr. Sun Shao Hua

Nomination Committee

Mr. Chen Hong Cai (*Chairman*)
Mr. Liu Da Jin
Mr. Wu Ping

COMPANY SECRETARY

Mr. Tsang Ho Yin

AUTHORISED REPRESENTATIVES

Mr. Sun Shao Hua
Mr. Tsang Ho Yin

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISER

TC & Co.

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2604, 26th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

STOCK CODE

01439

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

COMPANY'S WEBSITE

www.hs-pack.com.cn

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chen Hong Cai (陳宏才), aged 46, 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.

Ms. Zheng Li Fang (鄭麗芳), aged 35, was appointed as an Executive Director of our Company on 18 March 2016. She is responsible for overseeing the operation, market and business development of the mobile game segment of our Group. Ms. Zheng graduated from the Fuzhou University (福州大學) with a Bachelor Degree in Enterprise Management in 2008. Prior to joining the Group, Ms. Zheng served as a general manager of the Xiamen Dahei Technology Co. Ltd. (廈門大黑科技有限公司) from 2013 to 2015. Before that, she served as an assistant president in the Gamewave Interactive (Xiamen) Technology Co. Ltd. (趣遊(廈門)科技有限公司) from 2009 to 2013.

Mr. Sun Shao Hua (孫少華), aged 48, is our founder and Executive Director. He was appointed on 13 December 2013. Mr. Sun is primarily responsible for the overall operation, strategic planning and business development of our Group. Mr. Sun has more than 15 years of experience in the packaging industry and corporate management. Mr. Sun established the business of our Group in 2006 and has been heading the Group since its incorporation. Mr. Sun was previously the standing director of the 7th China Packaging Federation Council (中國包裝聯合會第七屆理事會) in 2011. Mr. Sun was awarded the 5th Lake Poyang Printing Development Contribution Award (第五屆鄱陽湖(鴻聖)杯印刷發展貢獻獎) by the Association of Printing and Copying Industry in Jiangxi Province (江西省印刷複製業協會) in December 2011.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Da Jin (劉大進), aged 54, was appointed as an Independent Non-executive Director on 13 December 2013. Mr. Liu is also a member of the Audit Committee and the Nomination Committee and the chairman of the Remuneration Committee. Mr. Liu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since June 1996. He has also been the consultant of the Xiamen City Economic Management Consultancy Association (廈門市經濟管理諮詢協會) since August 2008 and the council member of the Xiamen City Accounting Association (廈門市會計學會) since March 2005. Mr. Liu graduated from the Central University of Finance and Economics (中央財經大學) (originally named Central Institute of Finance and Banking 中央財政金融學院) in June 1989, majoring in accounting. He then obtained a postgraduate certificate from the Xiamen University Postgraduate School in September 1992. Mr. Liu worked as a teaching assistant at Jimei Finance and Economics School (集美財經學校) from August 1984 to August 1987. Mr. Liu then served as the deputy director and instructor at the Department of Financial Management at Jimei College of Finance (集美財政專科學校) from July 1989 to August 1995. Mr. Liu worked as a certified accountant at the Xiamen Jiyou Accounting Firm (廈門集友會計師事務所) from June 1995 to May 1999. Mr. Liu worked in various faculties of the Jimei University (集美大學) since September 1995 and is currently the Dean of management department of Chengyi University College (誠毅學院). On 12 July 2018, Mr. Liu was also appointed as a professor of the Faculty of Management of the Chengyi University College, Jimei University (集美大學誠毅學院). Mr. Liu has been an independent non-executive director of China Shenghai Food Holdings Limited (stock code: 1676) since 22 June 2017, the shares of which are listed on the Stock Exchange.

Biographical Details of Directors and Senior Management

Mr. Ma Yiu Ho, Peter (馬遙豪), aged 55, was appointed as an Independent Non-executive Director on 13 December 2013. He is also the chairman of the Audit Committee. Mr. Ma is currently the financial controller of the Chyau Fwu Properties Limited, a company principally engaged in property development and hospitality. He has been a member of the Hong Kong Institute of Certified Public Accountants since February 1990 and a fellow member of the Association of Chartered Certified Accountants (UK) since April 1994. Mr. Ma obtained a Master Degree of Business Administration from the Hong Kong University of Science and Technology in November 1995. He is also a member of the Hong Kong Institute of Directors since December 2015. He has over 20 years of experience in the finance and accounting field and was the financial controller and company secretary of The Hong Kong Parkview Group Limited (now named as Joy City Property Limited, stock code: 207) and the financial controller of VODone Limited (now named as V1 Group Limited, stock code: 82), shares of these two companies are listed on the Stock Exchange. He had also served as the chief financial officer of Superior Fastening Technology Limited, a Singapore listed company. Mr. Ma had also worked for the Standard Chartered Equitor Trustee HK Limited and the Hong Kong Government's Audit Department. He was an independent non-executive director of the China Ocean Fishing Holdings Limited (formerly known as Sky Forever Supply Chain Management Group Limited) (stock code: 8047) from July 2014 to May 2015, Huisheng International Holdings Limited (stock code: 1340) from February 2014 to July 2017 and Convoy Global Holdings Limited (formerly known as Convoy Financial Holdings Limited) (stock code: 1019) from March 2010 to July 2018. He is currently and has been an independent non-executive director and chairman of the audit committee of TEM Holdings Limited (stock code: 8346) since 20 April 2016, Royal Catering Group Holdings Company Limited (stock code: 8300) since 21 July 2016 and Indigo Star Holdings Limited (stock code: 8373) since 24 October 2017. The shares of these six companies are listed on the Stock Exchange.

Mr. Wu Ping (吳平), aged 57, was appointed as an Independent Non-executive Director on 13 December 2013. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration 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.

SENIOR MANAGEMENT

Mr. Lv Hanbing (呂寒冰), aged 38, joined the Group in April 2016 as the Chief Technical Officer. He is responsible for leading the game development team of the Group. In 2004, he graduated in the University of Electronic Science and Technology of China (電子科技大學) with a Bachelor Degree in Computer Science. He was appointed by Microsoft as the Honorable Community Star (社區之星) and was qualified with Oracle and SCJP accreditation. He has over 10 years of experience in information technology industry. Mr. Lv resigned in March 2020.

Mr. Bai Rui Xiang (白瑞祥), aged 37, joined the Group in 2015 and was appointed as the Director of Research and Development in November 2019. He is responsible for the research, development and design of the Group. In 2000, he graduated from Mudan Vocational High School of Agriculture. He has over 10 years of experience in the design industry.

Mr. Tsang Ho Yin (曾浩賢), aged 34, is the Company Secretary of the Company. Mr. Tsang is currently a senior associate of Stevenson, Wong & Co, specialising in corporate finance and commercial law. Mr. Tsang has been appointed as the independent non-executive Director of Inno-Tech Holdings Limited (stock code: 8202) since June 2019; the non-executive Director of China Regenerative Medicine International Limited (stock code: 8158) since January 2020. Mr. Tsang has been appointed as the Joint Company Secretary of Mabpharm Limited-B (stock code: 2181) and Sunshine 100 China Holdings Ltd (stock code: 2608) since May 2019 and November 2019, respectively. Mr. Tsang was appointed as the Company Secretary of Sino Energy International Holdings Group Limited (stock code: 1096) from November 2018 to July 2019; the Company Secretary of Moody Technology Holdings Limited (stock code: 1400) from January 2019 to November 2019.

Mr. Tsang obtained a bachelor degree in laws and commerce (accounting) from University of Melbourne, Australia in August 2008 and then obtained a master degree in laws from the same university. Mr. Tsang then obtained the Postgraduate Certificate in Laws from the City University of Hong Kong in July 2011. Mr. Tsang was admitted as a solicitor in Australia and Hong Kong in May 2012 and December 2013, respectively.

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 2019.

2019 was a challenging year for us. For our mobile game business, laws and regulations governing the industry continued to evolve, and new policies were proposed to limit the number of new games available at the market. The industry also sees dominant players with substantial financial and technical resources and superior at capturing market preferences and trends. For our packaging business, the on-going US-China trade war has significantly weakened China's economy as a whole. The uncertainty in the future continues to curtail the production and trade activities of market players. While the overall market is weighed down, previously export-oriented peers continue to enter into the domestic market, leading to more intense competition in the domestic packaging industry.

As a result, 2019 saw decrease in both the revenue and profit for both of our mobile game business and packaging business. Consequently, the Group's revenue for 2019 was approximately RMB443.6 million, representing a year on year decline of 35.8%. The Group's net loss attributable to owners of the Company for 2019 was approximately RMB441.3 million.

Looking forward, the Chinese government is likely to launch economic easing measures that should help drive consumption. However, whether the US-China trade war will have further impact on the Chinese economy and our business remains to be seen. We will continue to focus on the development of our core businesses, while actively exploring new opportunities.

The outbreak of the COVID-19 pandemic has led to the supply-and-demand imbalance of medical and personal protective gear in China as well as globally. In the long term, the epidemic will raise people's awareness of hygiene habits, resulting in protective gear becoming must-have items. For this reason, we have officially entered into the protective gear market. We have launched our medical mask production with a daily production capacity of 200,000 pieces of surgical masks and 40,000 pieces of KN95 masks. Production of protective clothing, respirator masks and others will follow. Our protective gear business is gradually taking shape, and we trust that it will achieve a bright future for us.

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 2019. 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, 15 June 2020

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 deviation from code provision A.2.1 (see section "Chairman and Chief Executive" below), 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

The Board members during the year ended 31 December 2019 and up to the date of this report are as follows:

Executive Directors:

Mr. Chen Hong Cai	(appointed on 17 January 2018) Chairman of the Board and Nomination Committee
Mr. Sun Shao Hua	Member of the Remuneration Committee
Ms. Zheng Li Fang	

Independent Non-Executive Directors:

Mr. Liu Da Jin	Chairman of the Remuneration Committee and Member of the Audit Committee and Nomination Committee
Mr. Wu Ping	Member of the Nomination Committee, Audit Committee and Remuneration Committee
Mr. Ma Yiu Ho, Peter	Chairman of the Audit Committee

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

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.

