中國生態旅遊集團
CHINA ECOTOURISM GROUP

China Ecotourism Group Limited
中國生態旅遊集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1371)

CLARIFICATION ANNOUNCEMENT IN RESPECT OF THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the announcement of China Ecotourism Group Limited (the "Company", together with its subsidiaries, the "Group") dated 31 March 2022 in relation to the Unaudited Results Announcement and the announcement of the Company dated 30 June 2022 in relation to the Group's audited annual results announcement for the year ended 31 December 2021 (the "Annual Results Announcement") which has annexed the full text of the 2021 Annual Report (together, the "Announcements"). Unless otherwise stated, terms used in this announcement shall have the same meanings as those defined in the Announcements.

Shareholders of the Company (the "Shareholders") are advised to read this announcement in conjunction with the Annual Results Announcement.

The Company noted that there are some inadvertent clerical and typograpical errors in the 2021 Annual Report annexed to the Annual Results Announcement. Accordingly, minor amendments are made to references in the consolidated statement of changes in equity and certain notes to the consolidated financial statements.

The Board of Directors of the Company would like to inform the Shareholders and potential investors of the Company that the Annual Results Announcement with the amended 2021 Annual Report attaching thereto is annexed hereto (with the amendments having been underlined for easy reference). The amendments will also be updated in the 2021 Annual report to be despatched to the Shareholders on 8 July 2022.

For the avoidance of doubt, the amendments do not affect the figures disclosed in the audited financial statements disclosed on pages 1 to 10 of the Annual Results Announcement and, save for the above, the contents of the Annual Results Announcement remain unchanged.

By Order of the Board
China Ecotourism Group Limited
CHAN Tan Na, Donna
Chairperson of the Board

Hong Kong, 3 July 2022

As at the date of this announcement, the Board comprises Ms. CHAN Tan Na, Donna, Mr. WU Jingwei, Mr. DI Ling and Mr. QIU Peiyuan as Executive Directors; and Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Dr. MENG Zhijun as Independent Non-executive Directors.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

China Ecotourism Group Limited
中國生態旅遊集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1371)

FURTHER ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the announcement of China Ecotourism Group Limited (the "Company", together with its subsidiaries, the "Group") dated 31 March 2022 in relation to the unaudited annual results of the Group for the year ended 31 December 2021 (the "Unaudited Results Announcement").

AUDITED ANNUAL RESULTS

The board ("Board") of directors ("Directors") of the Company is pleased to announce that the Group's auditor, Crowe (HK) CPA Limited ("Crowe"), has completed its audit of the Group's consolidated financial statements for the year ended 31 December 2021 in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The audited annual results for the year ended 31 December 2021 were approved by the Board on 30 June 2022. The details of which are set out in the full text of the annual report (the "2021 Annual Report") of the Company for the year ended 31 December 2021 enclosed hereto.

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Since financial information contained in the Unaudited Results Announcement was neither audited nor agreed with Crowe as at the date of its publication and subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and audited annual results of the Group. Set forth below are principal details and reasons for the material differences in such financial information in accordance with Rule 13.49(3)(ii) (b) of the Listing Rules.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Audited	**Unaudited**	**Difference**	Note
	HK$'000	*HK$'000*	*HK$'000*	
Revenue	124,920	117,155	7,765	1
Costs of sales and services				
— Depreciation of lottery terminals	(3,867)	(3,867)	-	
— Others	(71,777)	(71,962)	185	
	(75,644)	(75,829)	185	
Gross profit	49,276	41,326	7,950	
Other income	21,827	20,493	1,334	2
Other (losses)/gains - net	(26,480)	(14,187)	(12,293)	3
Net impairment losses on financial assets	(61,257)	(62,943)	1,686	4
Gain on disposal of a subsidiary	121	-	121	
General and administrative expenses	(211,348)	(201,704)	(9,644)	5
Operating loss	(227,861)	(217,015)	(10,846)	
Finance costs	(57,521)	(57,410)	(111)	
Share of losses of associates	-	-	-	
Share of loss of a joint venture	-	-	-	
Loss before income tax	(285,382)	(274,425)	(10,957)	
Income tax credit	4,471	3,156	1,315	6
Loss for the year	(280,911)	(271,269)	(9,642)	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Cont'd)*

For the year ended 31 December 2021

	Audited	Unaudited	Difference	Note
	HK$'000	*HK$'000*	*HK$'000*	
Loss attributable to:				
Owners of the Company	(258,312)	(256,398)	(1,914)	
Non-controlling interests	(22,599)	(14,871)	(7,728)	7
	(280,911)	(271,269)	(9,642)	
Loss per share attributable to owners of the Company				
— basic (HK cents)	(11.34)	(11.73)	(0.39)	
— diluted (HK cents)	(11.34)	(11.73)	(0.39)	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Audited	**Unaudited**	**Difference**	Note
	HK$'000	*HK$'000*	*HK$'000*	
Loss for the year	(280,911)	(272,763)	(8,148)	
Other comprehensive (expense)/income:				
Items that will not be reclassified to profit or loss				
Gain on revaluation of properties held for own use	-	-	-	
Deferred tax arising on revaluation of properties held for own use	-	-	-	
	-	-	-	
Items that may be reclassified to profit or loss				
Currency translation differences				
- translation of financial statements of subsidiaries outside Hong Kong	7,668	4,516	3,152	8
- accumulated exchange differences to profit or loss upon disposal of a subsidiary	(234)	-	(234)	
Share of other comprehensive income of associates and a joint venture	-	-	-	
	7,434	4,516	2,918	
Total other comprehensive income for the year	7,434	4,516	2,918	
Total comprehensive expense for the year	(273,477)	(268,247)	(5,230)	
Attributable to:				
Owners of the Company	(257,946)	(253,257)	(4,689)	
Non-controlling interests	(15,531)	(14,990)	(541)	
Total comprehensive expense for the year	(273,477)	(268,247)	(5,230)	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Audited	Unaudited	Difference	Note
	HK$'000	*HK$'000*	*HK$'000*	
Non-current assets				
Property, plant and equipment	33,063	45,356	(12,293)	9
Right-of-use assets	322,969	330,622	(7,653)	10
Intangible assets	20,408	20,408	-	
Interests in associates	189	189	-	
Investment in a joint venture	-	-	-	
Financial assets at fair value through profit or loss	4,536	4,536	-	
	381,165	401,111	(19,946)	
Current assets				
Inventories	21,347	21,356	(9)	
Accounts receivable	11,713	13,270	(1,557)	11
Prepayments, deposits and other receivables	57,932	73,704	(15,772)	12
Cash and bank balances	101,049	101,049	-	
	192,041	209,379	(17,338)	
Total assets	573,206	610,490	(37,284)	
Current liabilities				
Accounts payable	5,485	5,485	-	
Accruals and other payables	34,830	56,105	(21,275)	13
Contract liabilities	35,211	45,808	(10,567)	14
Amount due to a joint venture	6,225	6,225	-	
Amount due to a shareholder	1,224	1,224	-	
Amounts due to key management personnel	17,935	7,500	10,435	15
Tax payable	2,013	4,355	(2,342)	16
Bank and other borrowings	197,000	197,000	-	
Lease liabilities	3,457	6,722	(3,265)	17
Convertible bonds	127,062	127,062	-	
	430,442	457,486	(27,044)	
Net current liabilities	(238,401)	(248,107)	9,706	
Total assets less current liabilities	142,764	153,004	(10,240)	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Cont'd)*

At 31 December 2021

	Audited	**Unaudited**	**Difference**	Note
	HK$'000	*HK$'000*	*HK$'000*	
Non-current liabilities				
Deferred income tax liabilities	39,161	39,161	-	
Lease liabilities	3,375	6,827	(3,452)	17
	42,536	45,988	(3,452)	
Net assets	100,228	107,016	(6,788)	
Equity attributable to owners of the Company				
Share capital	77,211	77,211	-	
Accumulated losses	(2,011,224)	(1,989,166)	(22,058)	
Statutory reserve	20,144	-	20,144	18
Other reserves	1,770,272	1,774,605	(4,333)	
	(143,597)	(137,350)	(6,247)	
Non-controlling interests	243,825	244,366	(541)	
Total equity	100,228	107,016	(6,788)	

Notes:

1. The difference in revenue was mainly due to the adjustment among revenue, contract liabilities and accounts receivable upon finalization of audit work.

2. The difference in other income was mainly due to the adjustment for the accrual of interest income.

3. The difference in other (losses)/gains - net was mainly due to the recognition of loss from impairment of property, plant and equipment upon finalization of the audit work.

4. The difference in net impairment losses on financial assets was mainly due to net impact of the adjustment for the impairment losses of other receivables and reclassification of reversal of impairment losses of loan receivables from general and administrative expenses.

5. The difference in general and administrative expenses was mainly due to the reclassification mentioned in note 4 above.

6. The difference in income tax credit was mainly due to the adjustment for the overstatement of PRC enterprise income tax.

7. The difference in loss attributable to non-controlling interests was mainly due to the adjustment for the understatement of share of loss attributable to non-controlling interests.

8. The difference in currency translation differences that may be reclassified to profit or loss was mainly due to the adjustment for the translation of financial statements from functional currency to presentation currency of subsidiaries outside Hong Kong upon finalization of audit work.

9. The difference in property, plant and equipment was mainly due to the impairment mentioned in note 3 above.

10. The difference in right-of-use assets was mainly due to the adjustment for the overstatement of certain leased properties upon finalization of the audit work.

11. The difference in accounts receivable was mainly due to the adjustment of revenue, contract liabilities and accounts receivable upon finalization of the audit work as mentioned in note 1 above.

Notes (Cont'd):

12. The difference in prepayments, deposits and other receivables was mainly due to the adjustment for the impairment losses of other receivables mentioned in note 4 above and reclassification of other receivables from other payables.

13. The difference in accruals and other payable was mainly due to the reclassification of the balance to amount due to key management personnel and reclassification of the balance from other receivables mentioned in note 12 above.

14. The difference in contract liabilities was mainly due to the adjustment between revenue, contract liabilities and accounts receivable upon finalization of audit work mentioned in note 1 above.

15. The difference in amount due to key management personnel was mainly due to the reclassification of the balance from other payables mentioned in note 13 above.

16. The difference in income tax payable was mainly due to the adjustment for tax provision upon finalization of audit work.

17. The difference in lease liabilities was mainly due to the adjustment for the overstatement of right-of-use assets mentioned in note 10 above.

18. The difference in statutory reserve was mainly due to the reclassification of the balance from the accumulated losses of being the statutory reserve of certain subsidiaries in PRC.

Save as disclosed in this announcement and the corresponding adjustments in total, percentages, ratios and comparative figures related to the above material differences, all other information contained in the Unaudited Results Announcement had no material changes.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the right to attend the forthcoming annual general meeting (the "AGM") to be held on Tuesday, 2 August 2022, the register of members of the Company will be closed from Thursday, 28 July 2022 to Tuesday, 2 August 2022 (both days inclusive). During such period, no transfer of the shares of the Company will be registered. In order to qualify for the attendance in the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Wednesday, 27 July 2022.

THE AUDIT COMMITTEE

The Audit Committee of the Company (the "Audit Committee") currently comprises the three Independent Non-executive Directors of the Company, namely Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Dr. MENG Zhijun.

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited annual results contained herein have been reviewed by the Audit Committee and approved by the Board.

SCOPE OF WORK OF AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed by the Company's auditor, Crowe, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2021. The work performed by Crowe in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe on this announcement.

PUBLICATION OF AUDITED ANNUAL RESULTS AND 2021 ANNUAL REPORT

This announcement is published on respective websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.ecotourgroup.com). The 2021 Annual Report will be dispatched to the shareholders of the Company and published on the above websites in due course.

By order of the Board
China Ecotourism Group Limited
CHAN Tan Na, Donna
Chairperson of the Board

Hong Kong, 30 June 2022

As at the date of this announcement, the Board comprises Ms. CHAN Tan Na, Donna, Mr. WU Jingwei, Mr. DI Ling and Mr. QIU Peiyuan as Executive Directors; and Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Dr. MENG Zhijun as Independent Non-executive Directors.

Contents

Corporate Information

DIRECTORS

Executive Directors

Ms. CHAN Tan Na, Donna *(Chairperson)*
Mr. WU Jingwei
Mr. DI Ling
Mr. QIU Peiyuan

Independent Non-Executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Dr. MENG Zhijun

AUDIT COMMITTEE

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Dr. MENG Zhijun

REMUNERATION COMMITTEE

Ms. CHAN Tan Na, Donna
Mr. HUANG Shenglan
Mr. CHAN Ming Fai

NOMINATION COMMITTEE

Ms. CHAN Tan Na, Donna
Mr. HUANG Shenglan
Mr. CHAN Ming Fai

COMPANY SECRETARY

Mr. SHIU Wing Yan

AUTHORISED REPRESENTATIVES

Ms. CHAN Tan Na, Donna
Mr. SHIU Wing Yan

AUDITOR

Crowe (HK) CPA Limited
Certified Public Accountants

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Hamilton HM 10, Bermuda

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Hamilton HM 12, Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wan Chai, Hong Kong

LEGAL ADVISERS

Conyers
Baker & McKenzie

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Industrial Bank Co. Ltd., Hong Kong Branch

Financial Summary

A summary of results and the assets and liabilities of China Ecotourism Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are as follows:

RESULTS

	Year ended 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	124,920	118,563	154,354	183,927	237,852
Gross profit	49,276	27,515	61,492	95,941	117,498
Share option expenses	–	–	(5,065)	(13,237)	(10,174)
Finance costs	(57,521)	(86,034)	(53,922)	(33,396)	(40,367)
Loss before income tax	(285,382)	(630,445)	(546,345)	(153,860)	(179,358)
Income tax credit/(expense)	4,471	6,527	(3,755)	(8,861)	(15,741)
Loss for the year	(280,911)	(623,918)	(550,100)	(162,721)	(195,099)
(Loss)/Profit attributable to:					
Owners of the Company	(258,312)	(573,971)	(518,793)	(169,468)	(192,568)
Non-controlling interests	(22,599)	(49,947)	(31,307)	6,747	(2,531)
	(280,911)	(623,918)	(550,100)	(162,721)	(195,099)

ASSETS AND LIABILITIES

	As at 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total current assets	192,041	284,952	311,539	832,814	866,304
Total assets	573,206	747,470	1,080,922	1,621,804	1,686,761
Total liabilities	(472,978)	(579,172)	(549,405)	(549,610)	(547,679)
Net assets	100,228	168,298	531,517	1,072,194	1,139,082

Management Discussion and Analysis

The Group engages in the provision of technology and operation services for lottery systems, terminal equipment and gaming products. It has made persistent efforts to cultivate and expand operations in China's welfare lottery market for more than a decade, with its value chain extending from computer generated ticket games ("CTG"), instant tickets to new media lottery. Meanwhile, it has further explored and developed businesses with good potential such as new retail operation. After endeavoring to cultivate international markets in recent years, the Group has gradually established a co-development model for its domestic and overseas business.