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 2019, eight 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

Our executive Directors Mr. Sun Shao Hua and Ms. Zheng Li Fang have renewed their service contracts with the Company for a period of three years commencing 13 December 2017 and 18 March 2019 respectively. Mr. Chen Hong Cai has entered into a service contract with the Company for a period of three years commencing 15 January 2018. All of their appointments 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 been re-appointed for a term of three years commencing from 13 December 2019, 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. Sun Shao Hua and Mr. Liu Da Jin will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

Training Induction and Continuing Development of Directors

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

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

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Directors have provided to the Company their records of continuous professional development during the year ended 31 December 2019.

During the year ended 31 December 2019, 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 2019.

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 consists of three independent non-executive Directors, namely Mr. Ma Yiu Ho, Peter (Chairman), Mr. Liu Da Jin and Mr. Wu Ping. 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 2019 and the interim financial statements for the six months ended 30 June 2019, including the accounting principles and practices adopted by the Company and the Group.

The Audit Committee held two meetings during the year ended 31 December 2019, of which all meetings with external auditors' presence, and all members of the Audit Committee attended the meetings. At the meetings, it reviewed the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors. No major issue on the internal control system of the Group has been identified.

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

Remuneration Committee

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

For the year ended 31 December 2019, one meeting were held and all members attended the meetings.

Corporate Governance Report

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 consists of two independent non-executive Directors, namely Mr. Liu Da Jin and Mr. Wu Ping and one executive director, namely Mr. Chen Hong Cai (Chairman).

The Nomination Committee held one meeting during the year ended 31 December 2019 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 2019 is set out in the table below:

	Meeting attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Chen Hong Cai (appointed on 17 January 2018)	6/6	N/A	N/A	1/1
Sun Shao Hua	6/6	N/A	1/1	N/A
Zheng Li Fang	6/6	N/A	N/A	N/A
Independent non-executive Directors				
Liu Da Jin	6/6	2/2	1/1	1/1
Wu Ping	6/6	2/2	1/1	1/1
Ma Yiu Ho, Peter	6/6	2/2	N/A	N/A

(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 2019 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 2019, the analysis of the remuneration payable to the external auditor of the Company, HLB Hodgson Impey Cheng Limited, in respect of audit services and non-audit services is set out below:

	Amount (RMB'000)
Audit services	1,146
Non-audit services	—
Total	1,146

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

The Company Secretary, Mr. Tsang Ho Yin, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed. The biographical details of Mr. Tsang is set out in the section headed "Biographical Details of Directors and Senior Management". For the year ended 31 December 2019, Mr. Tsang 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 info@hs-pack.com or by phone at 852-3468 3666 or directly by raising questions at the general meeting of the Company. Shareholder(s) holding not less than one-tenth of the Company's paid up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office and addressing to the Company Secretary at the Company's principal place of business in Hong Kong. The extraordinary general meeting will be held within 2 months after the deposition of such requisition.

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

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

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

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

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

Constitutional Documents

There was no change in the constitutional documents of the Company during the year ended 31 December 2019.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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	
	RMB'000	% of Total	RMB'000	% of Total
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.

Management Discussion and Analysis

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 (Note)	125,897	36.2%	128,880	28.3
Total	347,652	100.00%	455,361	100.0

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

The Group's main customers are manufacturers of food and beverage in the PRC. For the year ended 31 December 2019, revenue from food and beverage manufacturers was approximately RMB96.0 million (2018: RMB140.8 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.

Management Discussion and Analysis

Revenue by games (Mobile game segment)

	2019		2018	
	RMB'000	%	RMB'000	%
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	95,990	100.0%	235,389	100.0

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

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

Management Discussion and Analysis

GROSS PROFIT AND GROSS PROFIT MARGIN

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

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 47.0% 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.

Management Discussion and Analysis

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.

IMPAIRMENT OF GOODWILL

The Group has recognised impairment loss on goodwill of Cable King Group of approximately RMB217.2 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 25.02% 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.

Management Discussion and Analysis

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 23.67% 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 5.55% 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 25.02% 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 RMB131.0 million in 2019 as compared to approximately RMB32.8 million in 2018, representing an increase of RMB98.2 million. Promissory Note 1, Promissory Note 3 and Convertible Bond 2 with outstanding principal amount of approximately HK\$40,000,000, HK\$120,000,000 and HK\$6,667,000, respectively, matured on 19 May 2019. In accordance with the agreements thereof, default interest will be accrued on the outstanding principal such that the total payable by the Company shall be the sum of the outstanding principal and such amount as would result in an internal rate of return of 22% per annum on the outstanding principal. The Group’s finance costs 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 with a view to reaching a settlement on this matter.

INCOME TAX

Income tax of the Group decreased by 158.5% 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 RMB441.3 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.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND GOING CONCERN UNCERTAINTY

The Group generally finances its operation with internal resources and borrowings. 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 its borrowings divided by total equity. The gearing ratio of the Group as at 31 December 2019 and 2018 were 1,040.1% and 75.0% respectively.

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

On 19 July 2019, Promissory Note 4 with outstanding principal amount of HK\$90,000,000 was matured without redemption and reallocated to borrowings. On 8 June 2020, the holders of Promissory Note 4 extended the mature date to 7 June 2021.

As at 31 December 2019, the Group had net current liabilities of approximately RMB221.7 million (2018: net current assets of approximately RMB20.4 million). The Directors have given careful consideration to future liquidity, performance of the Group and its available sources of financing in assessing whether the Group will be able to repay the outstanding borrowings and meet its future finance requirements. Certain measures have been and will be taken to

manage its liquidity needs and to improve its financial position which include, but not limited to, the following:

1. As at the date of approval of these financial statements, the Group is actively exploring, formulating and negotiating feasible debt restructuring and/or refinancing plans with its creditors;
2. The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to seeking private placements, open offers or rights issue of the Company;
3. The Group will implement operation plans to control costs and generate adequate cash flows from the Group's operations;
4. 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.
5. The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavouring to request them to repay the trade receivables in accordance with the repayment schedules agreed with them.

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

INVENTORIES

As at 31 December 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).

Management Discussion and Analysis

TRADE RECEIVABLES

As at 31 December 2019, trade receivables amounted to approximately RMB70.4 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 54 days (2018: 53 days).

TRADE PAYABLES

As at 31 December 2019, trade payables amounted to approximately RMB40.6 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 38 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.

Management Discussion and Analysis

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.

Directors' Report

The Directors is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

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 2019 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 2019 are provided in the Chairman's Statement and Management Discussion and Analysis on page 6 and pages 16 to 25 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.

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 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43.

The Directors does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 136 of this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 33 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 45 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's did not have (2018: RMB132.0 million) reserves available for distribution, 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 29 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's largest and five largest customers accounted for approximately 3.7% and 14.6% of the total turnover for the year 2019 respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 13.7% and 47.0% of the total purchases for the year 2019 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 2019.

Directors' Report

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 36 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 (2018: 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*)
(appointed on 17 January 2018)
Mr. Sun Shao Hua
Ms. Zheng Li Fang

Independent Non-executive directors

Mr. Liu Da Jin
Mr. Wu Ping
Mr. Ma Yiu Ho, Peter

In accordance with the provisions of the Company's Articles of Association, Mr. Sun Shao Hua and Mr. Liu Da Jin will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting ("AGM").

None of the Directors, including two 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 4 to 5 of this annual report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2019, 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 2019, the number of shares in respect of which had been granted and remained outstanding under the Share Option Scheme was nil (2018: 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 2019, 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.

Save as disclosed above, as at 31 December 2019, 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 2019, 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	Beneficial owner	1	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	302,857,143	21.99%
Mr. Peng Dongmiao	Interest of a controlled corporation	3	302,857,143	21.99%

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.

Directors' Report

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2019, 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 39 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.

Revenue and assets subject to the Contractual Arrangements

For the year ended 31 December 2019, the revenue and net loss subject to the Contractual Arrangements are RMB96.0 million and RMB91.6 million (amounted to approximately 21.6% and 20.8% of the total revenue and net loss of the Group), respectively.

As at 31 December, 2019, the total assets subject to the Contractual Arrangements is RMB76.1 million, amounted to approximately 13.5% of the total assets of the Group.

Change of circumstances

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

Independent non-executive Directors' confirmation

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

Directors' Report

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 2019 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 2019.

COMPETITION AND CONFLICT OF INTERESTS

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

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

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

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

DIVIDEND POLICY

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

- the Articles of Association of the Company;
- the applicable restrictions and requirements under the laws of the Cayman Islands;
- any banking or other funding covenants by which the Company is bound from time to time;
- the investment and operating requirements of the Company; and
- any other factors that have material impact on the Company.

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company is committed to adopt corporate governance practice. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 7 to 15.

AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by HLB Hodgson Impey Cheng Limited which retires, and being eligible, offer itself for re-appointment at 2020 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 2020 AGM.

On behalf of the Board

Chen Hong Cai

Chairman and Executive Director

Jiangxi Province, the PRC, 15 June 2020

Independent Auditors' Report



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

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

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of The Mobile Internet (China) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 135, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR DISCLAIMER OF OPINION

Material uncertainties relating to the going concern basis

As explained in Note 3 to the consolidated financial statements, the Group incurred a net loss of approximately RMB441,311,000 for the year ended 31 December 2019, and, as of that date, the Group's current liabilities exceeds its current assets by approximately RMB221,722,000. The Group's promissory notes and convertible bonds with outstandings principal amounts of approximately RMB223,636,000 (equivalents to approximately HKD250,000,000) and RMB5,964,000 (equivalents to approximately HKD6,667,000), reclassified as borrowings currently, and were matured during year ended 31 December 2019. These outstandings principals and related overdue interest payments of RMB122,696,000 (approximately HKD137,161,000) were not paid as at 31 December 2019.

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

Independent Auditors' Report

BASIS FOR DISCLAIMER OF OPINION (continued)

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.

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. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the carrying value 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 adjustment 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 HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("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 matter 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.

Independent Auditors' Report

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 15 June 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	7	443,642	690,750
Cost of sales		(343,657)	(525,104)
Gross profit		99,985	165,646
Other revenue	8	1,844	3,364
Other income	9	610	1,610
Selling and distribution expenses		(142,482)	(172,587)
Administrative expenses		(47,303)	(82,008)
Amortisation of intangible assets	19	(9,594)	(5,166)
Impairment loss on goodwill	18	(217,249)	(200,609)
Allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net		(1,769)	(4,693)
Loss on early redemption of promissory notes		—	(348)
Loss from operations before fair value changes		(315,958)	(294,791)
Change in fair value of derivative financial instruments		—	(8,733)
Loss from operations		(315,958)	(303,524)
Finance costs	12	(130,975)	(32,751)
Loss before tax	10	(446,933)	(336,275)
Income tax	13	5,622	(9,601)
Loss for the year		(441,311)	(345,876)
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		(6,428)	(14,361)
Other comprehensive loss for the year, net of tax		(6,428)	(14,361)
Total comprehensive loss for the year, net of tax		(447,739)	(360,237)
Loss attributable to owners of the Company		(441,311)	(345,876)
Total comprehensive loss attributable to owners of the Company		(447,739)	(360,237)
Loss per share attributable to owners of the Company — Basic and diluted (RMB cents)	15	(32.04)	(25.40)

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	16	186,111	208,779
Prepaid lease payments	17	—	2,135
Goodwill	18	11,999	229,248
Intangible assets	19	15,631	15,692
Right-of-use assets	20	3,616	—
Long-term prepayment	21	35,727	2,710
		253,084	458,564
Current assets			
Inventories	22	52,923	42,253
Trade receivables	23	70,385	61,649
Prepayments, deposits and other receivables	24	9,978	69,191
Cash and bank balances	25	179,071	268,320
		312,357	441,413
Current liabilities			
Trade, other payables and accruals	26	208,062	60,354
Borrowings	27	324,408	92,797
Promissory notes	28	—	258,434
Convertible bonds	29	—	8,153
Lease liabilities	30	1,363	—
Contract liabilities	31	246	1,310
		534,079	421,048
Net current (liabilities)/assets		(221,722)	20,365
Total assets less current liabilities		31,362	478,929
Non-current liability			
Lease liabilities	30	172	—
Net assets		31,190	478,929
Equity			
Share capital	34	11,161	11,161
Reserves		20,029	467,768
Total equity		31,190	478,929

Approved by the board on 15 June 2020 and signed on its behalf by:

Mr. Chen Hong Cai
Chairman

Mr. Sun Shao Hua
Executive Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share Capital RMB'000 Note 34(a)	Share premium RMB'000	Share option reserve RMB'000 Note 34b(i)	Convertible bonds reserve RMB'000 Note 34b(ii)	Statutory reserve RMB'000 Note 34b(iii)	Other reserve RMB'000 Note 34b(iv)	Exchange reserve RMB'000 Note 34b(v)	Retained profit/ (accumulated loss) RMB'000	Total RMB'000
As at 1 January 2018	10,760	550,587	14,318	2,121	49,850	15,901	5,438	145,104	794,079
Loss of the year	—	—	—	—	—	—	—	(345,876)	(345,876)
Other comprehensive loss for the year	—	—	—	—	—	—	(14,361)	—	(14,361)
Total comprehensive loss for the year	—	—	—	—	—	—	(14,361)	(345,876)	(360,237)
Issue of ordinary shares upon conversion of convertible bonds	79	11,596	—	(1,695)	—	—	—	—	9,980
Exercise of share options	322	49,103	(14,318)	—	—	—	—	—	35,107
As at 31 December 2018 and 1 January 2019	11,161	611,286	—	426	49,850	15,901	(8,923)	(200,772)	478,929
Loss for the year	—	—	—	—	—	—	—	(441,311)	(441,311)
Other comprehensive loss for the year	—	—	—	—	—	—	(6,428)	—	(6,428)
Total comprehensive loss for the year	—	—	—	—	—	—	(6,428)	(441,311)	(447,739)
Transfer of lapsed conversion rights of matured convertible bonds	—	—	—	(426)	—	—	—	426	—
Transfer of statutory reserve	—	—	—	—	623	—	—	(623)	—
As at 31 December 2019	11,161	611,286	—	—	50,473	15,901	(15,351)	(642,280)	31,190

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Operating activities			
Loss before tax		(446,933)	(336,275)
Adjustments for:			
Amortisation of prepaid lease payments	10, 17	—	60
Amortisation of intangible assets	10, 19	9,594	5,166
Allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net	5	1,769	4,693
Depreciation of property, plant and equipment	10, 16	22,334	16,402
Depreciation of right-of-use assets	10, 20	1,504	—
Finance costs	12	130,975	32,751
Change in fair value of derivative financial instruments		—	8,733
(Gain)/loss on disposal of property, plant and equipment	10	(15)	2,364
Loss on early redemption of promissory notes		—	348
Impairment loss on goodwill	18	217,249	200,609
Interest income	8	(736)	(1,298)
Operating cash flows before movement in working capital		(64,259)	(66,447)
Increase in inventories		(10,670)	(12,245)
(Increase)/decrease in trade receivables		(10,505)	74,197
Decrease in prepayments, deposit and other receivables		59,159	6,609
Increase/(decrease) in trade, other payables and accruals		25,453	(72,325)
Decrease in contract liabilities		(1,064)	(15,052)
Decrease in pledged bank deposits		—	12,000
Cash used in operations		(1,886)	(73,263)
PRC tax/(paid)		5,622	(12,634)
Net cash generated from/(used) in operating activities		3,736	(85,897)
Investing activities			
Interest received		736	1,298
Long-term prepayment addition		(42,550)	(3,204)
Addition of intangible assets		—	(8,000)
Purchase of property, plant and equipment	16	(212)	(95,020)
Proceeds from disposal of property, plant and equipment		561	2,137
Net cash used in investing activities		(41,465)	(102,789)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Financing activities		
Interest paid on convertible bonds and promissory notes	—	(24,937)
Payment of lease liabilities	(1,475)	—
Proceeds from borrowings	52,162	55,176
Repayments of borrowings	(51,000)	(17,000)
Bank borrowings interest paid	(11,326)	(3,489)
Proceeds from shares issued under share option scheme	—	35,107
Redemption of promissory notes	(40,992)	(53,589)
Net cash used in financing activities	(52,631)	(8,732)
Net decrease in cash and cash equivalents	(90,360)	(197,418)
Cash and cash equivalents at the beginning of the year	268,320	463,942
Effect of exchange rate on the balances of cash held in foreign currencies	1,111	1,796
Cash and cash equivalents at the end of the year	179,071	268,320

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

Notes to the Financial Statements

For the year ended 31 December 2019

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 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.

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

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

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

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

Application of new and revised HKFRSs — effective on 1 January 2019

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 amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2019

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

(a) Impact on the consolidated financial statements

The following table summarises the impacts of the adoption of HKFRS 16 on the Group’s consolidated statement of financial position at 1 January 2019 and 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	—	—	(1,263)	(1,263)
Total current liabilities	(421,048)	—	(1,263)	(422,311)
Net current assets	20,365	(60)	(1,263)	19,042
Total assets less current liabilities	478,929	—	1,686	480,615
Non-current liability				
Lease liabilities	—	—	(1,686)	(1,686)
Total non-current liabilities	—	—	(1,686)	(1,686)
Net assets	478,929	—	—	478,929

Notes:

- (1) The application of HKFRS 16 to leases previously classified as operating leases under HKAS 17 resulted in the recognition of right-of-use assets of approximately RMB2,949,000 and lease liabilities of approximately RMB2,949,000 at the initial adoption of HKFRS 16.
- (2) Upfront payments for leasehold lands in the PRC own used properties were classified as prepaid land lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid land lease payments amounting to approximately RMB60,000 and RMB2,135,000 respectively were classified to right-of-use assets.

Notes to the Financial Statements

For the year ended 31 December 2019

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

(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

The Group did not make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

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. Specifically, discount rate for certain leases of land in the PRC, properties in the PRC and Hong Kong were determined on a portfolio basis;

Notes to the Financial Statements

For the year ended 31 December 2019

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

(b) HKFRS 16 Leases — Impact of initial application (continued)

HKFRS 16 Leases (continued)

As a lessee (continued)

- (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 3.09% to 4.60%.

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

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

	Notes	RMB’000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	(a)	2,949
Add: Reclassification from prepaid lease payments	(b)	2,195
		5,144

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 RMB2,135,000 respectively were reclassified to right-of-use assets.

Notes to the Financial Statements

For the year ended 31 December 2019

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

New and amended 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 HKFRSs, will be effective for annual periods beginning on or after 1 January 2020. The Directors 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA and accounting principles generally accepted in Hong Kong. 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 Financial Statements

For the year ended 31 December 2019

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 Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

Going concern

The Group incurred a net loss of approximately RMB441,311,000 for the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeds its current assets by approximately RMB221,722,000. In addition, the Group's promissory notes and convertible notes of approximately RMB143,127,000 (equivalents to HKD160,000,000) and RMB5,964,000 (equivalents to HKD6,667,000) respectively were matured on 19 May 2019 and 19 June 2019 and were not paid as at 31 December 2019.

On 8 June 2020, the holders of Promissory Note 4 extended the mature date of borrowing of approximately RMB80,509,000 (equivalents to HKD90,000,000) to 7 June 2021.

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

- (i) The Group is taking measures to tighten cost control with an aim to attain positive cash flow from operations;
- (ii) The Group is in the process of negotiating with its promissory noteholders and convertible bondholders to restructure and/or refinance its borrowings, and secure necessary facilities to meet the Group's working capital and financial requirements in the near future;
- (iii) The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to, seeking new investment and business opportunities (manufacturing of medical supplies), private placements, open offers or rights issue of new shares of the Company; 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.
- (v) The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavouring to request them to repay the trade receivables in accordance with the repayment schedules agreed with them.

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

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

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

Going concern (continued)

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. The effect of these adjustments has 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 Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2019

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 Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2019

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.

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income

Revenue from contracts with customers

Under HKFRS 15, 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 Financial Statements

For the year ended 31 December 2019

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 Financial Statements

For the year ended 31 December 2019

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 (upon application of HKFRS 16 in accordance with transitions in Note 2)

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

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2)

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, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

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 Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2) (continued)

Refundable rental deposits

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

Lease liabilities

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

Lease payments included in the measurement of the lease liability comprise:

- 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.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

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 Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2) (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.