While committing to the diversification strategy, the Group took advantage of the government's development policy and made preparations for expansion of new businesses. In the first half of 2021, it vigorously expanded ecotourism services and drove its development towards ecotourism operation.

CHINA'S LOTTERY MARKET

Under the dual impacts of industrial policy adjustments and the COVID-19 pandemic, China's lottery industry saw significant decline in ticket sales between 2019 and 2020. However, the market resumed growth momentum in the first half of 2021. The national lottery ticket sales grew briskly in 2021 on low base of comparison in 2020 and the kick-off of the UEFA European Football Championship.

According to the data released by the Ministry of Finance ("MOF"), China's lottery ticket sales reached RMB373.285 billion, representing an 11.8% year-on-year growth. Of which, the welfare lottery sales edged down by 1.5% year-on-year to RMB142.255 billion; while the sports lottery sales advanced by 21.9% year-on-year to RMB231.030 billion.

As for sales of different lottery products, the sales performance of major lottery products in 2021 were relatively volatile when compared with the previous year because the product mix of some lottery tickets was further optimized and certain high-risk lottery ticket was withdrawn from the market. Lotto sales decreased by RMB60.016 billion year-on-year to RMB161.892 billion. Single Match Games ("SMG") sales increased by RMB59.381 billion year-on-year to RMB134.299 billion. Paper-based Scratch Card sales increased by RMB24.991 billion year-on-year to RMB54.411 billion. KENO-type sales increased by RMB21.773 billion year-on-year to RMB22.683 billion. The sales of Lotto, SMG, Paper-based Scratch Card and KENO-type accounted for 43.3%, 36.0%, 14.6% and 6.1% of total lottery sales respectively.

REGULATION OF LOTTERY INDUSTRY

In recent years, the government has adhered to the target of "responsible, reliable and high quality development of welfare lottery industry". It stuck to its positioning of national welfare lottery market and stressed the importance of its social responsibilities. The accreditation on responsible gambling was established and implemented, thereby ensuring the healthy development of the industry. The market shifted its focus from simply pursuing sales and growth pace to achieving quality development and overall social benefits.

Management Discussion and Analysis

The measures for regulating irrational lottery buying behaviors, including the optimization of product mix of lottery tickets and gaming products and the restriction on high stakes betting, were launched several years ago. Since the first half of 2021, the MOF, the Ministry of Civil Affairs ("MCA") and other ministries and commissions have revised and promulgated a number of administrative measures for lottery public welfare funds.

In May 2021, the MOF amended the "Administrative Measures for Lottery Public Welfare Funds", whereby further elaborating the details required in the public announcements issued by the government departments and units using the funds. Those fail to comply with the announcement requirements are subject to legal liability. In June, the MOF issued the "Administrative Measures for Regulating the Funds in the Lottery Market", which expand the scope that the funds are allowed to be used in the lottery market and cover the expenses for the suspension of ticket box offices caused by nationwide force majeure events and the maintenance of their basic operation. The MOF formulated the "Administrative Measures for the Central Special Lottery Public Welfare Fund to Support Local Social Welfare Development Funds", which require the public welfare fund to adhere to the public welfare nature and social responsibilities of national lottery. They also call on the fund to skew towards underdeveloped areas and underprivileged groups, supporting local social welfare sectors to improve their vulnerable segments and fields.

In August 2021, the MOF announced the data on the raising and allocation of lottery public welfare fund and the usage of centralized lottery public welfare fund in 2020. The nation raised lottery public welfare fund of RMB96.781 billion. With the approval from the National People's Congress, the central financial administration allotted RMB29.864 billion to meet the expenses of lottery public welfare fund, which were used for various purposes such as the National Social Security Fund, social welfare projects and the aids to elderly/disabled/child benefits. They were also used to promote the national fitness strategy with an aim to improve athletes' overall performance in competitive sports and to develop China into a leading sports nation.

In May 2021, the MCA and the National Development and Reform Commission ("NDRC") jointly issued the "14th Five-Year Civil Affairs Development Plan". Pursuant to it, the welfare lottery should play the supporting and protective role and the "Project to Promote Healthy Development of Welfare Lottery" was listed one of the top 10 projects. The China Sports Lottery Administration Centre under the General Administration of Sport clearly stated in the "Main Tasks and Work Breakdown of Sports Lottery Administration in 2021" that the issuance and sale of sports lottery in 2021 would adhere to the positioning of national welfare lottery market. This operation should be developed in the public interest. With the goal of developing "responsible, reliable and high quality development of national welfare lottery industry", an "omni-product, omni-channel and complete value chain" management system should be systematically implemented.

On 21 February 2022, the State Council issued the "Circular in relation to the Promotion of National Undertakings for the Elderly and Improvement in the Elderly Care Service System during the 14th Five-Year Plan Period" on the government's website. It required that the MCA and local governments at different levels should allocate a greater portion of lottery public welfare fund on social welfare benefits. From 2022 onwards, not less than 55% of the fund shall be used in supporting elderly care services and a greater portion of the fund shall be earmarked for elderly care.

As the government's regulatory and adjustment policy on the lottery industry produced remarkable results, the lottery market and lottery ticket buyers have become increasingly mature since 2021. The lottery industry is growing in a steadier and healthier way.

Management Discussion and Analysis

CHINA'S ECOTOURISM MARKET

Travelling has become an important choice for people's daily life in recent years as the Chinese economy grew rapidly and people's living standards continuously improved. The government strove to create a new development paradigm for the 14th Five-Year Plan Period, in which domestic circulation will be a mainstay and domestic and overseas markets will reinforce each other. As a result, the potentials of domestic demand will be released and residents' consumptions will increase. Underpinned by growing demand for higher level consumption, domestic travel will experience phenomenal growth. Meanwhile, the government launched supportive policies for ecological protection and related tourism services. It put forth the concept that "lucid waters and lush mountains are invaluable assets, set up the grand goal of "building a beautiful China". With a great mission of capping carbon emissions by 2030 and achieving carbon neutrality by 2060, the government has created a favorable political environment for ecotourism development.

China Tourism Academy (Data Centre of the Ministry of Culture and Tourism), a research institute directly under Ministry of Culture and Tourism, released the "Annual Report of China Tourism Groups Development (2020)". According to its forecast, domestic tourism market will see 10 billion tourist visits per year in the coming five years, which generate consumption worth RMB10 trillion. The market is expected to contribute more than 10% to the nation's overall GDP and employment.

The Group believes that China's ecotourism industry will continue to thrive. Despite the impact of current outbreak of the COVID-19 pandemic, the market will see the new development opportunities after the pandemic subsides. There is great potential and ample room for its growth.

BUSINESS REVIEW AND OUTLOOK

CTG Business

CTG is the major product of China's lottery industry. In 2021, the Group's CTG operation maintained steady growth in the welfare lottery and the sports lottery markets. As for welfare lottery operation, the Group's sales from the Guangdong Welfare Lottery market, the biggest welfare lottery provincial market in China, reached RMB16.183 billion and remained the top seller of the provincial welfare lottery market in China. The sales from the Shanghai and Chongqing Welfare Lottery markets were RMB4.339 billion and RMB3.283 billion respectively in 2021. After obtaining the procurement contract from Guangdong Welfare Lottery Issuance Centre in 2021 for the provision of 3,000 CTG lottery terminals, the Group won another procurement contract from Guangdong Welfare Lottery Issuance Centre in March 2022 for the provision of CTG lottery sales terminal equipment worth approximately RMB18 million. As for sports lottery operation, demand from end-users declined due to the restrictions on the sale of high-frequency lottery games and quick-draw lottery games. Nevertheless, the Group won the procurement contracts from the provincial lottery issuance centres in Sichuan, Gansu, Shanxi and Inner Mongolia for the provision of sports lottery terminals. It also started after-sales maintenance services in the provincial lottery issuance centres in Shanxi, Inner Mongolia, Liaoning, Shaanxi, Hunan, Guangxi, Henan and Yunnan.

Management Discussion and Analysis

In 2021, the Group's overseas expansion was hindered by the spread of the COVID-19 pandemic. However, it continued to make technical preparations for the expansion of overseas lottery business. The Group helped Ghana's National Lottery Authority to develop operation and supervisory platform. Going forward, it will help the authority to develop more new innovative lottery products suitable for local community. At the same time, the Group completed the development of new games in the Philippines. The handheld terminal lottery business jointly developed by the Group and the Philippine Charity Sweepstakes Office ("PCSO") is expected to commence online sales in 2022. And the mobile online sales of lottery tickets will be rolled out in Myanmar.

Video Lottery Business

Dongguan Tianyi Electronic Company Limited ("DGTY"), a subsidiary of the Company, was the exclusive terminal equipment provider for China Welfare Lottery Video Lottery – VLT ("Welfare VLT"). Welfare VLT is an instant electronic video lottery, which was suspended in July 2020.

DGTY filed a civil lawsuit with the People's High Court of Beijing in September 2016, claiming compensation from Beijing China Lottery Online Technology Company Limited ("CLO") for the continued use of its terminals after the expiry of the supply contract. The civil judgement of the People's High Court of Beijing in August 2018 ruled that CLO was required to pay DGTY the cooperation remuneration of approximately RMB1.36 billion and the accrued interest. Afterwards, CLO appealed against the court's decision to the Supreme People's Court of PRC. In March 2021, the Supreme People's Court ruled that CLO was required to pay DGTY approximately RMB54,835,700 and the accrued interest.

In view of the fact that CLO continued to generate Welfare VLT lottery sales by using the terminals provided by DGTY after the expiry of the supply contract and the requirements of related law, the Group took further legal action by filing a new lawsuit to protect its legal rights and interest.

Smart Lottery Retail

With the rise of mobile payment and artificial intelligence ("AI") technology, demand for digital and smart lottery retail has soared in recent years. The lottery industry undertook reform for channel restructuring, expansion and innovation. Lottery issuers stepped up efforts to develop channel infrastructure and enhance channel.

The Group took the lead in proposing the new retail concept for the lottery industry. According to it, different innovative technologies such as smart hardware, the Internet of things, Big Data, blockchain and AI would be fully utilized in the operation, management and marketing of lottery sale channels. It completed the development of comprehensive smart retail solutions, which include a variety of smart terminal products, smart storefront management, smart payment, smart marketing and Big Data service systems. They would be utilized to provide comprehensive services to lottery issuers and sales outlets.

Management Discussion and Analysis

China's Ecotourism Business

The tourism sector was hit hard by the COVID-19 pandemic over the past two years. Both of the number of tourist arrivals at scenic spots and their total revenue significantly dropped. Nevertheless, the Group believes that tourism is a sunrise industry and will see pent-up growth when the pandemic subsides.

Since the first half of 2021, the Group has vigorously expanded the ecotourism operation and made concrete progress. In January, the Group and China Eco Development Association entered into the "Strategic Cooperation Agreement for Development of Ecotourism Attractions in China", teaming up to develop ecotourism business. In February, the Company's name was changed into China Ecotourism Group Limited. In June, it completed a rights issue. In July, the Company's board of directors was restructured and a professional tourism management team was formed. Besides, the Company entered into the strategic cooperation agreements with Golden Tourism Group Limited (金旅集團有限公司) and CCCC Water Resources and Hydropower Construction Co., Ltd. ("CCCC WRHC") (a company under China Communication Construction Company Limited) respectively. The Group and CCCC WRHC agreed to develop a long-term and stable strategic cooperation. Both parties would leverage their respective strengths in sites selection and planning, routes development, tourism project operation, brand building, engineering and construction, project management and funding operation to carry out comprehensive cooperation.

In 2021, the Group carried out site visits to 45 scenic spots, projects and plots in 12 counties (cities, districts) of seven provinces in China.

Project 1: Mount Sanqing Xiaoyao Valley

The Mount Sanqing Xiaoyao Valley Project is located in the core area of Sanqingshan Jinsha National Tourist Site. Being a natural world heritage and the national class tourist area, Mount Sanqing has strong brand attraction. In addition, the excellent ecological environment, stunning canyons and the land plots available for cluster development create ample room for the project development.

In January to June 2021, the Group carried out site visits to the Mount Sanqing Xiaoyao Valley Project and signed the letter of intent on cooperation. Meanwhile, the Group completed the overall planning of the Chinese Taoism culture tourist spot at Mount Sanqing Xiaoyao Valley, and the compilation of the feasibility report on the Mount Sanqing Xiaoyao Valley Project. It is actively proceeding with the next stage of planning, construction and operation of the project.

Management Discussion and Analysis

Project 2: Baili Hongshan in Xingguo County, Jiangxi Province

The Baili Hongshan Tourist Attraction (southern scenic area) embraces Fairy Peach Peak with gorgeous Danxia landform, the Hanging Temple with a thousand years of history, and the natural Fengshui treasure land Bingxin Temple. It incorporates the cultures of Confucianism, Buddhism and Taoism, the red culture and the folk culture. This ecological tourism destination features stunning ecological landscape and rich cultural heritages and they blend well with each other.

In 2021, the Group carried out a number of site visits to different areas of the tourist attraction and completed constructive-detailed plan and upgrading scheme.

On 10 March 2022, the Group and the People's Government of Xingguo County entered into a preliminary agreement for a joint venture on the scenic area development and operation of the Baili Hongshan Tourist Attraction (southern scenic area). It marks an important step for the Group to proactively respond to the government's initiative that domestic circulation will be accelerated and made a mainstay of the nation's economy while domestic and overseas markets will reinforce each other. Completion of this project will give a strong boost to the tourism industry development of Xingguo County and reinforce China Ecotourism Group's core competence and influence in the Greater Bay Area. It lays a solid foundation for the Group's sustainable growth at brisk pace.

Natural & Health Food Business

Tian Ran Lin Chang Food Limited ("TRLC"), a subsidiary of the Company, sticks to the vision of providing ecological, non-contaminated products. Therefore, all of its products are accredited with the Chinese forest food certification ("CFFC"). Because of the consistent quality of its food, in particular mushrooms, nuts and honey, as well as good customer experience, its products are widely recognized in the market.

The product sales of TRLC in 2021 were adversely affected by the COVID-19 pandemic. Its domestic business has not fully recovered yet. Currently, TRLC is actively expanding different sales channels, including online and offline channels as well as community group buying. It successfully penetrated the Hong Kong market in January 2022 by selling its products at DCH Food Mart Delux. In the light of strong demand for natural and health foods, TRLC will focus on the development of new products to meet the market demand in future.