The Group as a lessee (prior to adoption of HKFRS 16 on 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (prior to adoption of HKFRS 16 on 1 January 2019) (continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain 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.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Notes to the Financial Statements

For the year ended 31 December 2019

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 Financial Statements

For the year ended 31 December 2019

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.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as and when the Group performs under the contract.

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 Financial Statements

For the year ended 31 December 2019

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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. 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.

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 Financial Statements

For the year ended 31 December 2019

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.

Current 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 Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax

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.

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 taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Current and deferred tax for the year

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease 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 relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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.

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 Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Game

Game 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 Financial Statements

For the year ended 31 December 2019

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 cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) 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 cash generating unit) 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 Financial Statements

For the year ended 31 December 2019

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).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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 Financial Statements

For the year ended 31 December 2019

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 and other income" line item.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and cash and bank balances). 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 Financial Statements

For the year ended 31 December 2019

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 Financial Statements

For the year ended 31 December 2019

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 Financial Statements

For the year ended 31 December 2019

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)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are designated at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading 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 HKFRS9 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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 OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI 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 OCI. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities at FVTPL are measured at fair value, with changes at fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

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.

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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 is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

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.

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.
- (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.

Notes to the Financial Statements

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties transactions (continued)

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Income taxes and deferred taxation

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

Useful lives and residual values of property, plant and equipment

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

Notes to the Financial Statements

For the year ended 31 December 2019

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment on intangible assets

Determining whether intangible assets are impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2019, no impairment on intangible assets were made.

Estimated impairment on goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment on goodwill of RMB217,249,000 (2018: RMB200,609,000) was recognised during the year ended 31 December 2019. The carrying amounts of goodwill at the end of the reporting period were RMB11,999,000 (2018: RMB229,248,000) was recognised during the year ended 31 December 2019.

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.

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, no impairments on inventories were made.

Notes to the Financial Statements

For the year ended 31 December 2019

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Self-developed mobile and web game operation revenue recognition

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

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

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

Principal versus agent consideration (principal)

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

Principal versus agent consideration (agent)

Under HKAS 18, the Group recognised sales of mobile game products on a gross basis, i.e. the Group was considered as a principal, due to its significant exposure to credit risk of customers. Upon application of HKFRS 15, the Group is considered as an agent, the performance obligation is to arrange for the provision of promotion service of game products as the Group did not obtain the control over the goods before passing on to customers taking into consideration indicators such as the Group is not primarily responsible for fulfilling the promise to provide the mobile game products in specified quality and not exposed to inventory risk.

Provision of ECL for trade receivables

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

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

Notes to the Financial Statements

For the year ended 31 December 2019

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 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.

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:

	2019 RMB'000	2018 RMB'000
Financial assets		
<i>At amortised cost</i>		
— Trade receivables	70,385	61,649
— Other receivables	303	3
— Cash and bank balances	179,071	268,320
	249,759	329,972
Financial liabilities		
<i>At amortised cost</i>		
— Trade, other payables and accruals	208,062	60,354
— Promissory notes	—	258,434
— Convertible bonds	—	8,153
— Borrowings	324,408	92,797
— Lease liabilities	1,535	—
	534,005	419,738

Notes to the Financial Statements

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies

The Company's major financial instruments include trade receivables, other receivables, cash and bank balances, Trade, other payables and accruals, borrowings, promissory notes and convertible bonds. 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 2019, 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 RMB249,759,000 (2018: RMB329,972,000). 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

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 3 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.

Other receivables

As at 31 December 2019 and 2018, the management considers the other receivables to be immaterial and does not perform credit loss allowance on other receivables.

Cash and cash equivalents

As at 31 December 2019 and 2018, all cash and cash equivalents 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.

Notes to the Financial Statements

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Credit risk (continued)

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 2019

Trade receivables	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.13%	70,448	93
61–90 days past due	—	—	—
91–180 days past due	—	—	—
181–365 days past due	18.43%	37	7
		70,485	100

As at 31 December 2018

Trade receivables	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.17%	61,754	105

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 2019, the Group provided approximately RMB100,000 (2018: RMB105,000) impairment allowance for trade receivables, based on the provision matrix.

Notes to the Financial Statements

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Credit risk (continued)

Provision matrix — debtors' aging (continued)

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

	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at 1 January 2018	—	—	—
Change due to financial instruments recognised as at 1 January			
— Impairment losses recognised (Note 10)	105	4,588	4,693
— Write-offs	—	(4,588)	(4,588)
As at 31 December 2018 and 1 January 2019	105	—	105
— Impairment losses recognised, net (Note 10)	(5)	1,774	1,769
— Write-offs	—	(1,774)	(1,774)
As at 31 December 2019	100	—	100

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, or when the trade receivables are over two years past due, whichever occurs earlier.

Notes to the Financial Statements

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

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.

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	More than 5 years RMB'000	Total undiscounted cash flows RMB'000
As at 31 December 2019							
Non-derivative financial liabilities							
Trade, other payables and accruals	—	208,062	208,062	—	—	—	208,062
Borrowings	15.53	324,408	325,954	—	—	—	325,954
Lease liabilities	3.92	1,535	1,412	180	—	—	1,592
		534,005	535,428	180	—	—	535,608
	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	More than 5 years RMB'000	Total undiscounted cash flows RMB'000
As at 31 December 2018							
Non-derivative financial liabilities							
Trade, bills, other payables and accruals	—	60,354	60,354	—	—	—	60,354
Promissory notes	9.06	258,434	267,019	—	—	—	267,019
Convertible bonds	18.08	8,153	8,342	—	—	—	8,342
Borrowings	12.00	92,797	99,166	—	—	—	99,166
		419,738	434,881	—	—	—	434,881

Notes to the Financial Statements

For the year ended 31 December 2019

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.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- (ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- (iii) the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Notes to the Financial Statements

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

Except for the liability component of convertible bonds which recorded at amortised cost as below, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's consolidated statement of financial position approximate to their fair values.

	31 December 2019		31 December 2018	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Convertible bonds	—	—	8,153	8,487

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

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:

	2019 RMB'000	2018 RMB'000
Total debts (Note)	324,408	359,384
Total equity	31,190	478,929
Gearing ratio	1,040.1%	75.0%

Note:

Total debts comprise borrowings, promissory notes and convertible bonds.

Notes to the Financial Statements

For the year ended 31 December 2019

6. 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 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 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	347,652	455,361	95,990	235,389	443,642	690,750
Segment results	7,076	(52,803)	(314,016)	(228,898)	(306,940)	(281,701)
Unallocated corporate expenses					(12,287)	(25,311)
Unallocated finance costs					(127,706)	(29,263)
Loss before tax					(446,933)	(336,275)
Income tax					5,622	(9,601)
Loss for the year					(441,311)	(345,876)

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	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Segment assets	475,456	499,187	88,148	399,675	563,604	898,862
Unallocated corporate assets					1,837	1,115
Total assets					565,441	899,977
Segment liabilities	95,189	86,973	9,293	11,969	104,482	98,942
Unallocated corporate liabilities					427,619	322,106
Total liabilities					532,101	421,048

Notes to the Financial Statements

For the year ended 31 December 2019

6. OPERATING SEGMENT (continued)

Segment revenue and results (continued)

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

Notes to the Financial Statements

For the year ended 31 December 2019

6. OPERATING SEGMENT (continued)

Other segment information (continued)

For the year ended 31 December 2018

	Paper-based packaging products RMB'000	Development, distribution and operation of mobile game products RMB'000	Unallocated RMB'000	Consolidated RMB'000
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 arose from the Group's largest distribution channel for the year ended 31 December 2019 and 2018 respectively. 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).

Notes to the Financial Statements

For the year ended 31 December 2019

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:

	2019 RMB'000	2018 RMB'000
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	95,990	235,389
	443,642	690,750

8. OTHER REVENUE

	2019 RMB'000	2018 RMB'000
Sales of residual materials	1,108	2,066
Bank interest income	736	1,298
	1,844	3,364

9. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Government subsidies (Note)	530	1,606
Sundry income	80	4
	610	1,610

Note:

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

Notes to the Financial Statements

For the year ended 31 December 2019

10. LOSS BEFORE TAX

	2019 RMB'000	2018 RMB'000
Staff costs:		
Employee benefit expense (including directors' emoluments (Note 11)):		
Wages and salaries	54,972	66,479
Retirement benefit schemes contributions	5,819	6,922
	60,791	73,401
Other items:		
Depreciation charge		
— Owned property, plant and equipment (Note 16)	22,334	16,402
— Right-of-use assets (Note 20)	1,504	—
	23,838	16,402
Auditors' remuneration		
— Audit service	1,146	1,097
Amortisation of prepaid lease payments (Note 17)	—	60
Amortisation of intangible assets (Note 19)	9,594	5,166
Allowance for expected credit loss recognised in respect of financial assets carried at amortised cost, net	1,769	4,693
Impairment loss on goodwill (Note 18)	217,249	200,609
(Gain)/loss on disposal of property, plant and equipment	(15)	2,364
Minimum lease payments under operating leases of rented premises under HKAS 17	—	1,548
Expense relating to short-term lease	288	—
Research and development costs	5,482	16,186
Cost of inventories sold	295,066	379,202

Notes to the Financial Statements

For the year ended 31 December 2019

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2019 RMB'000	2018 RMB'000
Fees	308	295
Other emoluments:		
Salaries, allowances and benefits in kind	8,980	7,112
Retirement benefits schemes contributions	63	54
Total	<u>9,351</u>	<u>7,461</u>

(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
31 December 2019				
<i>Executive Directors</i>				
Mr. Chen Hong Cai (Appointed on 15 January 2018)	—	3,116	27	3,143
Ms. Zheng Li Fang	—	2,402	20	2,422
Mr. Sun Shao Hua	—	3,462	16	3,478
<i>Independent Non-executive Directors</i>				
Mr. Liu Da Jin	88	—	—	88
Mr. Ma Yiu Ho, Peter	132	—	—	132
Mr. Wu Ping	88	—	—	88
	<u>308</u>	<u>8,980</u>	<u>63</u>	<u>9,351</u>