Management Discussion and Analysis

Food safety will become the consumption hot spots and main concerns for many consumers in future due to the rising living standards in China and health education received by the public after the outbreak of the COVID-19 pandemic.

In March 2022, Chinese Premier LI Keqiang urged in the Government Work Report that strict supervision on the quality and safety of the entire food chain should be put in place so that the safety on the tip of the public's tongues is ensured.

In February 2022, TRLC and China Forest Food Limited entered into an entrustment agreement. Pursuant to it, TRLC is entrusted to carry out full operation of the Tmall forest food outlet flagship stores under China Forest Food Limited.

China adopts three food safety standards, namely green food, organic food and forest food. China Forest Food Limited not only owns forest food flagship stores, but also obtains the forest food label and the CFFC. The in-depth cooperation between TRLC and China Forest Food Limited is expected to drive the former's business growth in future.

In 2022, TRLC will continue to expand offline sales of natural and health food, it will, at the same time,

1. strengthen online operation of the forest food flagship stores and increase the categories and quantities of safe food. Its sales are expected to hit RMB100 million by December 2022;

2. team up with China Forest Food Limited to jointly develop and operate a forest food App, thereby helping safe food producers to meet consumers' demand and creating a new online platform which specializes in safe food marketing.

Future Outlook

The outlook for 2022 is clouded by various uncertainties and challenges. Currently, the world is battered by a new wave of COVID-19 infections caused by the Omicron variant. Although the new variant has a high rate of transmission, a growing number of countries have decided to "live with the virus" due to the lower rate of deaths from it. China's dynamic zero infection strategy is under tremendous pressure. The international market is complicated by the outbreak of war between Russia and Ukraine, rising inflation around the world and a faster pace of tapering and interest rate hikes made by the Federal Reserve of the United States.

Despite high uncertainty facing political, economic and market environment, the Group remains cautiously optimistic about its business outlook. It believes that the COVID-19 pandemic will finally be contained in an effective way, and the lottery and tourism markets will steadily recover.

The Group will adhere to diversification strategy to combat challenges and competition lying ahead. While enhancing the development of lottery operation, it will vigorously expand ecotourism and natural and health food businesses. The Group will regularly evaluate the market conditions and closely assess the market risks arising from the pandemic, thereby doing its best to minimize their impacts on the Group's operations.

Management Discussion and Analysis

China's economic and social development features high quality growth. The concept of "high-quality development" was first proposed at the 19th National Congress of the Communist Party of China in 2017, in which the government stressed that the country's economy would transform from rapid growth to high-quality development. According to the proposal made at the fifth plenum of the 19th Central Committee of the Communist Party of China in October 2020, the main theme for national economic and social development in the 14th Five-year Plan Period was to promote its high-quality development. The 20th National Congress of the Communist Party of China to be held in 2022 is a crucial year for various industries to implement the 14th Five-year Plan and to promote high-quality development.

The new development goals and regulations for lottery industry announced by the government ensures the orderly and high-quality development of the market. In the "Development Plan for Civil Affairs in the 14th Five-year Plan Period" recently issued by the NDRC and the MCA, the government set the target of welfare lottery sales outlets for the 14th Five-year Plan Period at 180,000. It manifests that a well-planned and delicate channel management system has to be gradually developed, hence promoting the transformation of traditional lottery sales outlets, driving the channel innovation and making lottery sales more convenient for buyers. Meanwhile, the China Sports Lottery Administration Centre asked on the players in the market to implement omni-channel management, optimize channel layout and structure, promote the transformation and innovation of traditional franchised sales outlets, and enhance the coordination and integration of their channels and other operations. It is expected that the creation of new channels like hybrid channels and cross-sector channels and diversified marketing methods will be a main theme for lottery sales channel development during the 14th Five-year Plan Period. Transformation and optimization of traditional outlets are necessary.

The Group has made persistent efforts to cultivate and expand operations in China's welfare lottery market for more than a decade and possesses the pre-emptive advantages. Going forward, it will continue to explore the growth potentials of related businesses. By combining its strengths in core systems, terminal equipment, gaming products and sales channels development as well as expanding cooperation with others, the Group will actively contribute to the creation of an accountable, reliable and sustainable ecosystem for the healthy development of China's lottery industry. While gaining a foothold in the Chinese market, the Group will seek different modes of exploration and innovation to actively expand its lottery operation into overseas market.

China has established four strategies for the nation's tourism development: high-quality development, ecological culture, healthy China, and culture and tourism integration. They will be a driver and guiding force for the Group's developing towards tourism business. The Group will take advantage of these four strategies, leverage its strengths and combine all tourism resources to develop ecotourism and natural and health food operations as its new growth drivers, thereby striving to deliver greater returns to shareholders.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$124.9 million (2020: HK$118.6 million) for the year ended 31 December 2021, representing an increase of approximately 5% over 2020. Loss attributable to owners of the Company for the year ended 31 December 2021 amounted to approximately HK$258.3 million (2020: HK$574.0 million), and is mainly due to net impairment losses of non-current assets of approximately HK$48.0 million (2020: HK$398.8 million), net impairment losses on financial assets of approximately HK$61.3 million (2020: HK$26.3 million) and staff costs (excluding employee share option benefits) of approximately HK$86.3 million (2020: HK$84.7 million).

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

As at 31 December 2021, the Group had net current liabilities of approximately HK$238.4 million (2020: HK$242.0 million). The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 31 December 2021, the Company had an outstanding corporate guarantee limited to approximately HK$240.0 million (2020: HK$240.0 million) for a banking facility of an uncommitted revolving loan of approximately HK$240.0 million (2020: HK$240.0 million).

The Group had outstanding bank and other borrowings as at 31 December 2021 of approximately HK$197.0 million (2020: HK$212.8 million). As at 31 December 2021, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK$337.0 million (2020: HK$346.0 million); and (ii) a personal guarantee executed by a director of the Company (2020: a personal guarantee executed by a director of the Company).

At 1 January 2021, the outstanding convertible bonds of the Company were 7.5% convertible bonds due 2019 in the aggregate principal amount of HK$148.6 million (the "New Option 1 Bonds"). Under the first supplemental trust entered on 28 March 2019, from 7 April 2019 onward, the interest will be charged at 8.5% and payable in arrear on the maturity date. On 3 May 2021, the Company and the holders of New Option 1 Bonds entered into the fourth supplemental trust deed to further extend the maturity date from 7 November 2021 to 7 November 2022. Repayments will be in four remaining instalments: of 15%, 15%, 15% and 40% of the principal amount outstanding as at the third amendment date of 28 April 2020 (or, if lower, such amount as would result in the principal amount outstanding being reduced to zero) on 31 July 2021, 7 November 2021, 7 May 2022 and the maturity date of 7 November 2022 respectively. The Company has repaid the first installment of HK$26.2 million on 30 July 2021, being the business day before 31 July 2021. On 3 November 2021, the Company and the holders of New Option 1 Bonds entered into the fifth supplemental trust deed to amend the payment terms. Repayments will be in three remaining instalments: of 5%, 10% and 55% of the principal amount outstanding as at the third amendment date of 28 April 2020 (or, if lower, such amount as would result in the principal amount outstanding being reduced to zero) on 7 January 2022, 7 May 2022 and the maturity date of 7 November 2022 respectively. The Company has repaid the first installment of HK$8.7 million on 7 January 2022, the principal outstanding after such installment payment was HK$113.6 million. On 5 May 2022, the Company and the holders of New Option 1 Bonds entered into the sixth supplemental trust deed to further extend the maturity date from 7 November 2022 to 7 November 2023 and the principal amount outstanding of the New Option 1 Bonds was increased from HK$113.6 million to HK$154.2 million (including accrued interest up to (but excluding) 7 May 2022. 100% of New Option 1 Bonds is now repayable in one lump sum on 7 November 2023 and bears interest at 7.0% per annum with effective from 5 May 2022.

Management Discussion and Analysis

During the year under review, no New Option 1 Bonds had been converted into the shares of the Company by the bondholders. Based on the adjustment provision under the terms and conditions of the New Option 1 Bonds, an adjustment shall be made to the New Option 1 Bonds' conversion price from HK$2.00 per share to HK$1.69 per share with effect from 10 June 2021 as a result of the issue of shares under completion of the Right Issue and the Placing. At 31 December 2021, the total outstanding principal amount of the New Option 1 Bonds was HK$122.4 million. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds was 72,402,366 shares of the Company.

The Group's total equity amounted to approximately HK$100.2 million at 31 December 2021 (2020: HK$168.3 million). At 31 December 2021, net current liabilities of the Group amounted to approximately HK$238.4 million (2020: HK$242.0 million), including approximately HK$101.0 million in cash and deposits with banks and financial institution (2020: HK$76.4 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2021 was approximately 82.5% (2020: 77.5%).

Exposure to Exchange Rates Fluctuations

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, United States dollar or Renminbi. Foreign exchange risk arising from the normal course of operations is considered to be minimal.

Pledge of Assets

As at 31 December 2021, the Group's leasehold land and buildings at net book value of approximately HK$337.0 million (2020: HK$346.0 million) were pledged to banks to secure the bank borrowings granted to the Group.

Contingent Liabilities

As at 31 December 2021, the Group did not have any material contingent liabilities (2020: nil).

Staff

As at 31 December 2021, the Group employed 201 full time employees (2020: 215). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for all business of the Group.

Biographies of Directors and Senior Management

DIRECTORS

CHAN Tan Na, Donna

Board's Chairperson and Executive Director

Ms. Chan, aged 41, joined the Group in 2012 and is currently the Board's Chairperson and an Executive Director of the Company. Ms. Chan is responsible for planning and leading the implementation of the Group's overall strategies for operational development. She holds a Bachelor's degree in Economics and Finance from the University of Hong Kong and a Master's degree in Economics from Boston University, USA. She is a qualified Chartered Financial Analyst (CFA). From 2005 to early 2012, Ms. Chan held positions at Deutsche Bank's Corporate Finance department and Atlantis Investment Management (Hong Kong) Limited, where she was involved in several initial public offerings, share placements, mergers and acquisitions, and bond issuances. In her capacity as a fund manager, she was in charge of equity investments in listed and unlisted companies in the Greater China region. Ms. Chan is the chairman and an executive director of China Carbon Neutral Development Group Limited, a listed company in Hong Kong. Ms. Chan is the daughter of Ms. LAU Ting, the substantial shareholder of the Company.

WU Jingwei

Executive Director

Mr. Wu, aged 51, joined the Group in 2007 and is currently an Executive Director. Mr. Wu assists the Board's Chairperson in planning and leading the implementation of the Group's overall strategies for development. Mr. Wu has overall responsibilities for the operations and management of the Group's lottery business with extensive experience in leading the China Welfare Lottery Video Lottery Business, Computer-generated Ticket Games Business, Video Lottery Business and New Media Lottery Business. Mr. Wu has over twenty years of experience in information technology. Prior to joining the Group, Mr. Wu had held senior management positions in PKU Founder Group and Hisense Group. Mr. Wu holds a Bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

DI Ling

Executive Director

Mr. Di, aged 58, joined the Group in July 2021 and is currently an Executive Director of the Company. Mr. Di is responsible for the Group's business development and operation management of ecotourism in China. Mr. Di is experienced in risk investment and corporate finance sectors. He holds a Bachelor's degree from the Department of Thermal Engineering of Tsinghua University. He served as the President of SB Green Investment Fund Limited since 2019 and the Standing Vice President of SB China Capital between 2011 and 2019. He has extensive experience in risk management, project management, corporate restructuring and debt restructuring. Mr. Di is an executive director of China Carbon Neutral Development Group Limited, a listed company in Hong Kong.

Biographies of Directors and Senior Management

QIU Peiyuan

Executive Director

Mr. Qiu, aged 57, joined the Group in November 2021 and is currently an Executive Director of the Company. Mr. Qiu is responsible for the Group's capital strategies and investment in mergers and acquisitions. Mr. Qiu is a chartered financial analyst, a certified financial planner in Canada and has Canada security practitioner qualification. He holds a Bachelor's degree in Biology from Nankai University, a Master's degree in BioScience from the University of Hong Kong and a Master's degree in Business Administration from the University of Western Ontario, Canada. Mr. Qiu has over twenty years of experience in financial, where he was involved in several fields including but not limited to personal financial planning, pension investment, bank treasury investment, investment risk management and asset management. Mr. Qiu joined the Bank of Nova Scotia as a senior analyst and manager since 2003. He was the vice president of Asia of T. Rowe Price Group from 2008 to 2011. He established the International Business Department and was a general manager of International Business Department of Huabao Trust Co., Limited from 2011 to 2015. He was the president of Overseas Investment Department and senior managing director of Ping An Trust Co., Limited from 2015 to 2019. Mr. Qiu serves as the chief executive officer of First Ocean Financial Holdings Co. Limited and as non-executive and non-independent director of Ascent Bridge Limited, a listed company in Singapore. Mr. Qiu was an executive director of Chong Kin Group Holdings Limited, a non-executive director of China Health Group Limited and an independent non-executive director of NOVA Group Holdings Limited, all are listed companies in Hong Kong.

HUANG Shenglan

Independent Non-executive Director

Mr. Huang, aged 70, joined the Group in 2002 and is currently an Independent Non-executive Director of the Company. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a Diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Harvard Business School, USA. Mr. Huang was a non-executive director of Burwill Holdings Limited and China Fortune Investments (Holding) Limited, both are listed companies in Hong Kong.

CHAN Ming Fai

Independent Non-executive Director

Mr. Chan, aged 60, joined the Group in 2006 and is currently an Independent Non-executive Director of the Company. Mr. Chan is currently an independent business consultant. Prior to that, he was the chief executive officer of Full Seas Technology Group and the president of Dandelion Capital Group, which is a private financial advisory company. He has over thirty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also co-founded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation, which managed about USD400 million in hedge funds and other investment portfolios, and was also a member of the management committee of KGI Group. Mr. Chan was a non-executive director of Windmill Group Limited, a listed company in Hong Kong. Mr. Chan holds a Bachelor's degree in Social Sciences with a major in Economics from the University of Hong Kong.

Biographies of Directors and Senior Management

MENG Zhijun

Independent Non-executive Director

Dr. Meng, aged 53, joined the Group in July 2021 and is currently an Independent Non-executive Director of the Company. Dr. Meng holds a doctorate degree in Laws (the direction of Marxism in China) from the Central University of Finance and Economics. He is currently the Vice President of Orient Victory Group, President of China Comfort Travel Cultural Tourism Industry Group, Chairman of Jishan China Comfort Travel Health Technology Development Co., Limited and Director of China Comfort Travel Group. He is also the industry mentor of Beijing International Studies University MTA (Master of Tourism Management) & MBA (Master of Business Administration) Education Center, the Chairman of the CEO Association of the Central University of Finance and Economics, and a Director of the China Business Association. Dr. Meng was the Commissioner of the Economic Development Bureau of the Beijing Municipal Commission of Commerce (Headquarter), a temporary position of the General Manager of Marketing of COFCO Meat Investments Company Limited, a subsidiary of COFCO Corporation, and the Chief Executive Officer and President of China Comfort Travel Group Limited.

SENIOR MANAGEMENT

ZHU Xinxin

Senior Vice President and Director of the Group's Human Resource and Administrative Department

Ms. Zhu, aged 43, joined the Group in 2008. She is currently the Senior Vice President of the Group and Director of the Group's Human Resource and Administrative Department. Ms. Zhu had been the operation manager of Protiviti Independent Risk Consulting, China, a global business consulting and internal audit firm. Ms. Zhu had also worked in Accenture, a global leading management consulting, information technology services and outsourcing company. At Accenture, she participated in various projects including the CNOOC SAP implementation project, Robert Half International PeopleSoft Implementation project and BP Finance & Accounting Outsourcing project. Ms. Zhu holds a Bachelor's degree in Business and Finance from the University of Westminster and a Master's degree in Development Finance from the University of Manchester. Ms. Zhu also holds the Chief Human Resource Officer certificate, conducted by the Business School at Renmin University of China and ILR School at Cornell University.

TAN Yung Kai, Richard

Chief Financial Officer

Mr. Tan, aged 50, joined the Group in 2000. He is currently the Chief Financial Officer of the Company, responsible for the overall financial accounting of the Group. Mr. Tan has over twenty years of experience in the audit and the accounting fields. He had worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a Bachelor's degree in Commerce from McGill University, Canada and a Master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants.

Report of the Directors

The board of Directors of the Company (the "Board") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The principal businesses of the Group are (i) provision of technology and operation services for lottery systems, terminal equipment and gaming products in the China's lottery market, which covers various lottery products ranging from computer-generated ticket games and KENO-type lottery to new media lottery; (ii) research and development, processing, production and sales of natural and health food; and (iii) project development and operation of ecotourism.

The particulars of the Company's principal subsidiaries as at 31 December 2021 are set out in Note 20 to the consolidated financial statements.

Analysis of the Group's revenue and segment information for the year ended 31 December 2021 are set out in Notes 5 and 6 to the consolidated financial statements.

Further discussion and analysis of the Group's activities, including a fair review of the business of the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2021, an indication of likely future developments in the Group's business, an analysis using financial key performance indicators, and a discussion on the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, can be found in "Management Discussion and Analysis" and in "Corporate Governance Report" of this annual report. Besides, further discussion and review on the environmental policies and performance and relationship with employees, suppliers and customers of the Group, can be found in "Environmental, Social and Governance Report 2021" on the Company's website. The above sections form part of this report.

RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations and business prospects may be affected by number of risks and uncertainties directly or indirectly pertaining to the Group's business. The key risks and uncertainties identified by the Group can be found in "Management Discussion and Analysis" and in "Control Contracts" of this annual report. There may be other risks and uncertainties in addition to those shown 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.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of noncompliance with such requirements. The Group has been implementing system and allocating staff resources to ensure ongoing compliance with rules and regulations. The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the Mainland China while the Company itself was incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Group's operations accordingly shall comply with relevant laws and regulations in Hong Kong, Bermuda and the Mainland China, and the respective places of incorporation of the Company and its subsidiaries. So far as the Board is concerned, there were no material breaches of or non-compliance with the relevant rules and regulations by the Group that have significant impacts on the business and operations of the Group.

Report of the Directors

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss on page 50 of this annual report.

No interim dividend was paid during the year.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 84% of its revenue for the year. In addition, the largest customer of the Group accounted for about 35% of the Group's revenue.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 50%. In addition, the largest supplier of the Group accounted for about 18% of the Group's purchases.

Save as disclosed above, none of the Directors, their respective associates nor shareholders (which to the knowledge of the Board owned more than 5% of the Company's share capital) had any interest in the above customers and suppliers at any time during the year.

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.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in share capital and convertible bonds during the year are set out in Notes 35 and 33 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save as the 7% convertible bonds due 2023 as disclosed under the section headed "Management Discussion and Analysis" of this report, and the share option scheme as disclosed in the below section headed "Share Option Scheme", no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2021.

RESERVES

Details of movements in reserves during the year are set out in Note 37 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the distributable reserves to the shareholders in accordance with the Company's Bye-laws was nil (As at 31 December 2020: nil).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no statutory restriction against the granting of such rights under the laws of Bermuda.

Report of the Directors

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2021.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 18 May 2012, an ordinary resolution has be passed by the shareholders of the Company to adopt a new share option scheme (the "2012 Option Scheme") for the Company. On 27 May 2015 and 13 June 2019, resolutions have been approved by the Company's shareholders to refresh the limit of granting option under the 2012 Option Scheme respectively. More information can be referred in the Company's circulars dated 28 April 2015 and 30 April 2019.

As the Share Consolidation had taken effect on 14 June 2019, adjustments were made to the exercise prices and the number of shares of the Company falling to be issued in respect of the outstanding share options in accordance with the terms and conditions of the 2012 Option Scheme and the Listing Rules. As at 31 December 2021, no valid and outstanding options were granted by the Company. As at 31 December 2021, 72,298,073 shares are available for issue (being the options were granted, including those granted before and after the refreshment of limit, and outstanding plus the options may be granted) under the 2012 Option Scheme, representing approximately 2.34% of the issued shares of the Company. The 2012 Option Scheme expired on 18 May 2022 and was no longer valid as at the date of this report.

During the year ended 31 December 2021, no share option was granted, exercised, cancelled or lapsed under the 2012 Option Scheme.

Summary of the principal terms of the 2012 Option Scheme is as follows:

(i) Purpose of the Option Scheme

The purpose of the option scheme is to provide incentives to Participants (as stated in paragraph (ii)) to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group.

(ii) Participants

Any person being an employee, officer, buying agent, selling agent, consultant, sales representative, marketing representative, business representative of, supplier or provider of goods or services to, or made valuable contribution to the Group or its holding company or subsidiary, including any executive or non-executive director of the Group or its holding company or subsidiary.

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the option scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time.

Report of the Directors

(iv) Maximum entitlement of each Participant

Unless approved by shareholders of the Company in general meeting, no Participant shall be granted an option which would result in the total number of shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such Participant in any 12-month period up to and including the proposed date of grant for such options would exceed 1% of the number of shares in issue as at the proposed date of grant.

(v) Option period

An option may be exercised in accordance with the terms of the option scheme at any time during a period of not exceeding ten years to be notified by the Board to the grantee, such period to commence on the date of grant or such later date as the Board may determine and expiring on the last day of the said period. Under the option scheme, the Board may, at its discretion, prescribe a minimum period for which an option must be held before it can be exercised.

(vi) Payment on acceptance of option

HK$1.00 in cash is payable by the Participant who accepts the grant of an option in accordance with the terms of the option scheme on acceptance of the grant of an option.

(vii) Subscription price

The subscription price for the shares under the options to be granted under the option scheme will be a price determined by the Board and notified to a Participant at the time the grant of the options is made to (and subject to acceptance by) the Participant and will be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant (subject to acceptance) of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant (subject to acceptance) of the option; and (c) the nominal value of the shares.

(viii) The life of the Option Scheme

The option scheme shall be valid and effective for a period of ten years commencing on 18 May 2012, after which period no further options will be granted or accepted but the provisions of the option scheme shall remain in full force and effect in all other respects.

Report of the Directors

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Ms. CHAN Tan Na, Donna
Mr. WU Jingwei
Mr. DI Ling (appointed on 1 July 2021)
Mr. QIU Peiyuan (appointed on 18 November 2021)
Mr. LI Zi Kui (resigned on 1 July 2021)
Ms. ZHU Xinxin (resigned on 1 July 2021)
Mr. WU Yingha (appointed on 1 July 2021 and resigned on 15 January 2022)

Independent Non-Executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Dr. MENG Zhijun (appointed on 1 July 2021)
Mr. CUI Shuming (resigned on 1 July 2021)

In accordance with bye-law 99 of the Bye-laws of the Company, Mr. CHAN Ming Fai shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

In accordance with bye-law 102(B) of the Bye-laws of the Company, Mr. DI Ling, Mr. QIU Peiyuan and Dr. MENG Zhijun shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Biographical details of the Directors are set out in "Biographies of Directors and Senior Management" on pages 14 to 16 of this annual report.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on page 16 of this annual report.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

Name of Directors	Number of Shares	Approximate percentage of the Company's issued share capital *(Note 2)*
Ms. CHAN Tan Na, Donna	85,936,000 (L)	2.78% (L)
Mr. WU Jingwei	24,660,000 (L)	0.80% (L)
Mr. QIU Peiyuan	39,110,000(L) *(Note 1)*	1.27%(L)
Mr. HUANG Shenglan	110,000 (L)	0.01% (L)

Notes:

1. 19,110,000 shares beneficially owned by Mr. QIU Peiyuan. For the corporate interests, 20,000,000 shares were held by Smart Best International Corporation, a company which was wholly-owned by Mr. QIU Peiyuan.

2. Calculation of percentage of the Company's issued share capital is based on the issued share capital of 3,088,442,199 shares of the Company as at 31 December 2021.

3. The letter "L" denotes long position(s).

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2021, as far as is known to the Directors, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

Name of shareholders	Number of shares	Approximate percentage of the Company's issued share capital *(Note 3)*
Ms. LAU Ting	1,100,655,686 (L) *(Note 1)*	35.64% (L)
Mr. CHAN Shing	89,271,455 (L) *(Note 2)*	2.89% (L)

Notes:

1. 1,028,127,586 shares beneficially owned by Ms. LAU Ting ("Ms. Lau"). For the corporate interests, 7,505,287 shares were held by Hang Sing Overseas Limited which was wholly owned by Orient Strength Limited, a company which was wholly-owned by Ms. Lau. 13,773,554 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly- owned by Ms. Lau and Mr. Chan Shing ("Mr. Chan"). 51,249,259 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. Lau and Mr. Chan.

2. 24,248,642 shares beneficially owned by Mr. Chan. For the corporate interests, 13,773,554 shares were held by Strong Purpose, a company which was wholly-owned by Ms. Lau and Mr. Chan. 51,249,259 shares were held by Glory Add which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. Lau and Mr. Chan.

3. Calculation of percentage of the Company's issued share capital is based on the issued share capital of 3,088,442,199 shares of the Company as at 31 December 2021.

4. The letter "L" denotes long position(s).

Save as disclosed above, as at 31 December 2021, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Report of the Directors

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 31 December 2021 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the financial statements, there was no contracts of significance (as defined in Rule 15 of Appendix 16 of the Listing Rules) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTRACTS WITH DIRECTORS

None of the Directors offering themselves for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE, APPLICATION FOR WHITEWASH WAVIER AND THE TERMINATION OF SUBSCRIPTION

On 9 October 2020, the Company entered into a subscription agreement with a subscriber, being a substantial shareholder of the Company, pursuant to which the Company conditionally agreed to issue, and the subscriber conditionally agreed to subscribe for, the convertible bonds in the aggregate principal amount of HK$50,000,000, which may be converted into 333,333,333 conversion shares based on the initial conversion price of HK$0.15 per conversion share upon full conversion. As such, under The Code on Takeovers and Mergers (the "Takeovers Code"), the allotment and issuance of the conversion shares to the subscriber would give rise to an obligation on the part of the subscriber to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the subscriber and parties acting in concert with her unless the whitewash waiver is obtained from the Executive. The subscriber would make an application to the Executive for the whitewash waiver in respect of the allotment and issuance of the conversion shares to the subscriber pursuant to the Takeovers Code.

On 20 January 2021, the Company entered into a termination deed with the subscriber pursuant to which the Company and the subscriber agreed to mutually terminate the subscription agreement without any liability of any party. For the purpose of the Takeovers Code, the abovementioned whitewash waiver is no longer required.

Report of the Directors

RIGHTS ISSUE, PLACING OF NEW SHARES, CONNECTED TRANSACTION IN RELATION TO THE SET-OFF, WHITEWASH WAIVER AND INCREASE IN AUTHORISED SHARE CAPITAL

Rights Issue

On 16 February 2021, the Company announced a proposed rights issue to raise up to approximately HK$220.75 million before expenses by way of issuing up to 2,207,541,466 rights shares, on the basis of two (2) rights shares for every one (1) existing share then held on the relevant record date at the subscription price of HK$0.10 per rights share (the "Rights Issue"). The Rights Issue was approved by the shareholders of the Company (the "Shareholders") at the special general meeting of the Company held on 10 May 2021 (the "SGM") and was completed on 10 June 2021, and 2,058,961,466 rights shares (including 489,055,933 Untaken Shares (as defined below) under the Rights Issue) were issued.

Placing of New Shares

On 16 February 2021, the Company and a placing agent entered into a placing agreement, pursuant to which the Company conditionally appointed the placing agent and the placing agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, to subscribe for the placing shares (i.e. the 489,055,933 untaken rights shares during the Rights Issue (the "Untaken Shares")) at the placing price of HK$0.10 per placing share on the terms and subject to the conditions set out in the placing agreement (the "Placing"). The Placing was approved by the Shareholders at the SGM and was completed on 10 June 2021, and the Untaken Shares were successfully placed to six (6) placees at the placing price of HK$0.10 per placing share.

Connected Transaction in relation to the Set-Off

On 29 January 2021, the Company, a subsidiary of the Company and Ms. Lau, a substantial shareholder of the Company, entered into a setoff deed and as amended and supplemented by the supplemental deed to the deed of set-off dated 16 February 2021 (collectively, the "Set-Off Deed"), pursuant to which the parties have agreed to restructure the shareholder's loan in the principal amount of HK$50 million by offsetting the outstanding balance of the shareholder's loan as at the Rights Issue completion date on a dollar-to-dollar basis against an equivalent amount of the aggregated subscription price of (i) all entitlement shares; and (ii) the relevant excess shares allocated to Ms. Lau (the "Set-Off"). The Set-Off was approved by the independent Shareholders at the SGM.

Whitewash Waiver

If the acceptance in full by Ms. Lau of the entitlement shares allotted to her pursuant to the irrevocable undertaking and/or the allotment of excess rights shares to her upon successful excess application when there is an undersubscription of the rights issue would trigger an obligation on Ms. Lau to make a mandatory general offer under the Takeovers Code for all shares not already owned or agreed to be acquired by Ms. Lau and parties acting in concert with her, unless a waiver is granted by the Securities and Futures Commission of Hong Kong ("SFC"). Ms. Lau made an application to the SFC for the whitewash waiver pursuant to the Takeovers Code (the "Whitewash Wavier"). All conditions imposed by SFC have been fulfilled, SFC has granted the Whitewash Waiver on 5 May 2021.