Notes to the Financial Statements

For the year ended 31 December 2019

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
31 December 2018				
<i>Executive Directors</i>				
Mr. Chen Hong Cai (Appointed on 15 January 2018)	—	2,299	17	2,316
Mr. Chen Wei Wei (Resigned on 17 January 2018)	—	54	2	56
Ms. Zheng Li Fang	—	1,965	19	1,984
Mr. Sun Shao Hua	—	2,794	16	2,810
<i>Independent Non-executive Directors</i>				
Mr. Liu Da Jin	84	—	—	84
Mr. Ma Yiu Ho, Peter	127	—	—	127
Mr. Wu Ping	84	—	—	84
	295	7,112	54	7,461

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

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

(c) Five highest paid employees

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

	2019 RMB'000	2018 RMB'000
Directors	9,043	7,110
Non-directors	2,078	2,037
	11,121	9,147

Notes to the Financial Statements

For the year ended 31 December 2019

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

(c) Five highest paid employees (continued)

The five highest paid individuals in the Group during both years included 3 (2018: 3) directors; details of whose emoluments are set out in Note 11(b). The emoluments of the remaining 2 (2018: 2) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	2,057	2,016
Retirement benefits schemes contributions	21	21
	<u>2,078</u>	<u>2,037</u>

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

	2019	2018
Nil to HK\$1,000,000	—	—
HK\$1,000,001 to HK\$2,000,000	2	2
	<u>2</u>	<u>2</u>

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:

	2019	2018
Nil to HK\$1,000,000	—	—
HK\$1,000,001 to HK\$2,000,000	2	2
	<u>2</u>	<u>2</u>

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 Financial Statements

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12. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest expenses on borrowings	120,713	6,785
Imputed interest on promissory notes	9,651	23,848
Imputed interest on convertible bonds	526	2,118
Interest expenses on lease liabilities	85	—
	130,975	32,751

13. INCOME TAX

	2019 RMB'000	2018 RMB'000
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	(5,622)	9,601

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2019

13. INCOME TAX (continued)

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

	Hong Kong		2019 The PRC		Total		Hong Kong		2018 The PRC		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax	(139,972)		(306,961)		(446,933)		(50,379)		(285,896)		(336,275)	
Tax at applicable income tax rate	(23,095)	16.5	(76,740)	25.00	(99,835)	22.34	(8,313)	16.5	(71,473)	25.00	(79,786)	23.73
Preferential income tax treatments	—	—	30,694	(10.00)	30,694	(6.87)	—	—	8,109	(2.83)	(8,109)	(2.41)
Tax effect of expenses not deductible or income not taxable for tax purpose	—	—	32,587	(10.62)	32,587	(7.29)	—	—	51,195	(17.92)	51,195	(15.23)
(Over)/under-provision in prior year	—	—	(7,365)	2.40	(7,365)	1.65	—	—	2,236	(0.78)	2,236	(0.67)
Tax effect of tax loss not recognised	23,095	(16.5)	15,202	(4.95)	38,297	(8.57)	8,313	(16.5)	19,534	(6.83)	27,847	(8.28)
	—	—	(5,622)	1.83	(5,622)	1.26	—	—	9,601	(3.36)	9,601	(2.86)

14. DIVIDENDS

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

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

	2019 RMB'000	2018 RMB'000
Loss attributable to the owners of the Company for the purpose of basic loss per share	(441,311)	(345,876)

Number of shares

	2019 '000	2018 '000
Weighted average number of ordinary shares	1,377,498	1,361,651

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.

Notes to the Financial Statements

For the year ended 31 December 2019

16. PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Ownership interest in buildings RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost						
As at 1 January 2018	132,152	1,004	743	71,285	125	205,309
Additions	94,828	175	—	—	17	95,020
Disposal	(16,727)	(333)	(355)	—	—	(17,415)
Exchange realignment	—	1	—	—	9	10
As at 31 December 2018 and 1 January 2019	210,253	847	388	71,285	151	282,924
Additions	212	—	—	—	—	212
Disposal	(8,261)	—	(263)	—	—	(8,524)
Exchange realignment	—	—	—	—	3	3
As at 31 December 2019	202,204	847	125	71,285	154	274,615
Accumulated depreciation						
As at 1 January 2018	51,691	737	510	17,695	21	70,654
Change of the year	12,749	153	72	3,386	42	16,402
Eliminated on disposal	(12,261)	(316)	(337)	—	—	(12,914)
Exchange realignment	—	—	—	—	3	3
As at 31 December 2018 and 1 January 2019	52,179	574	245	21,081	66	74,145
Change of the year	18,804	98	4	3,386	42	22,334
Write back on disposal	(7,847)	—	(131)	—	—	(7,978)
Exchange realignment	—	—	—	—	3	3
As at 31 December 2019	63,136	672	118	24,467	111	88,504
Carrying amount						
As at 31 December 2019	139,068	175	7	46,818	43	186,111
As at 31 December 2018	158,074	273	143	50,204	85	208,779

Assets pledged as security

As at 31 December 2019, machinery with a carrying amount of approximately RMB98,686,000 (2018: RMB31,795,000) have been pledged to secure bank borrowings (Note 27) granted to the Group.

As at 31 December 2019, buildings with a carrying amount of approximately RMB41,171,000 (2018: RMB44,314,000) have been pledged to secure bank borrowings (Note 27) granted to the Group.

Notes to the Financial Statements

For the year ended 31 December 2019

17. PREPAID LEASE PAYMENTS

Prepaid lease payments represent by the Group for the land use rights located in the PRC which are held on leases for 50 years.

	2018 RMB'000
Analysed for reporting purposes as:	
Current assets (included in prepayments) (Note 24)	60
Non-current assets	2,135
	<u>2,195</u>

Amortisation on prepaid lease payments of approximately RMB60,000 have been charged to the administrative expenses in profit or loss for the year ended 31 December 2018.

As at 31 December 2018, prepaid lease payments with a carrying amount of approximately RMB2,195,000 have been pledged to secure bank borrowings (Note 27) granted to the Group.

Upon initial application of HKFRS 16, the prepaid lease payments were reclassified as right-of-use assets (Note 20).

18. GOODWILL

	RMB'000
Cost	
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	<u>429,857</u>
Accumulated impairment	
As at 1 January 2018	—
Impairment loss recognised for the year	200,609
As at 31 December 2018 and 1 January 2019	200,609
Impairment loss recognised for the year	217,249
As at 31 December 2019	<u>417,858</u>
Carrying amount	
As at 31 December 2019	<u>11,999</u>
As at 31 December 2018	<u>229,248</u>

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").

Notes to the Financial Statements

For the year ended 31 December 2019

18. GOODWILL (continued)

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 25.02% (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 RMB217,249,000 (2018: RMB200,609,000) was provided during the year.

Notes to the Financial Statements

For the year ended 31 December 2019

19. INTANGIBLE ASSETS

	Game Intellectual Properties and Licences RMB'000	Online Platform RMB'000	Total RMB'000
Cost			
As at 1 January 2018	55,353	260	55,613
Addition	13,693	—	13,693
As at 31 December 2018 and 1 January 2019	69,046	260	69,306
Addition	9,533	—	9,533
As at 31 December 2019	78,579	260	78,839
Accumulated amortisation			
As at 1 January 2018	48,188	260	48,448
Charge of the year	5,166	—	5,166
As at 31 December 2018 and 1 January 2019	53,354	260	53,614
Charge of the year	9,594	—	9,594
As at 31 December 2019	62,948	260	63,208
Carrying amount			
As at 31 December 2019	15,631	—	15,631
As at 31 December 2018	15,692	—	15,692

Notes to the Financial Statements

For the year ended 31 December 2019

20. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased properties RMB'000	Total RMB'000
Cost			
As at 1 January 2019 (Note 2)	3,000	2,949	5,949
Additions	—	182	182
Movement due to modification on lease	—	(221)	(221)
Exchange realignment	—	26	26
As at 31 December 2019	3,000	2,936	5,936
Accumulated depreciation			
As at 1 January 2019 (Note 2)	805	—	805
Charge provided for the year	60	1,444	1,504
Exchange realignment	—	11	11
As at 31 December 2019	865	1,455	2,320
Carrying amounts			
As at 31 December 2019	2,135	1,481	3,616
As at 1 January 2019 (restated)	2,195	2,949	5,144

Lease liabilities of approximately RMB1,535,000 are recognised with related right-of-use assets of approximately RMB1,481,000 as at 31 December 2019. As at 31 December 2019, leasehold land with a carrying amount of approximately RMB2,135,000 have been pledged to secure bank borrowings (Note 27) granted to the Group.

Details of total cash outflow of leases is set out in the consolidated cash flow statements.

21. 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.

22. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	45,529	39,759
Work in progress	5,608	1,629
Finished goods	1,786	865
	52,923	42,253

Notes to the Financial Statements

For the year ended 31 December 2019

23. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	70,485	61,754
Less: Allowance for ECL	(100)	(105)
	70,385	61,649

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

	2019 RMB'000	2018 RMB'000
0-30 days	30,484	26,465
31-60 days	29,188	26,607
61-90 days	10,683	8,577
91-180 days	—	—
181-365 days	30	—
	70,385	61,649

The average credit period on sales of goods is from 30 to 90 days. 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 doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The Group does not hold any collateral or other credit enhancement over these balances.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. As at 31 December 2019, trade receivables of approximately RMB1,410,000 was due from the Group's largest customer (2018: RMB3,537,000). 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.

Details of assessment on expected credit loss are set out in Note 5.

Notes to the Financial Statements

For the year ended 31 December 2019

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepaid lease payments (Note 17)	—	60
Prepayments, deposits and other receivables (Note)	9,978	69,131
	9,978	69,191

Note: The amounts mainly represented the prepayments of commission charges to game distribution channels and advertising expenses.

25. CASH AND BANK BALANCES

Included in the cash and bank balances as at 31 December 2019, amount of approximately RMB177,417,000 (2018: RMB266,225,000) 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 0.30% to 0.35% per annum for the year ended 31 December 2019 (2018: 0.30% to 0.35% per annum).