Report of the Directors

Increase in Authorised Share Capital

On 16 February 2021, the Board proposed that the authorised share capital of the Company be increased from HK$40.0 million to HK$125.0 million by the creation of 3,400,000,000 additional shares, all of which would, upon issue and being fully paid, rank pari passu in all respects with the shares in issue (the "Increase in Authorised Share Capital"). The Increase in Authorised Share Capital was approved at the SGM.

Use of Proceeds from the Rights Issue and the Placing

The gross proceeds from the Rights Issue and the Placing were approximately HK$205.9 million and the net proceeds, after deducting the relevant expenses, were approximately HK$199.4 million. As at 31 December 2021, the Company had fully applied the net proceeds in accordance with the intended use as stated in the announcement of the Company dated 10 June 2021.

The other details of the captioned issues (including the respective conditions), please refer to (i) the announcements of the Company dated 16 February 2021, 9 March 2021, 14 April 2021, 10 May 2021, 7 June 2021 and 10 June 2021; (ii) the circular of the Company dated 14 April 2021; and (iii) the prospectus of the Company dated 21 May 2021.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 13 October 2021, the Company entered into the Equity Transfer Agreement with Golden Tourism Group Limited (金旅集團有限公司) (the "Vendor"), pursuant to which the Purchaser (being the Company or a subsidiary of the Company nominated by the Company to take up the 70% of the total equity interest in Sanqingshan Cultural Tourism Company Limited (三清山文化旅遊股份有限公司) (the "Sale Interest")) conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Interest at the consideration of RMB210.0 million. The Board is of the view that the terms of the Equity Transfer Agreement are on normal commercial terms after arm's length negotiations between the parties, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In view of the severe COVID-19 epidemic in China and Hong Kong in the past few months, many work cannot be carried out and proceed, and the transaction requirements cannot be completed within the agreed timeline, the Equity Transfer Agreement has been rendered impossible to perform. As such, the Company issued a notice to the Vendor to terminate the transaction contemplated under the Equity Transfer Agreement pursuant to the terms of the Equity Transfer Agreement (the "Termination of Transaction") on 27 June 2022. Pursuant to which the Equity Transfer Agreement was terminated with effect from 27 June 2022 and the respective obligations and liabilities of the parties under the Equity Transfer Agreement were released and discharged.

The other details of the captioned issues, please refer to the announcements of the Company dated 9 October 2021, 30 November 2021, 30 March 2022 and 27 June 2022.

Save as disclosed, the Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2021.

Report of the Directors

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group is set out on page 3 of this annual report.

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated statement of profit or loss for the year are set out in Note 39 to the consolidated financial statements.

COMPETING INTERESTS

The Directors believe that none of the Directors or their respective associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group.

PUBLIC FLOAT

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

CONTROL CONTRACTS

History and background

In the early of 2008, with the objective to expand into the New Media Business, the Group acquired 北京華彩贏通科技有限公司 ("OPCO") in the form of loan extended to Ms. HE Ying and Mr. JI Youjun (collectively referred to as the "Nominees") and entered into the Control Contracts with the Nominees to control and extract all economic benefits from OPCO for the benefit of the Group. The Nominees were appointed as directors of OPCO or their subsidiaries respectively to oversee its operation under the instruction of the Company. The New Media Business, as the current business of OPCO, involves mobile value-added telecommunications business activities. According to the relevant PRC laws and regulations, a wholly foreign-owned enterprise is prohibited from engaging in any value-added telecommunications business. Therefore, a wholly foreign-owned enterprise is ineligible to apply for and obtain a value-added telecommunications business operation permit. The Control Contracts were entered into in order for the Group to manage and operate the business of OPCO, under which all the business, financial and operating activities of OPCO are managed by the Group and all economic benefits and risks arising from the business, financial and operating activities of OPCO are transferred to the Group by means of consulting fees payable by OPCO.

Principal terms of the agreements under the Control Contracts

The Control Contracts comprise (i) the Loan Agreement; (ii) the Equity Pledge Agreement; (iii) the Exclusive Equity Transfer Agreement; (iv) the Consulting and Servicing Agreement; and (v) the Agency Agreement. The principal terms of which are set out below:

Report of the Directors

Loan Agreement

Pursuant to the Loan Agreement, the Group through its subsidiary 北京優昌源科技有限公司 ("WFOE") (as lender) provided loans to the Nominees (as borrowers) respectively, among others:

– the Nominees were required to pledge their equity interests in OPCO to WFOE, respectively;

– the loans have a term of 20 years;

– under any circumstances, the repayment of the loans by the Nominees (in part or in full) can only be satisfied by the transfer of the equity interests in the respective OPCO (in part or in full) to the WFOE (or the nominees of the WFOE). For avoidance of doubt, regardless of whether the repayment is made upon the expiry of the loans, upon the request of the WFOE or under any other circumstances, save for the aforesaid repayment method, any other repayment methods adopted by the Nominees shall be invalid;

– the Nominees do not have the right to repay the loans prior to its expiry without the written consent of the WFOE; and

– in the event that the consideration for the transfer of the equity interests in the OPCO (as stipulated in the Exclusive Equity Transfer Agreement) is not more than the aggregated principal amount of the loans extended to the respective Nominees, the loans will be interest-free. However, if the consideration exceeds the aggregated principal amount of the loans extended to the respective Nominees, the interest of the loans shall be the difference between the consideration and the aggregated principal amount of the loans. Upon the completion of the transfer of the equity interests in the OPCO, the Nominees shall be deemed to have satisfied all of their repayment obligations under the Loan Agreement.

Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement entered into by the Nominees, OPCO and WFOE, among others:

– the Nominees have pledged whole of the equity interest in OPCO owned by them to WFOE to guarantee the Nominees' obligations and liabilities owed to WFOE, including those under the Loan Agreement; and

– WFOE can exercise its rights under the Equity Pledge Agreement and enforce the right to the equity pledge, including, in the event of a breach, requiring the Nominees to dispose of the equity interest in OPCO, or asking the Nominees to transfer the equity interest in OPCO to WFOE to discharge the Nominees' obligations and liabilities towards WFOE if agreed by the parties.

Report of the Directors

Exclusive Equity Transfer Agreement

Pursuant to the Exclusive Equity Transfer Agreement entered into by the Nominees, OPCO and WFOE, among others:

– the Nominees and OPCO irrevocably grant the WFOE with the exclusive right to acquire or to designate a qualified entity to acquire, the equity interest in OPCO (in part or in whole) or the assets owned by the OPCO (in part or in whole) at any time. Subject to the full compliance of the relevant PRC laws and regulations, WFOE has the full discretion over the exercise time and manner of the aforesaid purchase option. The consideration under the purchase option is RMB50 million. Shareholders of OPCO shall not grant any parties, other than WFOE or the designated entity, the same or similar rights;

– subject to the full compliance of the relevant PRC laws and regulations, upon the exercise of the rights attached to the purchase option, WFOE or the designated entity has the right to acquire the entire equity interest in OPCO or all the assets owned by OPCO, and the consideration for the transfer will be offset against the total outstanding amount of loans under the Loan Agreement (details of which are set out above); and

– in the event that, subject to the relevant PRC laws, the consideration for the entire equity interest in OPCO or all the assets owned by OPCO exceeds the outstanding amount of the loans, the loans shall bear interest and the consideration shall be offset against the principal of the loans and the accrued interest.

Consulting and Servicing Agreement

OPCO and WFOE entered into the Consulting and Servicing Agreement. Pursuant to which, among others:

– OPCO engages WFOE to provide exclusive sales and consultancy services for a period of twenty years with an automatic extension for a further ten years in absence of a written termination notice from WFOE;

– unless WFOE consents in writing, OPCO shall not accept sales and consultancy services provided by any third party;

– OPCO warrants that OPCO will not transfer, dispose, lease, encumber its assets (including tangible and intangible, existing and assets to be acquired), unless it is within the normal course of business of OPCO; and

– OPCO shall not distribute any dividend to its shareholders.

Report of the Directors

Agency Agreement

Pursuant to the Agency Agreement between OPCO, the Nominees and WFOE, the Nominees unconditionally and irrevocably authorise the natural persons designated by WFOE to exercise the rights of the Nominees as the shareholders of OPCO, including but not limited to, the right to attend shareholders' meetings and exercise the voting rights attached to the equity interest in OPCO held by the Nominees. The Nominees also agree to appoint the personnel recommended by WFOE as director(s), general manager, finance director and other senior management of the OPCO. The Nominees also agree to act on the recommendations of the aforesaid appointees. In addition, the Nominees and OPCO shall grant to WFOE the rights to manage all the assets of OPCO in the event of liquidation, termination of business, deregistration and any business termination related procedures. The Agency Agreement has a term of twenty years with an automatic extension for a further one year. WFOE can terminate the Agency Agreement by serving a 30-day prior written notice.

Dispute Resolution

Each of the Control Contracts is governed by PRC laws and provides for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). The arbitration shall take place in Beijing and the outcome of the arbitration shall be final and binding. The Control Contracts provide that arbitrators may award remedies in rem over the equity interests in or assets of OPCO in arbitration. They also provide that courts in the places where the parties of the Control Contracts are located shall have the power to grant interim remedies (such as property reservation and evidence reservation) in support of the arbitration pending formation of the arbitral tribunal or on appropriate time. The PRC Legal Adviser of the Company has also advised that the tribunal has no power to grant injunctive relief or winding up order under the PRC laws. Therefore, the dispute resolution provisions of the Control Contracts do not include the provision that an arbitral tribunal has the power to grant injunctive relief as remedy.

Succession

As advised by the PRC Legal Adviser of the Company, the provisions set out in the Control Contracts are also binding on the Nominees' successors. Under the Succession Law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Control Contracts. In case of a breach, the Group can enforce its rights against the successors. Therefore, the PRC Legal Adviser is of the view that (i) the Control Contracts are sufficient for the protection of the Group even in the event of death of any Nominee; and (ii) the death of any Nominee would not affect the validity of the Control Contracts, and the Group can enforce its right under the Control Contracts against the successors of the Nominees. The PRC Legal Adviser also confirmed that under the PRC law, a natural person cannot declare bankruptcy. Furthermore, pursuant to the Exclusive Equity Transfer Agreement, the WFOE can exercise the purchase option to acquire or to designate a qualified entity to acquire, the equity interest in the OPCO (in part or in whole) or the assets owned by the OPCO (in part or in whole) at any time. Subject to the full compliance of the relevant PRC laws and regulations, the WFOE shall have the full discretion over the exercise time, manner and exercise price of the aforesaid purchase option.

Report of the Directors

The Control Contracts in place during the Year

The Control Contracts entered into between the Group, OPCO and the Nominees are continuously in place during the year.

Risk Factors

For the year ended 31 December 2021, there is no unwinding of the Control Contract as the restrictions that led to the adoption of the Control Contracts are not removed. As disclosed in the Company's announcement dated 4 October 2013, risk factors in connection with the Control Contracts are listed below (terms used in this section shall have the same meanings as defined in the Company's announcement dated 4 October 2013 unless otherwise stated):

– If the PRC Government determines that the Control Contracts are not in compliance with applicable PRC laws and regulations, our business, financial condition or results of operations could be adversely affected.

  In the opinion of the PRC Legal Adviser of the Company, the Control Contracts are in compliance with existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there is no assurance that the PRC regulatory authorities will not take a view contrary to that of the PRC Legal Adviser. In such event, the payment of services fee from OPCO to the WFOE as stipulated under the Control Contracts could be hampered or even terminated.

  The Group may have to rationalise or restructure the operations of OPCO under the Control Contracts or terminate the New Media Business operated by OPCO in extreme circumstances where (i) the existing Control Contracts are invalidated by the PRC courts for non-compliance of applicable laws and regulations; and/or (ii) the Company is unable to satisfy the then applicable PRC laws and regulations, which may include but not limited to "The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises". Such rationalisation or restructuring or termination of the New Media Business could result in the diversion of management attention and the incurrence of substantial operating and production costs which could adversely affect the Group's business, financial condition or results of operations.

– The Control Contracts may not be as effective as direct ownership in providing operational control.

  The Group relies on the Control Contracts with OPCO and its shareholders to operate OPCO's businesses. These Control Contracts may not be as effective as direct equity ownership in providing the Group with control and security over OPCO.

  However, under the Control Contracts, if OPCO or its registered shareholders fail to perform its, his or her respective obligations under these Control Contracts, the Group may have to incur substantial costs and expend significant resources and time to enforce those arrangements and rely on legal remedies under the PRC laws.

Report of the Directors

– The Nominees may not act in the interests of the Group and they may breach their contracts with the Group.

  The Nominees may breach their contracts with the Group or otherwise have disputes with the Group, the Group may have to initiate legal proceedings, which involve significant uncertainties. Such disputes and proceedings may significantly disrupt the business operations of the Group, adversely affect the Group's ability to control OPCO and/or otherwise result in negative publicity, and the Group cannot provide assurance that the outcome of such disputes and proceedings will be in the favour of the Group.

– The Control Contracts may be subject to scrutiny by the PRC tax authorities, which may result in a finding that the Group owes additional taxes than calculated or are ineligible for tax exemptions, or both, which could substantially increase the Group's taxes and thereby reduce the Group's net income in the future.

  Arrangements and transactions among related parties may be subject to audits or challenges by the PRC tax authorities. If any transactions of the Group entered into between subsidiaries of the Group in the PRC, any of OPCO and their respective shareholders are determined by the PRC tax authorities not to be on an arm's length basis, or found to result in an impermissible reduction in taxes, the PRC tax authorities may adjust the profits and losses of such OPCO, which may result in additional taxes payable. In addition, the PRC tax authorities may impose late payment fees and other penalties to such OPCO for under-paid taxes. Thus, the Group's net income may be adversely and materially affected if the tax liabilities of any OPCO increase or if it is found to be subject to late payment fees or other penalties.

In order to mitigate the risk as above mentioned, actions have been taken by the Company, including but not limited to, the following:

As disclosed in the Company's announcement dated 4 October 2013, the PRC Legal Adviser of the Company is of the opinion that each of the Control Contracts complies with, and is not in breach of, the PRC laws and regulations (including the Contract Law, the General Principles of Civil Code and the Foreign Investment Law (with effect from 1 January 2020) of the People's Republic of China). The Company has continually monitored the development of PRC laws and regulations in relation to the Control Contracts. Once there is substantive change on the relevant law and regulation, the Group will use its reasonable endeavors to fulfill the relevant requirement including but not limited to the restructuring of OPCO's corporate structure and Control Contracts or unwinding the Control Contracts.

Pursuant to the Agency Agreement, the Nominees agree to appoint the personnel recommended by the Group as director(s), general manager, finance director and other senior management of OPCO. The Nominees also agree to act on the recommendations of the aforesaid appointees. Senior management of OPCO reports regularly to the Group's management about the operation of OPCO to improve the effective control of OPCO by the Group.

Report of the Directors

Each of the Control Contracts is governed by PRC laws and provides for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). The arbitration shall take place in Beijing and the outcome of the arbitration shall be final and binding. The Control Contracts provide that arbitrators may award remedies in rem over the equity interests in or assets of OPCO in arbitration. They also provide that courts in the places where the parties of the Control Contracts are located shall have the power to grant interim remedies (such as property preservation and evidence preservation) in support of the arbitration pending formation of the arbitral tribunal or at an appropriate time.

The Company considers that tax risk of OPCO is low as the current revenue and tax expense of OPCO are in small size when compared to the whole Group as a whole. The Group has maintained close contact with the relevant tax authorities and, if needed, will use its reasonable endeavors to discuss with the relevant tax authorities and explain to them in order to minimize the associated risks.

Independent Non-executive Directors' Confirmation

Independent Non-executive Directors have reviewed the Control Contracts during the year and confirmed that:

– the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Control Contracts, so that the profits generated by OPCO have been retained by WFOE;

– no dividends or other distributions have been made by OPCO to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and

– any new contracts entered into, renewed or reproduced between the Group and OPCO during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole.

CHANGE OF COMPANY NAME AND COMPANY LOGO

Subsequent to the passing of the special resolution regarding the proposed change of company name at the special general meeting of the Company held on 10 February 2021, the Company has received the relevant certificates' copy on 26 March 2021 which were issued by the Registrar of Companies in Bermuda on 24 March 2021 regarding the change of company name of the Company, and therefore, the Company has adopted a new company logo with effect from 26 March 2021.

The stock short name of the Company for trading in the shares of the Company on the Stock Exchange has been changed to "CHINA ECOTOUR" in English and "中國生態旅遊" in Chinese with effect from 9:00 a.m. on 21 April 2021.

Report of the Directors

CHANGE OF HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

The Company's head office and principal place of business in Hong Kong was changed to Unit 3301, 33/F., Global Trade Square, 21 Wong Chuk Hang Road, Wong Chuk Hang, Southern, Hong Kong with effect from 9 September 2021.

CHANGE OF COMPANY WEBSITE

The new website of the Company at www.ecotourgroup.com is officially launched on 31 March 2022.

AUDITOR

HLB Hodgson Impey Cheng Limited ("HLB") resigned as auditor of the Company with effect from 10 December 2021. Crowe (HK) CPA Limited ("Crowe") was appointed as the auditor of the Company with effect from 10 December 2021 to fill the casual vacancy following the resignation of HLB and to office until the conclusion of the next annual general meeting of the Company.

The consolidated financial statements of the Company for the year ended 31 December 2021 have been audited by Crowe, which will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board
CHAN Tan Na, Donna
Chairperson

Hong Kong, 30 June 2022

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Directors believe that good corporate governance is an essential element in enhancing the confidence of shareholders of the Company (the "Shareholders"), investors, employees, business partners and the community as a whole and also the performance of the Group. The Board will review the corporate governance structure and practices from time to time and will make necessary arrangements to ensure business activities and decision-making processes are made in a proper and prudent manner.

In the opinion of the Directors, the Company, at each applicable time, has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the "Code") for the financial year ended 31 December 2021, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Model Code throughout the financial year ended 31 December 2021.

BOARD OF DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Ms. CHAN Tan Na, Donna
Mr. WU Jingwei
Mr. DI Ling (appointed on 1 July 2021)
Mr. QIU Peiyuan (appointed on 18 November 2021)
Mr. LI Zi Kui (resigned on 1 July 2021)
Ms. ZHU Xinxin (resigned on 1 July 2021)
Mr. WU Ying Ha (appointed on 1 July 2021 and resigned on 15 January 2022)

Independent Non-Executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Dr. MENG Zhijun (appointed on 1 July 2021)
Mr. CUI Shuming (resigned on 1 July 2021)

As at the date of this report, the Board comprised seven Directors, four of whom are Executive Directors and three of whom are Independent Non-executive Directors. Details of backgrounds and qualifications of each Director are set out on the section headed "Biographies of Directors and Senior Management" of this annual report. The Company has arranged appropriate insurance cover in respect of legal actions against the Directors.

The Board is responsible for the overall strategic development of the Group. It also monitors the financial performance and the internal controls of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The day-to-day running of the Company is delegated to the management with department heads responsible for different aspects of the business/functions.

Corporate Governance Report

The Independent Non-Executive Directors serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group.

Notice of at least 14 days is given to all Directors for all regular Board meetings to give all Directors an opportunity to attend. All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to Board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the Board meetings. Minutes of Board meetings are kept by the company secretary of the Company (the "Company Secretary") and are open for inspection at any reasonable time on reasonable notice by any Director.

The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

The attendance of the Board Meeting, Committee Meetings and General Meeting during the year are as follows:

	Number of meetings attended/eligible to attend					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting	Special General Meeting
Executive Directors						
Ms. CHAN Tan Na, Donna	5/5	–	1/1	1/1	1/1	2/2
Mr. WU Jingwei	5/5	–	–	–	0/1	0/2
Mr. DI Ling (appointed on 1 July 2021)	2/2	–	–	–	–	–
Mr. QIU Peiyuan (appointed on 18 November 2021)	–	–	–	–	–	–
Mr. LI Zi Kui (resigned on 1 July 2021)	3/3	–	–	–	0/1	0/2
Ms. ZHU Xinxin (resigned on 1 July 2021)	3/3	–	–	–	0/1	0/2
Mr. WU Ying Ha (appointed on 1 July 2021 and resigned on 15 January 2022)	2/2	–	–	–	–	–
Independent Non-Executive Directors						
Mr. HUANG Shenglan	4/5	2/2	1/1	1/1	0/1	0/2
Mr. CHAN Ming Fai	5/5	2/2	1/1	1/1	1/1	2/2
Dr. MENG Zhijun (appointed on 1 July 2021)	2/2	1/1	–	–	–	–
Mr. CUI Shuming (resigned on 1 July 2021)	3/3	1/1	–	–	0/1	0/2

Corporate Governance Report

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG code requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the period from 1 January 2021 to 30 June 2021, Ms. CHAN Tan Na, Donna served as both the Chairperson and the Chief Executive Officer, such practice deviated from code provision A.2.1 of the CG Code. The Board considers that given the nature of the Group's businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies.

On 1 July 2021, Ms. CHAN Tan Na, Donna ceased to act as the Chief Executive Officer, and Mr. WU Ying Ha was appointed as the Chief Executive Officer. Since 1 July 2021 to 31 December 2021, the roles of chairperson and the chief executive officer have been properly separated.

The Board is reviewing the effectiveness of the structure to balance the power and authority of the Board and the management from time to time.

NON-EXECUTIVE DIRECTORS

Although Non-executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company (the "Bye-laws"). The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. CHAN Ming Fai, Mr. DI Ling, Mr. QIU Peiyuan and Dr. MENG Zhijun are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

The Audit Committee was established in 2001. As at 31 December 2021, the Audit Committee comprises three members, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Dr. MENG Zhijun. All of them are Independent Non-Executive Directors. The chairman of the Audit Committee is Mr. HUANG Shenglan. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the Audit Committee.

Corporate Governance Report

The Audit Committee's functions include:

- to review and monitor financial reporting and the reporting judgement contained in them;
- to review financial and internal controls, accounting policies and practices with management and external auditors; and
- To oversight of the Company's financial reporting system, risk management and internal control system.

The Audit Committee held two meetings during the year under review and the external auditor, HLB Hodgson Impey Cheng Limited ("HLB") (resigned as the auditor of the Company with effect from 10 December 2021) has attended two meetings.

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the financial year ended 31 December 2021 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has been posted on the Company's website and is made available on request.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 10 August 2006 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee has been posted on the Company's website and is made available on request. The Remuneration Committee mainly responsible for determining the policy for the remuneration of Directors and the senior management, and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee has the delegated responsibility to determine the remuneration packages, in consultation with the Chairperson, the Deputy Chairman, the Managing Director or the Chief Executive Officer of the Company, of individual Executive Directors and Senior Management. The Remuneration Committee currently consists of three members, namely Ms. CHAN Tan Na, Donna, the Executive Director, and Mr. HUANG Shenglan and Mr. CHAN Ming Fai, both being Independent Non-executive Directors. The chairperson of the Remuneration Committee is Mr. HUANG Shenglan. A meeting of the Remuneration Committee were held during the year for abovementioned issue.

In determining the emolument payable to Directors, the Remuneration Committee took into consideration factors such as time commitment and responsibilities of the Directors, abilities, performance and contribution of the Directors to the Group, the performance and profitability of the Group, the remuneration benchmark in the industry, the prevailing market/employment conditions and the desirability of performance-based remuneration.

Corporate Governance Report

NOMINATION COMMITTEE

The Nomination Committee was established on 15 March 2012 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Nomination Committee has been posted on the Company's website and is made available on request. The Nomination Committee mainly responsible for making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors and identifying individuals suitably qualified to become Board members and making recommendations to the Board on the selection. The Nomination Committee currently consists of three members, namely Ms. CHAN Tan Na, Donna, the Executive Director, and Mr. HUANG Shenglan and Mr. CHAN Ming Fai, both being Independent Non-executive Directors. The chairperson of the Nomination Committee is Ms. CHAN Tan Na, Donna.

A meeting of the Nomination Committee was held to review the structure, size, composition and diversity of the Board to complement the Company's corporate strategy during the year, to review the annual confirmation of independence submitted by the independent non-executive directors and assessed their independence, and to review and recommend the re-appointment of the retiring Directors at the annual general meeting of the Company held on 16 June 2021.

The Nomination Committee have a policy concerning diversity of Board members in designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. 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.

NOMINATION POLICY

The Board has adopted a nomination policy (the "Nomination Policy") which establishes written guidelines to nomination committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria.

SELECTION CRITERIA

When evaluating and selecting candidates for directorships, the members of the Nomination Committee or the Board will consider the criteria including the highest personal and professional ethics and integrity of candidates; qualifications of candidates including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategies; the Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; willingness of candidates to devote adequate time to discharge duties as a Board member and other directorships and significant commitments; in case of nomination of an independent non-executive Directors, assessing the candidate's independence under the Listing Rules; and such other perspectives appropriate to the Company's business.

These criteria are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Corporate Governance Report

NOMINATION PROCEDURES

The Nomination Committee and/or the Board identifies potential candidates including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agencies and/or advisors. The Nomination Committee then develops a short list of candidates and agrees on proposed candidate(s). Proposed candidate(s) will be asked to submit the necessary personal information and biographical details. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary. The Nomination Committee will, upon receipt of the proposal on appointment of new director and the personal information (or relevant details) of the proposed candidate(s), evaluate such candidate(s) based on the criteria as set out above to determine whether such candidate(s) is qualified for directorship. For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee will evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The nomination committee retains the discretion to establish the relative weighting of such criteria, which may vary based on the composition, skill sets, age, gender and experiences of the collective Board rather than on the individual candidate for the purpose of diversity perspectives appropriate to the requirement of the Company's business. If the process yields one or more desirable candidates, the Nomination Committee will rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable). The Nomination Committee will propose the appointment of such candidates to the Board for consideration. The Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background.

MONITOR AND REVIEW

The Nomination Committee will monitor the implementation of the Nomination Policy and report to the Board when necessary. Also, the Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

SENIOR MANAGEMENT'S REMUNERATION

The annual remuneration range of the Senior Management are set out as below:

	Number of Employees
From HK$0 to HK$1,500,000	1
From HK$1,500,001 to above	1

Corporate Governance Report

AUDITOR'S REMUNERATION

For the year ended 31 December 2021, the Group had engaged the Company's external auditor, Crowe (HK) CPA Limited, and for the year ended 31 December 2020, the Group had engaged HLB as the Company's external auditor, to provide the following services and the respective fees charged are set out as below:

	Fee Charged for the year ended 31 December	
	2021	2020
	HK$	HK$
Types of Services		
Audit for the Group	**1,100,000**	1,780,000

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditor to the Shareholders are set out on pages 47 to 49 of this annual report.

CORPORATE GOVERNANCE FUNCTION

The Board is to perform the corporate governance duties with written terms of reference which include the applicable code provisions as set out in the Code. The Board has reviewed the compliance with the Code and disclosure of the Company in this Corporate Governance Report and review the policy for corporate governance of the Company and duties performed by the Board. All Directors are able to make further enquiries and they may seek independent professional advice and consultation when necessary. To enhance proper and up-to-date understanding of the Company's operations and business, legal and other regulatory requirements and appropriate emphasis on the roles, functions and duties of Directors, the Company has provide relevant reading materials as professional development programs to the Directors. The Company has received training records of all current Directors who have participated in continuous professional development to develop and refresh their knowledge and skills during the year as below:

	Training Records Received *(Note)*
Executive Directors	
Ms. CHAN Tan Na, Donna	✓
Mr. WU Jingwei	✓
Mr. DI Ling (appointed on 1 July 2021)	✓
Mr. QIU Peiyuan (appointed on 18 November 2021)	✓
Independent Non-Executive Directors	
Mr. HUANG Shenglan	✓
Mr. CHAN Ming Fai	✓
Dr. MENG Zhijun (appointed on 1 July 2021)	✓

Note: Finished the professional development programs including those provided by the Company in relation to the Corporate Governance, Ordinance Updating, Market Information Updating and Case Study.

Corporate Governance Report

INTERNAL CONTROL

The Board is responsibility for establishing, maintaining and monitoring effective risk management and internal control systems of the Group. The management is delegated with the responsibility from time to time to implement the Board's policies on risk management and internal control. Detailed procedures are developed by the management. Each department is responsible for the assessment of individual types of risks arising under their areas of responsibilities and is also required to keep the senior management informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis. The Group's internal control system is designed to provide cost-effectiveness and reasonable protection, which safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Board periodically evaluates major controls and risks and where necessary, retain external professional services to evaluate or seek improvements to the internal control system. The Group has not maintained an internal audit department. The Board considers that the existing systems enable to carry out enough analysis and appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The Board will continuously (at least annually) review the necessity of setting up an internal audit department. The Group's risk management and internal control systems include a well- established organisational structure with clearly defined lines of responsibility and authority of departments. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board had reviewed once the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2021. The review covered all material control areas including financial, operational and compliance controls and risk management functions. The Board is satisfied that the Group has maintained effective and adequate internal controls in all major areas.

The Executive Directors assess and decide whether the relevant information of the Group is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to the Listing Rules and the SFO.