26. TRADE, OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Trade payables	40,646	31,512
Accruals	31,034	22,757
Interest payable	135,460	5,163
Other payables	922	922
	208,062	60,354

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

	2019 RMB'000	2018 RMB'000
0–30 days	22,297	15,785
31–60 days	18,349	15,727
	40,646	31,512

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 Financial Statements

For the year ended 31 December 2019

27. BORROWINGS

	2019 RMB'000	2018 RMB'000
Secured bank borrowings — repayable within one year	48,000	51,000
Non-secured other borrowings — repayable within one year	276,408	41,797
	324,408	92,797

All the bank borrowings were denominated in RMB. As at 31 December 2019 and 2018, the bank borrowings were secured by certain property, plant and equipment, prepaid lease payments and right-of-use assets held by the Group as set out in Notes 16, 17 and 20 respectively.

Borrowings as at 31 December 2019 include amounts of approximately RMB223,636,000 and RMB5,964,000 (equivalent to approximately HKD250,000,000 and HKD6,667,000) which related to overdue promissory notes and convertible bond respectively and both bearing interest at default interest rate of 22% per annum. On 8 June 2020, the holders of Promissory Note 4 agreed to extend the mature date of borrowings amounting to RMB80,509,000 (equivalent to approximately HKD90,000,000) to 7 June 2021 and carried at interest rate of 7% from 1 January 2020.

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

	2019 RMB'000	2018 RMB'000
Fixed rate — bank borrowings	5.7% to 7.8%	5.7% to 7.7%
Fixed rate — other borrowings	4.0% to 22.0%	18.0%

28. PROMISSORY NOTES

The promissory notes issued had been split as to the derivative financial assets component (term extension derivative component and redemption option derivative component embedded in promissory notes) and the financial liability component (promissory notes liabilities). The following tables summarise the movements of derivative financial assets and financial liability components during the years ended 31 December 2019 and 2018.

Derivative financial assets — Term extension derivative component:

	Promissory Note 1 RMB'000	Promissory Note 3 RMB'000	Total RMB'000
As at 1 January 2018	—	2,427	2,427
Change in fair value	—	(2,460)	(2,460)
Exchange realignment	—	33	33
As at 31 December 2018, 1 January 2019 and 31 December 2019	—	—	—

Notes to the Financial Statements

For the year ended 31 December 2019

28. PROMISSORY NOTES (continued)

Derivative financial assets — Redemption option derivative component:

	Promissory Note 1 RMB'000	Promissory Note 2 RMB'000	Promissory Note 3 RMB'000	Promissory Note 4 RMB'000	Total RMB'000
As at 1 January 2018	888	1,899	3,420	1	6,208
Change in fair value	(900)	(1,924)	(3,466)	(1)	(6,291)
Exchange realignment	12	25	46	—	83
As at 31 December 2018, at 1 January 2019 and 31 December 2019	—	—	—	—	—

Financial liability component — Promissory notes liabilities:

	2019 RMB'000	2018 RMB'000
Current portion	—	258,434
Non-current portion	—	—
	—	258,434

	Promissory Note 1 RMB'000	Promissory Note 2 RMB'000	Promissory Note 3 RMB'000	Promissory Note 4 RMB'000	Total RMB'000
As at 1 January 2018	66,625	57,009	99,938	70,590	294,162
Early redemption of promissory note	(33,757)	(19,832)	—	—	(53,589)
Loss on early redemption of promissory note	—	348	—	—	348
Imputed interest charged	4,581	4,796	8,608	5,863	23,848
Coupon interest payable	(4,581)	(4,055)	(8,608)	(3,038)	(20,282)
Exchange realignment	2,251	2,336	5,419	3,941	13,947
As at 31 December 2018 and 1 January 2019	35,119	40,602	105,357	77,356	258,434
Imputed interest charged	1,420	1,408	3,424	3,399	9,651
Coupon interest payable	(1,420)	(1,183)	(3,424)	(1,730)	(7,757)
Redemption of promissory note	—	(40,992)	—	—	(40,992)
Transfer to borrowings upon maturity	(35,782)	—	(107,345)	(80,509)	(223,636)
Exchange realignment	663	165	1,988	1,484	4,300
As at 31 December 2019	—	—	—	—	—

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28. PROMISSORY NOTES (continued)

Promissory Note 1

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

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

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

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

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

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

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

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

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

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28. PROMISSORY NOTES (continued)

Promissory Note 2

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

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

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

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

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

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

Promissory Note 3

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

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

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

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

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28. PROMISSORY NOTES (continued)

Promissory Note 3 (continued)

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

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

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

Promissory Note 4

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

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

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

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

29. CONVERTIBLE BONDS

The convertible bonds issued have been split as to the derivative financial asset component (redemption option derivative component embedded in convertible bonds); the derivative financial liability component (term extension derivative component embedded in convertible bonds); the financial liability component (convertible bonds) and equity component (convertible bonds reserve). The following tables summarise the movements of the derivative financial assets; derivative financial liabilities; financial liabilities and equity component during the years ended 31 December 2019 and 2018.

Derivative financial assets — Redemption option derivative component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2018	206	755	961
Conversion of convertible bonds	(169)	—	(169)
Change in fair value	(39)	(765)	(804)
Exchange realignment	2	10	12
At 31 December 2018, 1 January 2019 and 31 December 2019	—	—	—

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For the year ended 31 December 2019

29. CONVERTIBLE BONDS (continued)

Derivative financial liabilities — Term extension derivative component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
As at 1 January 2018	—	811	811
Change in fair value	—	(822)	(822)
Exchange realignment	—	11	11
As at 31 December 2018, 1 January 2019 and 31 December 2019	—	—	—

Financial liabilities — Financial liability component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
As at 1 January 2018	10,021	6,901	16,922
Conversion of convertible bonds	(10,655)	—	(10,655)
Imputed interest charged	796	1,322	2,118
Coupon interest payable	(296)	(478)	(774)
Exchange realignment	134	408	542
As at 31 December 2018 and 1 January 2019	—	8,153	8,153
Imputed interest charged	—	526	526
Coupon interest payable	—	(190)	(190)
Transfer to interest payable upon expiry of conversion rights	—	(2,751)	(2,751)
Transfer to borrowings upon expiry of conversion rights	—	(5,964)	(5,964)
Exchange realignment	—	226	226
As at 31 December 2019	—	—	—

Financial liabilities — Equity component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
As at 1 January 2018	1,695	426	2,121
Conversion of convertible bonds	(1,695)	—	(1,695)
As at 31 December 2018 and 1 January 2019	—	426	426
Transfer of lapsed conversion rights of matured convertible bonds	—	(426)	(426)
As at 31 December 2019	—	—	—

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29. CONVERTIBLE BONDS (continued)

Convertible Bond 1

On 19 June 2015, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK\$20,000,000 with handling fee charging at 1% per annum and interest payable half yearly ("Convertible Bond 1"). The Convertible Bond 1 entitles the holder to convert to ordinary shares of the Company at a conversion price of HK\$0.85 per share and will be converted into 23,529,411 shares assuming full conversion.

Conversion may occur at any time during the term of the Convertible Bond 1.

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

Subject to the Promissory Note 1 (Note 28) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bond 1 at any time during the period between the first day of the twelfth month following the date of issue of the Convertible Bond 1 and the last day immediately preceding the maturity date of the Convertible Bond 1.

Unless previously redeemed, converted, purchased and cancelled, the Company shall pay on the maturity date an aggregate price of (i) the outstanding principal amount of the Convertible Bond 1 on the maturity date, (ii) 12% of the outstanding principal amount on the maturity date of the Convertible Bond 1 (exclusive of interest) multiplied by the term or the Extended Term of the Convertible Bond 1 expressed in years for the redemption of the portion of the Convertible Bond 1 which has not been converted into Shares, (iii) all accrued and unpaid interest and handling fee and unpaid default interest accrued in respect of such outstanding principal amount of the Convertible Bond 1 to be redeemed, and (iv) all other outstanding amounts payable by the Company to the holder of the Convertible Bond 1.

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

The Convertible Bond 1 contains four components: redemption option derivative component, term extension derivative component, financial liability component and equity component. The equity component is presented in equity heading "convertible bonds reserve". The financial liability component is initially recognised at fair value and carried at amortised cost using effective interest rate. The effective interest rate of the financial liability component on initial recognition is 11.8% per annum. The redemption option derivative component and term extension derivative component are measured at fair value with changes in fair value recognised in profit or loss.

On 10 September 2015, the Group entered into supplementary deeds, agreed to amend the provisions of the Company's early redemption right under the Convertible Bond 1 ("Modification"). The amended term is unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bond 1 shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond 1 to be redeemed, (ii) return of 17.5% per annum on the outstanding principal amount of the Convertible Bond 1 from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond 1 which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

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For the year ended 31 December 2019

29. CONVERTIBLE BONDS (continued)

Convertible Bond 1 (continued)

The effective interest rate after 10 September 2015 is 14.31%.

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

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

	As at 19 June 2015	As at 10 September 2015
Time to maturity	1 to 3 years (depends on extension condition)	0.77 to 2.77 years
Share price	HK\$0.87	HK\$0.84
Share price volatility	62.22% to 70.47%	64.28% to 85.09%
Earning volatility	64.93% to 70.47%	69.04% to 85.09%
Earning growth rate	44.97%	47.58%
Conversion price	HK\$0.85	HK\$0.85
Discount rate	12.78% to 13.46%	14.69% to 15.37%

Details of Convertible Bond 1 on initial recognition or Modification to be approximately as follows:

	As at 19 June 2015 RMB'000	As at 10 September 2015 RMB'000
Liability component	15,320	17,602
Equity component	915	4,067
Redemption option derivative component	(155)	(149)
Term extension derivative component	(663)	1,755
	15,417	23,275

On 19 June 2016, the maturity date of Convertible Bond 1 extended to 19 June 2017. As a result, the effective interest rate of Convertible Bond 1 changed to 23.4%.

On 10 April 2017, Convertible Bond 1 was partly converted into 7,843,136 ordinary shares of the Company.

On 19 June 2017, the maturity date of Convertible Bond 1 was further extended to 19 June 2018. As a result, the effective interest rate of Convertible Bond 1 changed to 21.5%.

On 3 November 2017, Convertible Bond 1 was partly converted into 5,882,532 ordinary shares of the Company.

On 14 May 2018, the remaining Convertible Bond 1 was converted into 9,803,922 ordinary shares of the Company.