DIVIDEND POLICY

In deciding whether to propose a dividend and in determining the dividend amount, the Board will take into account, among others, the Group's actual and expected financial performance, retained earnings and distributable reserves of the Company as required by laws, working capital requirements, capital expenditure requirements and future expansion plans, liquidity position, Shareholders' interests, general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group and other factors that the Board deems appropriate.

Depending on the financial conditions of the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate. Any final dividend for a financial year will be subject to Shareholders' approval. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association. Declaration and payment of dividend shall remain to be determined at the sole discretion of the Board and subject to the Laws of Bermuda, the Bye-Laws and any other applicable laws, rules and regulations.

Corporate Governance Report

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

COMPANY SECRETARY

The Company has engaged under a service contract with an external service provider, Mr. SHIU Wing Yan ("Mr. Shiu"), who was appointed as the Company Secretary on 6 August 2021. The Company has internal company secretary department, the head of the department is responsible to communicate with Mr. Shiu. In accordance with Rule 3.29 of the Listing Rules, Mr. Shiu took more than 15 hours of relevant professional training for the year.

CONSTITUTIONAL DOCUMENTS

During the year, a special resolution was passed for the amendments to the Bye-laws at the annual general meeting held on 16 June 2021 to enable the Company to send, mail, dispatch, issue, publish or otherwise make available any corporate communication to Shareholders using electronic means or placing on the website of the Company or the Stock Exchange if the Shareholders agree, or are deemed to have so agreed under the Listing Rules and applicable laws.

INVESTOR RELATIONS

The Company is committed to maintain an open and effective investor relations policy and to update investors on relevant information/developments in a timely manner, subject to relevant regulatory requirements. Briefings and meetings with institutional investors and analysts are conducted from time to time. The Company also replied the enquiries from Shareholders timely. The Directors host the annual general meeting each year to meet the Shareholders and answer their enquiries. Mr. HUANG Shenglan, the chairman of the Audit Committee absent from the 2021 annual general meeting of the Company as is stipulated in Code provision E.1.2 due to his other important engagement. The Company invited another member of the Audit Committee to attend the general meetings to answer questions. Shareholders may whenever it thinks fit require a special general meeting to be called. Pursuant to Section 74 of the Bermuda Companies Act 1981, the Board, notwithstanding anything in its Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carrying the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. The Company arranges for the notice to its Shareholders to be sent at least 10 clear business days before each of the general meetings of the Company in accordance with Code Provision E.1.3. To put forward proposals at an annual general meeting or a special general meeting, the Shareholders shall submit a written notice of those proposals with the detail contact information to the Company Secretary at the Principal Place of Business. The request will be verified with the Company's Branch Share Registrars and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The corporate website of the Company (www.ecotourgroup.com) provides an effective communication platform via which the public and investor community can enjoy fast, easy access to up-to-date information regarding the Group. Enquiries to the Board or the Company are welcome and can be addressed to the Investor Relations Department by mail to Unit 3301, 33/F., Global Trade Square, 21 Wong Chuk Hang Road, Wong Chuk Hang, Southern, Hong Kong or by fax to (852) 2136 6608.

Independent Auditor's Report

Crowe

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
CHINA ECOTOURISM GROUP LIMITED
(FORMERLY KNOWN AS CHINA LOTSYNERGY HOLDINGS LIMITED)
(Incorporated in Bermuda with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of China Ecotourism Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 142, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

As disclosed in Notes 27(a), 27(b) and 27(c) to the consolidated financial statements, the Group had outstanding loan receivables (including loans and advances) of approximately HK$593,675,000 (before accumulated loss allowances of HK$588,159,000) and HK$592,826,000 (before accumulated loss allowances of HK$523,567,000) as at 31 December 2021 and 2020 respectively. During the years ended 31 December 2021 and 2020, the directors of the Company have made loss allowances of approximately HK$61,297,000 and HK$23,418,000, respectively, against these loan receivables, having taken into account information as further described in Notes 27(a), 27(b) and 27(c) to the consolidated financial statements and, for certain loan receivables, assuming no possibility of any recovery that may be achieved in future through re-negotiation of terms of the loans or alternative forms of settlement in kind.

Given our knowledge obtained in the audit relating to these loan transactions and the information as disclosed in Notes 27(a), 27(b) and 27(c) to the consolidated financial statements, we were unable to obtain sufficient appropriate audit evidence to evaluate (i) the business rationale and commercial substance of these loan transactions and (ii) the reasonableness of the assumptions adopted by the directors of the Company in estimating the timing of loss allowances made in the years ended 31 December 2021 and 2020. We were also unable to obtain all the necessary corroborative evidence from certain borrowers to substantiate the nature and authenticity of these loan transactions and the related outstanding balances, and to assess their recoverability.

Independent Auditor's Report

BASIS FOR QUALIFIED OPINION *(Cont'd)*

Because of the above limitations, there were no alternative audit procedures that we could perform to satisfy ourselves as to the business rationale and commercial substance of these loan transactions and the appropriateness of the loss allowances for these loan receivables recognised for the years ended 31 December 2021 and 2020. Any change to the accumulated loss allowances as at 31 December 2021 and 2020 would have affected the loss for the years ended 31 December 2021 and 2020. Therefore, had we been able to complete our audit of the opening balances and corresponding amounts, matters have come to our attention indicating that adjustments might be necessary to the consolidated statement of profit or loss for the year ended 2021 and related disclosures in the consolidated financial statements and in addition, the corresponding amounts for the year ended 31 December 2020 may not be comparable to the current period.

In addition, as disclosed in Note 27(c) to the consolidated financial statements, the Group held an unlisted equity investment in Hunan Pu Qin Lao Ling Development Co., Ltd. ("湖南普親老齡產業發展有限公司" or "Hunan Pu Qin"). As at 31 December 2021 and 2020, the carrying amounts of the investment in Hunan Pu Qin amounted to approximately HK$6,918,000 and HK$6,899,000 respectively, which were included in "Prepayments, deposits and other receivables" in the consolidated statement of financial position, and the related fair value changes of approximately HK$nil and HK$1,611,000 were recognised in profit or loss. The directors of the Company (the "Directors") considered that the carrying amounts of the investment in Hunan Pu Qin approximated its fair values as at 31 December 2021 and 2020.

Up to the date of this report, the directors of the Company were unable to provide us with sufficient appropriate audit evidence we considered necessary to assess the Directors' valuation of this investment as at 31 December 2021 and 2020 and related disclosures. We were unable to determine whether any adjustments were necessary to the carrying amounts of the investment in Hunan Pu Qin as at 31 December 2021 and 2020. Any adjustments to the carrying amounts of the investment in Hunan Pu Qin as at 31 December 2021 and 2020 could have a consequential effect on (i) the fair value change recognised in the consolidated statement of profit or loss for the years ended 31 December 2021 and 2020 and (ii) the related disclosures in the consolidated financial statements. There were no other satisfactory audit procedures that we could perform to determine whether any adjustments to the carrying amounts of the investment in Hunan Pu Qing and fair value change in this investment for the years ended 31 December 2021 and 2020 are necessary.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.1 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK$280,911,000 during the year ended 31 December 2021 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$238,401,000. As stated in Note 2.1, these events or conditions, along with other matters as set forth in Note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent Auditor's Report

OTHER MATTER

The consolidated financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2021.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about (i) the carrying amounts of loan receivables as at 31 December 2021 and 2020 and the net impairment loss for these loan receivables for the years ended 31 December 2021 and 2020 and (ii) the carrying amount of investment in an unlisted equity securities as included in "Prepayment, deposits and other receivables" as at 31 December 2021 and 2020 and its fair value change for the years ended 31 December 2021 and 2020. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section and the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report

KEY AUDIT MATTERS *(Cont'd)*

The Key Audit Matter	How the matter was addressed in our audit
Impairment assessment for non-current assets *Refer to Notes 4(a), 16, 17 and 19 in the consolidated financial statements and the accounting policy on page 67.* The carrying amounts of the Group's property, plant and equipment, right-of-use assets and intangible assets as at 31 December 2021 were approximately HK$33 million, HK$323 million and HK$20 million, respectively. Impairment charge of approximately HK$48 million was recognised against these non-current assets for the year ended 31 December 2021. Management assessed whether there was any impairment of the carrying amounts of non-current assets as at 31 December 2021 using value-in-use calculations for each smallest identifiable group of assets that generate independent cash flows (a cash-generating unit) ("CGU"). Preparing the value-in-use calculations requires management to exercise significant judgement, particularly in relation to revenue forecasts, operating margins and discount rates. We identified impairment of non-current assets as a key audit matter because of the significant management judgement and estimation required in assessing potential impairment.	Our audit procedures to assess the impairment of non-current assets included the following: • Assessing management's identification of CGUs and the allocation of assets to identified CGUs with reference to our understanding of the Group's business and the requirements of the prevailing accounting standards; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets and plans and considered the evidence in support of them, principally in relation to historical trends and actual performance; • Involving our internal valuation specialists to assist us in evaluating the methodology used in the preparation of the discounted cash flow forecast with reference to the requirements of the prevailing accounting standards and assessing whether the discount rates applied in the discounted cash flow forecast was within the range adopted by other companies in the same industry; • Checking the mathematical accuracy of the value-in-use calculations in the management's impairment assessment; and • Performing sensitivity analyses of the key assumptions underlying the discounted cash flow forecast in order to assess the potential impact of a range of possible outcomes and considering whether there was any evidence of management bias in the selection of assumptions.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the 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 directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 30 June 2022

Chan Wai Dune, Charles
Practising Certificate Number: P00712

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Revenue	5	124,920	118,563
Costs of sales and services			
– Depreciation of lottery terminals		(3,867)	(33,605)
– Others		(71,777)	(57,443)
		(75,644)	(91,048)
Gross profit		49,276	27,515
Other income	7	21,827	13,520
Other (losses)/gains – net	8	(26,480)	(409,777)
Net impairment losses on financial assets	3.1(b)	(61,257)	(26,332)
Gain on disposal of a subsidiary	40	121	–
General and administrative expenses		(211,348)	(144,085)
Operating loss	9	(227,861)	(539,159)
Finance costs	10	(57,521)	(86,034)
Share of losses of associates		–	(2,756)
Share of loss of a joint venture		–	(2,496)
Loss before income tax		(285,382)	(630,445)
Income tax credit	11	4,471	6,527
Loss for the year		(280,911)	(623,918)
Loss attributable to:			
Owners of the Company		(258,312)	(573,971)
Non-controlling interests		(22,599)	(49,947)
		(280,911)	(623,918)
Loss per share attributable to owners of the Company			
– basic	12	(11.34) HK cents	(48.56) HK cents
– diluted	12	(11.34) HK cents	(48.56) HK cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
Loss for the year	(280,911)	(623,918)
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss		
Gain on revaluation of properties held for own use	–	245,546
Deferred tax arising on revaluation of properties held for own use	–	(7,518)
	–	238,028
Items that may be reclassified to profit or loss		
Currency translation differences		
– translation of financial statements of subsidiaries outside Hong Kong	7,668	22,495
– accumulated exchange differences to profit or loss upon disposal of a subsidiary	(234)	–
Share of other comprehensive income of associates and a joint venture	–	176
	7,434	22,671
Total of other comprehensive income for the year	7,434	260,699
Total comprehensive expense for the year	(273,477)	(363,219)
Attributable to:		
Owners of the Company	(257,946)	(326,641)
Non-controlling interests	(15,531)	(36,578)
Total comprehensive expense for the year	(273,477)	(363,219)

Consolidated Statement of Financial Position

At 31December 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Property, plant and equipment	16	33,063	50,138
Right-of-use assets	17(a)	322,969	342,130
Intangible assets	19	20,408	63,292
Interests in associates	21	189	189
Investment in a joint venture	22	–	–
Financial assets at fair value through profit or loss	24	4,536	6,769
		381,165	462,518
Current assets			
Inventories	25	21,347	9,694
Accounts receivable	26	11,713	70,705
Prepayments, deposits and other receivables	27	57,932	128,123
Cash and bank balances	28	101,049	76,430
		192,041	284,952
Total assets		573,206	747,470
Current liabilities			
Accounts payable	29	5,485	4,399
Accruals and other payables		34,830	37,683
Contract liabilities	5(b)	35,211	31,285
Amount due to a joint venture	22	6,225	6,766
Amount due to a shareholder	30	1,224	58,069
Amounts due to key management personnel	31	17,935	19,703
Tax payable		2,013	8,100
Bank and other borrowings	32	197,000	212,793
Lease liabilities	17(a)	3,457	10,920
Convertible bonds	33	127,062	137,205
		430,442	526,923
Net current liabilities		(238,401)	(241,971)
Total assets less current liabilities		142,764	220,547
Non-current liabilities			
Deferred income tax liabilities	34	39,161	39,993
Lease liabilities	17(a)	3,375	12,256
		42,536	52,249
Net assets		100,228	168,298

Consolidated Statement of Financial Position

At 31December 2021

	Notes	2021 HK$'000	2020 HK$'000
Equity attributable to owners of the Company			
Share capital	*35*	77,211	25,737
Accumulated losses		(2,011,224)	(1,757,683)
Statutory reserve	*37(a)*	20,144	18,798
Other reserves	*37(b)*	1,770,272	1,622,090
		(143,597)	(91,058)
Non-controlling interests		243,825	259,356
Total equity		100,228	168,298

The consolidated financial statements on pages 50 to 142 were approved by the Board of Directors on 30 June 2022 and were signed on its behalf by:

CHAN TAN NA, DONNA
Director

QIU PEIYUAN
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Attributable to owners of the Company					
	Share capital HK$'000 *(Note 35)*	Accumulated losses HK$'000	Statutory reserve HK$'000 *(Note 37(a))*	Other reserves HK$'000 *(Note 37(b))*	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2020	25,737	(1,195,449)	16,126	1,389,169	295,934	531,517
Loss for the year	–	(573,971)	–	–	(49,947)	(623,918)
Other comprehensive income:						
Gain on revaluation of properties held for own use	–	–	–	244,823	723	245,546
Deferred tax arising on revaluation of properties held for own use	–	–	–	(7,338)	(180)	(7,518)
Currency translation differences	–	–	–	9,845	12,826	22,671
Total of other comprehensive income	–	–	–	247,330	13,369	260,699
Total comprehensive expense	–	(573,971)	–	247,330	(36,578)	(363,219)
Appropriation to statutory reserve	–	(2,672)	2,672	–	–	–
Release of revaluation reserve upon:						
– depreciation of owned properties and related leasehold land	–	241	–	(241)	–	–
– disposal of properties	–	5,682	–	(5,682)	–	–
Share option scheme:						
– vested share options expired	–	8,486	–	(8,486)	–	–
At 31 December 2020	25,737	(1,757,683)	18,798	1,622,090	259,356	168,298