Notes to the Financial Statements

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29. CONVERTIBLE BONDS (continued)

Convertible Bond 2

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

Conversion may occur at any time during the term of the Convertible Bond 2.

The Convertible Bond 2 have a term of one year and the holder shall extend the Convertible Bond 2 on the same terms and conditions of the Convertible Bond 2 for a further period of one year (the "Extended Term of the Convertible Bond 2") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000 ("Condition 2"), provided that the holder of Convertible Bond 2 may only make up to two extensions under Condition 2 and the aggregate extended term for the above extensions shall not exceed two years.

Subject to the Promissory Note 3 (Note 28) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bond 2 at any time during the period between the first day of the sixth month following the date of issue of the Convertible Bond 2 and the last day immediately preceding the maturity date of the Convertible Bond 2.

Unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bond 2 shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond 2 to be redeemed, (ii) return of 15% per annum on the outstanding principal amount of the Convertible Bond 2 from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond 2 which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

The Convertible Bond 2 has the benefit of the security constituted by the share charges created on Cable King Limited, Wealthy Top (China) Limited and Novel Blaze Limited, the ultimate holding company of the Company; the guarantee Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and Ms. Zheng Xue Xia, a controlling shareholder of the Company and the spouse of Mr. Sun Shao Hua.

The effective interest rate at issue of Convertible Bond 2 is 11.6%.

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

Notes to the Financial Statements

For the year ended 31 December 2019

29. CONVERTIBLE BONDS (continued)

Convertible Bond 2 (continued)

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

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

On 12 August 2016, Convertible Bond 2 was partly converted into 26,666,666 ordinary shares of the Company.

On 10 April 2017, Convertible Bond 2 was partly converted into 4,444,443 ordinary shares of the Company.

On 20 May 2017, the maturity date of Convertible Bond 2 extended to 20 May 2018. As a result, the effective interest rate of Convertible Bond 2 changed to 20.4%.

On 20 May 2018, the maturity date of Convertible Bond 2 was extended to 20 May 2019. As a result, the effective interest rate of Convertible Bond 2 changed to 18.1%.

On 19 May 2019, the Convertible Bond 2 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 2 was reallocated to borrowings and carried at default interest of 22% per annum.

Notes to the Financial Statements

For the year ended 31 December 2019

30. 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 contract rates of 2% (2018: 2% to 4.5%) per annum. These liabilities were measured at the net present value of the lease payments during the lease terms that are not yet paid. Operating lease commitment under HKAS17 were reclassified to lease liabilities on 1 January 2019 upon the adoption of HKFRS 16 (Note 2).

The following table shows the remaining contractual maturities of the Group's lease liabilities at the current reporting periods and at the date of transition of HKFRS 16:

	As at 31 December 2019		As at 1 January 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	1,363	1,412	1,263	1,580
After 1 year but within 2 years	172	180	1,686	1,571
	<u>1,535</u>	<u>1,592</u>	<u>2,949</u>	<u>3,151</u>
Less: total future interest expenses		<u>(57)</u>		<u>(202)</u>
Present value of lease liabilities		<u>1,535</u>		<u>2,949</u>

Note:

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

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in Note 2.

Notes to the Financial Statements

For the year ended 31 December 2019

31. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities (Note)	<u>246</u>	<u>1,310</u>

Note:

As at 31 December 2019 and 2018, contract liabilities comprised receipt from sale of virtual currency through their online and mobile game that is being recognised through profit or loss over the estimated paying player life.

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.

	2019 RMB'000	2018 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	<u>1,310</u>	<u>16,362</u>

32. DEFERRED TAXATION

	Intangible asset RMB'000	Convertible Bond RMB'000	Total RMB'000
As at 1 January 2018	2,956	24	2,980
Credit to profit or loss (Note 13)	(2,956)	—	(2,956)
Exchange realignment	—	(24)	(24)
As at 31 December 2018, 1 January 2019 and 31 December 2019	<u>—</u>	<u>—</u>	<u>—</u>

At the end of the reporting period, the Group has unused tax losses of RMB168,759,000 (2018: RMB82,807,000) 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.

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For the year ended 31 December 2019

33. COMMITMENTS

Operating lease commitment

The Group as lessee

At the end of the reporting period, the Group had commitments for the future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2018 RMB'000
Within one year	1,580
In the second to fifth years inclusive	1,571
	<u>3,151</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are on fixed term ranged from three to five years and rentals are fixed over the lease terms and do not include contingent rentals.

The Group entered into short-term lease for cars for the year ended 31 December 2019 (Note 10). As at 31 December 2019, the outstanding lease commitments relating to these cars is RMBNil.

Capital commitment

	2019 RMB'000	2018 RMB'000
Authorised and contracted for capital contributions payable to subsidiaries	<u>60,000</u>	60,000

34. SHARE CAPITAL AND SHARE OPTION SCHEME

(a) Share capital

	Number of shares '000	Share capital HK\$'000
<i>Authorised:</i> Ordinary shares of HK\$0.01 each	<u>8,000,000</u>	8,000

Notes to the Financial Statements

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34. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(a) Share capital (continued)

	Number of shares '000	Share capital HK\$'000	RMB'000
As at 1 January 2018	1,327,694	13,278	10,760
Issue of share			
— Share options exercised (Note (i))	40,000	400	322
— Conversion of convertible bonds (Note (ii))	9,804	98	79
As at 31 December 2018, 1 January 2019 and 31 December 2019	1,377,498	13,776	11,161

Notes:

- (i) On 23 April 2018, 40,000,000 ordinary shares were issued in relation to exercise of share options.
- (ii) On 14 May 2018, the holder of Convertible Bond 1 exercised the conversion right and the entire convertible bond was converted into 9,803,622 ordinary shares of the Company of HK\$0.01 each. The conversion shares rank pari passu in all respects with the shares of the Company.

(b) Reserves

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) Share option reserve

The share option reserve relates to share options granted to Directors and employees under the Company's share option scheme. Items included in share option reserve will not be reclassified subsequently to profit or loss.

(ii) Convertible bonds reserve

The amount represented the equity component of the convertible bonds issued.

(iii) 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 2019 (2018: RMB49,850,000).

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For the year ended 31 December 2019

34. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(b) Reserves (continued)

(iv) 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.

(v) 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.

(c) Statement of changes in equity of the Company

	Share premium RMB'000	Share option reserve RMB'000	Convertible bonds reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2018	550,587	14,318	2,121	2,086	(303,004)	266,108
Loss of the year	—	—	—	—	(176,295)	(176,295)
Other comprehensive income for the year	—	—	—	11,954	—	11,954
Total comprehensive loss for the year	—	—	—	11,954	(176,295)	(164,341)
Issue of ordinary shares upon conversion of convertible bonds	11,596	—	(1,695)	—	—	9,901
Exercise of share options	49,103	(14,318)	—	—	—	34,785
As at 31 December 2018 and 1 January 2019	611,286	—	426	14,040	(479,299)	146,453
Loss of the year	—	—	—	—	(342,596)	(342,596)
Other comprehensive loss for the year	—	—	—	(2,079)	—	(2,079)
Total comprehensive loss for the year	—	—	—	(2,079)	(342,596)	(344,675)
Transfer of lapsed conversion rights of matured convertible bonds	—	—	(426)	—	426	—
As at 31 December 2019	611,286	—	—	11,961	(821,469)	(198,222)

(d) 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.

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34. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(d) Share option scheme (continued)

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.

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.

The following table discloses movements of the Company's share options during the year ended 31 December 2018:

Name or category of participant	Option type	Number of share options			Date of grant of share options (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	Exercise price of share options HK\$	Price of Company's share at grant date of share options HK\$
		As at 1 January 2018	Exercised during the year	As at 31 December 2018				
Employees of the Group	2015 tranche 1	20,000,000	(20,000,000)	—	24/04/15	24/04/15 to 23/04/18	1.09	1.09
Employees of the Group	2015 tranche 2	20,000,000	(20,000,000)	—	24/04/15	24/04/16 to 23/04/18	1.09	1.09
		40,000,000	(40,000,000)	—				
Weighted average exercise price (HK\$)		1.09	1.09	—				

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34. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(d) Share option scheme (continued)

Options that were granted during the year ended 31 December 2014 have a term of three years commencing from 18 December 2014 and shall vest and become exercisable in two equal tranches on 18 December 2014 and 18 December 2015 respectively.

During the year ended 31 December 2015, options were granted and have a term of three years commencing from 24 April 2015 and shall vest and become exercisable in two equal tranches on 24 April 2015 and 24 April 2016 respectively.

As at 31 December 2019 and 2018, no shares in respect of which share options had been granted and remained outstanding under the Scheme.

No share options granted during the year (2018: Nil), of which no share option expense was recognised (2018: Nil) during the year ended 31 December 2019.

The fair value of the share option is determined using the Black-Scholes Option Pricing Model. The Black-Scholes Model calculates the price variation over time of financial instruments such as stocks that can be used to determine the price of share options. The model assumes that the price of heavily traded assets follow a geometric Brownian motion with constant drift and volatility. When applied to price a share option, the model incorporates the constant price variation of the stock, the time value of money, the option's strike price and the time to the option's expiry.

The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Input into the model

Option type	2015 tranche 1	2015 tranche 2
Grant date share price	HK\$1.09	HK\$1.09
Exercise price	HK\$1.09	HK\$1.09
Expected volatility	60.35%	60.35%
Time to maturity	3 years	3 years
Dividend yield	0.00%	0.00%
Risk-free interest rate	0.78%	0.78%

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35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Interest in subsidiaries		211,690	407,573
Right-of-use assets		686	—
Property, plant and equipment		66	114
		212,442	407,687
Current assets			
Prepayments, deposits and other receivables		307	447
Amount due from subsidiaries		71,105	71,788
Cash and bank balances		450	205
		71,862	72,440
Current liabilities			
Accruals and other payables		152,665	14,129
Borrowings		276,408	41,797
Amount due to a subsidiary		41,597	—
Promissory notes		—	258,434
Convertible bonds		—	8,153
Lease liabilities		695	—
		471,365	322,513
Net current liabilities		(399,503)	(250,073)
Total assets less current liabilities		(187,061)	157,614
Net (liabilities)/assets		(187,061)	157,614
Equity			
Share capital		11,161	11,161
Reserves	34(c)	(198,222)	146,453
Total equity		(187,061)	157,614

Approved by the board on 15 June 2020 and signed on its behalf by:

Mr. Chen Hong Cai
Chairman

Mr. Sun Shao Hua
Executive Director

Notes to the Financial Statements

For the year ended 31 December 2019

36. 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
			Direct	Indirect	
Rich Kirin Holdings Limited ("Rich Kirin")	The BVI, 13 June 2013	US\$1	100	—	Investment holding
Big Wealth Limited ("Big Wealth")	The BVI, 18 November 2005	US\$100	—	100	Investment holding
HongSheng (Jiangxi) Color Printing Packaging Co., Ltd ("HongSheng")	The PRC, wholly-owned foreign enterprise 29 November 2005	Registered capital HK\$100,000,000 Paid-up capital HK\$100,000,000	—	100	Sales of packaging materials
Jiangxi Hongkun Medical Technology Co., Ltd (Formerly known as Jiangxi Hongyu New Materials Environmental Friendly Paper Co., Ltd) ("Hongkun") (Note (i))	The PRC, 6 May 2015	Registered capital RMB60,000,000 Paid-up capital Nil	—	100	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	—	Investment holding
Wealthy Top (China) Limited ("Wealthy Top")	The BVI, 27 May 2015	HK\$1	—	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	Provision of consultancy services
Megasea International Limited ("Megasea")	The BVI, 7 January 2019	US\$100	100	—	Investment holding
Hongkong Immortal Business Trading Limited ("Hongkong Immortal")	Hong Kong, 28 March 2019	HK\$100	—	100	Investment holding

Note:

- (i) The registered capital of Hongkun is RMB60,000,000. As at 31 December 2019, the Group had not injected any capital to Hongkun and the amount will be injected prior to 5 May 2024.

Notes to the Financial Statements

For the year ended 31 December 2019

37. STRUCTURED ARRANGEMENTS

As at 31 December 2019, the Group has an operating entity controlled through contractual arrangements in Cable King Group.

Particulars and main business of the operating entity

冰河(廈門)信息技術有限公司 (Behill Science Technology Co., Ltd) (“Behill”) is a limited liability company established under the laws of the PRC and is wholly owned by Mr. Huang Jianqiang (黃建強) (“Mr. Huang”). Behill is controlled by the Group through Chunxin by way of certain structured contracts in relation to controlling the Behill by Chunxin (the “Structured Contracts”). Behill is principally engaged in development, distribution and operation of game products.

Major terms of the structured contracts

Power of attorney

Mr. Huang executed an irrevocable power of attorney which enables Chunxin to exercise all the powers of the shareholders of Behill.

Exclusive call option agreement

Mr. Huang irrevocably and without any additional conditions grant an exclusive option to Chunxin under which Chunxin shall have the right to require Mr. Huang to transfer his equity interest in Behill on demand to Chunxin or its designated entity or individual.

Exclusive Technological Support and Management Consulting Service Agreement

Chunxin shall serve as the exclusive consultant and service provider to Behill, to provide a variety of consulting technical support services to Behill for its business. Behill shall pay to Chunxin a service fee that is equal to its 100% profits before income tax (net of operating and other tax expenses) on a monthly basis.

Business Cooperation Agreement

Behill and Mr. Huang shall appoint persons to be designated by Chunxin to be the chairman (when applicable), directors/executive directors, general manager, chief financial controller and other senior management of Behill. Behill shall be operated in accordance with the instruction of Chunxin and Mr. Huang has undertaken not to act in any manner that may affect the assets, business, personnel, obligations, rights or the operations of Behill, unless with the prior written consent of the Chunxin or its appointee. In addition Chunxin shall have the right to obtain and review the business data, financial information and other information relevant to the operations and business of Behill.

Notes to the Financial Statements

For the year ended 31 December 2019

37. STRUCTURED ARRANGEMENTS (continued)

Revenue and assets subject to the contractual arrangements

	2019 RMB'000	2018 RMB'000
Revenue	95,990	235,389
Net loss	(91,600)	(33,550)
	2019 RMB'000	2018 RMB'000
Total assets	76,144	170,421

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.

38. PLEDGE ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 27) of the Group.

	2019 RMB'000	2018 RMB'000
Machinery (Note 16)	98,686	31,795
Buildings (Note 16)	41,171	44,314
Prepaid lease payments (Note 17)	—	2,195
Right-of-use assets (Note 20)	2,135	—
	141,992	78,304

Notes to the Financial Statements

For the year ended 31 December 2019

39. 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.

	2019 RMB'000	2018 RMB'000
Fees	309	295
Other emoluments:		
Salaries, allowances and benefits in kind	11,312	9,399
Retirement benefit schemes contributions	83	84
Total	11,704	9,778

(b) Transaction

Name of related parties	Relationship	Nature of transactions	2019 RMB'000	2018 RMB'000
鴻聖信息科技(廈門)有限公司	Company controlled by a Director	Office premise rental expenses	691	676
Mr. Peng Dongmiao (Note)	Substantial shareholder	Interest expenses on promissory note 2	1,408	4,796
		Interest expenses on promissory note 4	3,399	5,863
		Interest expenses on borrowings	1,439	—
		Redemption of promissory note 2	40,992	—

Note: As a result of business combination, the Company issued consideration shares and Promissory Note 2 to Mr. Peng Dongmiao for the consideration of acquisition of the entire equity interest of Cable King Limited. Mr. Peng Dongmiao become the substantial shareholder of the Company. During the year ended 31 December 2019, interest expenses of approximately RMB6,246,000 (equivalent to approximately HK\$7,085,000) (2018: RMB10,659,000 (equivalent to approximately HK\$12,630,000)) was incurred in relation to Promissory Notes 2 and 4 held by Mr. Peng Dongmiao.

(c) Outstanding balance with related parties

The Group had Promissory Note 4 due to its substantial shareholder, Mr. Peng Dongmiao, as at the end of the reporting period, for details, please refer to Note 28.

Notes to the Financial Statements

For the year ended 31 December 2019

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Borrowings	Promissory notes	Convertible bonds	Interest payable	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 27)	(Note 28)	(Note 29)	(Note 26)	(Note 30)	
As at 1 January 2018	53,000	294,162	16,922	4,513	—	368,597
Cash flows	38,176	(53,589)	—	(28,426)	—	(43,839)
Interest expenses	6,785	23,848	2,118	—	—	32,751
Conversion of convertible bonds	—	—	(10,655)	—	—	(10,655)
Foreign exchange adjustments	1,621	13,947	542	—	—	16,110
Other non-cash movements	(6,785)	(19,934)	(774)	29,076	—	1,583
As at 31 December 2018	92,797	258,434	8,153	5,163	—	364,547
Impact on adoption of HKFRS 16	—	—	—	—	2,949	2,949
As at 1 January 2019 (restated)	92,797	258,434	8,153	5,163	2,949	367,496
Cash flows	1,162	(40,992)	—	(11,326)	(1,475)	(52,631)
Interest expense	120,713	9,651	526	—	85	130,975
Other non-cash movements	(120,713)	(7,757)	(2,941)	139,632	(39)	8,182
Reallocation	229,600	(223,636)	(5,964)	—	—	—
Foreign exchange adjustments	849	4,300	226	1,991	15	7,381
As at 31 December 2019	324,408	—	—	135,460	1,535	461,403

41. COMPARATIVES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under the transition methods design, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

Notes to the Financial Statements

For the year ended 31 December 2019

42. EVENTS AFTER REPORTING PERIOD

Since January 2020, the outbreak of Novel Coronavirus (“COVID-19”) has impact on the global business environment. Up to the date of these financial statements, COVID-19 has not resulted in material impact to the Group. Pending the development and spread of COVID-19 subsequent to the date of these consolidated financial statements, 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 these consolidated financial statements. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact to the financial position and operating results of the Group.

At the date of this report, the noteholder of Promissory Note 4 subsequently extended the repayment date of borrowing of approximately RMB80,509,000 (equivalents to HKD90,000,000) to 7 June 2021.

43. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 15 June 2020.

Five-Year Financial Summary

For the year ended 31 December 2019

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 audited consolidated financial statements is set out below:

Results

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	443,642	690,750	1,020,012	868,593	615,372
Cost of sales	(343,657)	(525,104)	(637,953)	(602,711)	(466,863)
Gross profit	99,985	165,646	382,059	265,882	148,509
Other revenue	1,844	3,364	4,589	2,428	1,886
Other income	610	1,610	7,365	3,595	7,902
Selling and distribution expenses	(142,482)	(172,587)	(175,698)	(96,752)	(29,126)
Administrative expenses	(47,303)	(82,008)	(51,739)	(43,418)	(27,377)
Amortisation of intangible assets	(9,594)	(5,166)	(21,010)	(27,438)	—
Impairment loss on goodwill	(217,249)	(200,609)	—	—	—
Allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net	(1,769)	(4,693)	—	—	—
Change in fair value of derivative financial instruments	—	(8,733)	1,860	4,030	(624)
Change in fair value of contingent consideration payable	—	—	(143,376)	(51,963)	—
Loss on modification of convertible bonds	—	—	—	—	(7,021)
Loss on early redemption of promissory notes	—	(348)	—	(5,185)	—
Equity-settled share option expenses	—	—	—	(2,389)	(15,931)
Finance costs	(130,975)	(32,751)	(33,033)	(26,269)	(8,374)
(Loss)/profit before tax	(446,933)	(336,275)	(28,983)	22,521	69,844
Income tax	5,622	(9,601)	(21,668)	(14,600)	(15,079)
(Loss)/profit for the year	(441,311)	(345,876)	(50,651)	7,921	54,765

Assets and Liabilities

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	565,441	899,977	1,310,933	1,305,796	683,037
Total liabilities	(534,251)	(421,048)	(516,854)	(725,896)	(332,015)
	31,190	478,929	794,079	579,900	351,022

Notes:

- (i) The financial information for each of the five years ended 31 December 2019 have been prepared upon the Recognition as if the group structure, at the time when the Shares were listed on the Stock exchange, had been in existence throughout the years concerned.
- (ii) The summary above does not form part of the audited financial statements.