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Attributable to owners of the Company					
	Share capital HK$'000 *(Note 35)*	Accumulated losses HK$'000	Statutory reserve HK$'000 *(Note 37(a))*	Other reserves HK$'000 *(Note 37(b))*	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2021	25,737	(1,757,683)	18,798	1,622,090	259,356	168,298
Loss for the year	–	(258,312)	–	–	(22,599)	(280,911)
Other comprehensive income: Currency translation differences	–	–	–	366	7,068	7,434
Total of other comprehensive income	–	–	–	366	7,068	7,434
Total comprehensive expense	–	(258,312)	–	366	(15,531)	(273,477)
Appropriation to statutory reserve	–	(1,346)	1,346	–	–	–
Shares issued pursuant to rights issue (net of share issuance expenses)	51,474	–	–	153,933	–	205,407
Release of revaluation reserve upon: – depreciation of owned properties and related leasehold land	–	6,117	–	(6,117)	–	–
At 31 December 2021	77,211	(2,011,224)	20,144	1,770,272	243,825	100,228

Note: In prior years, "statutory reserve" was included in "accumulated losses"; and in the current year, the Group determined to separate the "statutory reserve" from "accumulated losses". The comparative figures have been restated to conform with the current year's presentation.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	38(a)	(115,123)	(52,846)
Changes in working capital	38(a)	67,491	30,646
Cash used in operations	38(a)	(47,632)	(22,200)
Income tax (paid)/refunded		(389)	908
Net cash used in operating activities		(48,021)	(21,292)
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,293)	(1,885)
Proceeds from disposal of property, plant and equipment		939	3,801
Proceeds from disposal of investment property		–	44,380
Proceeds from disposal of financial assets at fair value through profit or loss		–	912
Purchase of intangible assets		–	(2,961)
Disposal of subsidiaries	40	(14)	–
Increase in bank deposits		(5,323)	–
Interest received		4,780	846
Net cash (used in)/generated from investing activities		(4,911)	45,093
Cash flows from financing activities			
Interest paid		(15,246)	(22,929)
Proceeds from issue of shares		155,407	–
(Repayment to)/advance from a shareholder		(6,879)	56,500
(Repayments to)/advances from key management personnel		(1,665)	19,537
Repayment of promissory note		–	(6,000)
Redemption of convertible bonds		(26,220)	(26,220)
Repayment of lease liabilities		(12,304)	(6,678)
Repayment of bank borrowings		(20,000)	(33,500)
Proceeds from new loan from a finance company		5,000	–
Net cash generated from/(used in) financing activities		78,093	(19,290)
Net increase in cash and cash equivalents		25,161	4,511
Cash and cash equivalents at beginning of the year		68,057	56,875
Effect of foreign exchange rate changes		(5,479)	6,671
Cash and cash equivalents at end of the year *(Note)*	28	87,739	68,057

Note: Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions, other short- term highly liquid investments with original maturities of three months or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

1. GENERAL INFORMATION

China Ecotourism Group Limited (formerly known as China LotSynergy Holdings Limited, the "Company") was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda. The addresses of its registered office and principal place of business are disclosed in the Corporate Information section to this annual report.

The Company and its subsidiaries (collectively referred to as the "Group") engage in the (i) provision of technology and operation services for lottery systems, terminal equipment and gaming products in the China's lottery market, which covers various lottery products ranging from computer-generated ticket games and KENO-type lottery to new media lottery; (ii) research and development, processing, production and sales of natural and health food; and (iii) project development and operation of ecotourism.

The Company's shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKSA") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared on the historical cost basis, except for owned properties and related leasehold land and certain financial assets and liabilities (including derivative instruments) that are measured at revalued amount or fair value.

2.1.1 Going concern

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a net loss of approximately HK$280,911,000 for the year ended 31 December 2021 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$238,401,000. These current liabilities included amount due to a shareholder amounting to approximately HK$1,224,000, amounts due to key management personnel amounting to approximately HK$17,935,000, bank and other borrowings amounting to approximately HK$197,000,000 and convertible bonds that will be due in the coming twelve months amounting to approximately HK$127,062,000. The Group will be unable to meet its liabilities in full when they fall due unless it is able to generate sufficient cash flows from future operations and/or other sources, since as at 31 December 2021, the Group only had cash and bank balances of HK$101,049,000. These events or conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.1 Going concern (Cont'd)

In this regard, the directors of the Company have identified various initiatives to address the Group's liquidity needs, which include the following:

(a) The Group has been actively negotiating with the relevant bank for renewal of the revolving bank and other borrowings with outstanding principal amount of HK$197,000,000 that are secured by the Group's property located in Hong Kong. Taking into account the fair value of the pledged property in the amount of HK$336,967,000 as at 31 December 2021, the directors believe that the Group will be able to renew the banking facilities;

(b) The Group has also been actively negotiating with various banks and persons or institutions providing finance to obtain additional new credit facilities;

(c) Subsequent to the end of the reporting period, the Group has obtained written confirmations from the relevant key management personnel that they will not demand repayment of the outstanding principals in the total amount of approximately HK$17,935,000 and related accrued interests in the eighteen months from 30 June 2022;

(d) Subsequent to the end of the reporting period, the Company and the holders of convertible bonds due 2022 entered into the sixth supplemental trust deed to further extend the Maturity date from 7 November 2022 to 7 November 2023;

(e) Subsequent to the end of the reporting period, the Group has obtained written confirmation from Ms. Lau Ting, a substantial shareholder of the Company, that she expressed her willingness to continue her financial support to the Group, to provide adequate funds for the Group to meet its liabilities as they fall due and to subordinate her rights to repayment of all sums owing to her from the Group to its creditors, both present and future;

(f) The Group will continue to implement measures to speed up the collection of outstanding accounts and other receivables; and

(g) The Group will continue to take active measures to control administrative costs and maintain containment of capital expenditures.

Based on the cash flow forecast of the Group prepared by the management and assuming success of the above measures, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the 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 effect of these adjustments has not been reflected in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accouting period:

Amendments to HKFRS 16	Covid-19-related rent concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) New standards, amendments and interpretations not yet adopted

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance Contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the conceptual framework*	1 January 2022
Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*	1 January 2022
Amendments to HKAS 37, *Onerous contracts – cost of fulfilling a contract*	1 January 2022
Annual improvements to HKFRSs 2018–2020 cycle	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets Between an investor and its associate or joint venture*	To be determined

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.2 Changes in accounting policy and disclosures (Cont'd)

(b) New standards, amendments and interpretations not yet adopted *(Cont'd)*

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

2.2.3 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Principles of consolidation and equity accounting *(Cont'd)*

2.2.4 Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost, and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

2.2.5 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified or permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, liabilities incurred to the former owners of the acquired business, equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition- by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

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 (which cannot exceed one year from the acquisition date), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.4 Investments in subsidiaries

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

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

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors (the "Board") that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss ("FVPL") are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income ("OCI") are recognised in OCI.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.6 Foreign currency translation *(Cont'd)*

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in OCI.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in OCI. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, 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 joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

From 31 December 2020, owned properties are recognised at fair value based on periodic valuations by external valuers, less subsequent deprecation and impairment losses. A revaluation surplus is credited to revaluation reserve in shareholders' equity.

Increase in the carrying amounts arising on revaluation of owned properties are recognised, net of tax, in OCI and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decrease that reverse previous increases of the same asset are first recognised in OCI to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the revaluation reserve to retained profits.

Depreciation is calculated using the straight-line method to allocate their costs or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Owned properties	2.5%
Lottery terminals	20%
Leasehold improvements	20%–50%
Plant and equipment	10%–20%
Computer equipment and software	20%–33%
Office equipment and furniture	10%–25%
Motor vehicles	10%–25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in revaluation reserve in respect of those assets to retained profits.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land classified as right-of-use assets) at the date of transfer is recognised in OCI and accumulated in revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained profits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are presented in profit or loss.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

2.9 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.10. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

(b) Development costs

Development costs represent all direct costs incurred by the Group in setting up systems and networks, including the cost of equipment and development cost. Such assets are recognised as intangible assets only if all of the following conditions are met:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- how the asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the asset or the asset itself or, if it is to be used internally, the usefulness of the asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure attributable to the asset during its development.

Development costs that do not fulfill the above conditions are recognised as expenses in the period in which it is incurred. Development costs which are implemented for its intended use and fulfill the above conditions are amortised on a straight-line basis over their estimated useful lives, which does not exceed ten years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.9 Intangible assets *(Cont'd)*

(c) Intellectual properties

Separately acquired intellectual properties are shown at historical cost. Intellectual properties acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of intellectual properties over their estimated useful lives of ten to fifteen years.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.11 Financial assets *(Cont'd)*

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains/(losses) – net". Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains/(losses) – net". Interest income from these financial assets is included in "other income" using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains/(losses) – net" and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and presented net within "Other gains/(losses) – net" in the period in which it arises.

Investments in equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "Other gains/(losses) – net" in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at FVOCI are not reported separately from other changes in fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.11 Financial assets *(Cont'd)*

2.11.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and lease receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts (if any).

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.17 Trade and other payables

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables are presented as current liabilities unless payment is not due within twelve months after the reporting period.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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.

Other borrowing costs are expensed in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.20 Hybrid financial instruments

Convertible bond issued by the Company that contains both a liability and embedded derivative is classified separately into these respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company's shares is conversion option derivative. At the date of issue, both the liability component and embedded derivative are recognised at fair value. In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The embedded derivative is measured at fair value with changes in fair value recognised in profit or loss.

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.22 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(c) Retirement benefits

The Group operates a number of defined contribution plans. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in independently administered funds.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. Except for equity-settled share-based payment transactions with parties other than employees, the total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.23 Share-based payments *(Cont'd)*

(a) Equity-settled share-based payment transactions (Cont'd)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair values of the services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the options granted. The fair values of the services received are recognised as expenses when the counterparties render services.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.25 Revenue recognition

Revenue from contracts with customers is recognised 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 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.

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.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised good or service to the customer.

(a) Sale of lottery terminals and related equipment

Revenue from sale of lottery terminals and related equipment is recognised when control of the goods has transferred, being when the products are delivered to the customers, the customer has accepted the products, the collection of the related consideration is probable and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Sale of natural and health food

Revenue from sales of natural and health food is recognised at point in time when the products are delivered to the customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.25 Revenue recognition *(Cont'd)*

(c) Provision of technical and maintenance services

Revenue from providing technical and maintenance services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided as a proportion of the total service to be provided because the customer receives and uses the benefits simultaneously.

2.26 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.27 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments);

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable by the Group under residual value guarantees;

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.27 Leases *(Cont'd)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Except for those that relate to a class of property, plant and equipment to which the Group applies the revaluation model, right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Right-of-use assets relate to a class of property, plant and equipment to which the Group applies the revaluation model, the Group has elected to apply that revaluation model to all of the right- of-use assets that relate to that class of property, plant and equipment.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.27 Leases *(Cont'd)*

Lease income from operating leases where the Group is a lessor is recognised in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.28 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss as part of other 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).

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.30 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk arise from future commercial transactions and recognised assets and liabilities denominated in foreign currencies and are considered to be insignificant. This is due to the Group's transactions being generally denominated in the functional currency of the respective group entities.

The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. Management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group has certain investments in foreign operations, whose net assets expose the Group to foreign currency translation risk. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss after tax and the Group's equity, mainly as a result of foreign exchange gains or losses on translation of the foreign operations' net assets to the Group's HK$ reporting currency.

	Increase/ (Decrease) in RMB %	Increase/ (Decrease) in loss after income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2021			
If HK$ weakens against RMB	5	2,958	11,540
If HK$ strengthens against RMB	(5)	(2,679)	(15,129)
2020			
If HK$ weakens against RMB	5	11,341	14,249
If HK$ strengthens against RMB	(5)	(10,272)	(15,177)

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For the year ended 31 December 2021

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(ii) Price risk

The Group is exposed to price risk arising from investments classified as financial assets at fair value through profit or loss (Note 24) and investment in unlisted equity securities (Note 27).

The following table demonstrates the sensitivity to 5% increase/decrease in the fair values of the investments with all other variables held constant and after any impact on tax, based on their carrying amounts at the end of the reporting period.

	(Decrease)/ Increase in loss after income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2021		
5% increase in price	(572)	(572)
5% decrease in price	572	572
2020		
5% increase in price	(683)	683
5% decrease in price	683	(683)

(iii) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate time deposits, fixed-rate loan receivables and fixed-rate borrowings.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's bank borrowings denominated in HK$.

Notes to the Consolidated Financial Statements

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3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(iii) Cash flow and fair value interest rate risk *(Cont'd)*

The following table demonstrates the sensitivity to 5% increase/decrease in interest rates, with all other variables held constant, of the Group's loss after income tax (through the impact on floating rate bank borrowings) and the Group's equity.

	Increase/ (Decrease) in interest rate %	Increase/ (Decrease) in loss after income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2021			
HK$	**5**	**428**	**428**
HK$	**(5)**	**(428)**	**(428)**
2020			
HK$	5	815	(815)
HK$	(5)	(815)	815

(b) Credit risk

The credit risk of the Group's financial assets, which comprise bank balances, trade receivables, lease receivables, and financial assets included in deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group reviews the recoverability of its financial assets periodically to ensure that potential credit risk of the counterparty is managed at an early stage and sufficient provision is made for possible defaults.

The credit risk on bank balances are limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit-rating agencies.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 0% (2020: 91%) and 64% (2020: 97%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

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For the year ended 31 December 2021

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

The tables below detail the credit risk exposures of the Group's financial assets and lease receivables, which are subject to expected credit loss assessment. The amounts presented are gross carrying amounts.

2021	12-month expected credit loss HK$'000	Lifetime expected credit loss (simplified approach) HK$'000	Lifetime expected credit loss (not credit-impaired) HK$'000	Lifetime expected credit loss (credit-impaired) HK$'000	Total HK$'000
Trade receivables	–	9,000	–	–	9,000
Lease receivables	–	3,976	–	–	3,976
Financial assets included in deposits and other receivables	38,608	–	–	587,143	625,751
Bank balances	101,049	–	–	–	101,049
	139,657	12,976	–	587,143	739,776

2020	12-month expected credit loss HK$'000	Lifetime expected credit loss (simplified approach) HK$'000	Lifetime expected credit loss (not credit-impaired) HK$'000	Lifetime expected credit loss (credit-impaired) HK$'000	Total HK$'000
Trade receivables	–	6,162	–	–	6,162
Lease receivables	–	65,846	–	–	65,846
Financial assets included in deposits and other receivables	29,289	–	–	587,756	623,278
Bank balances	75,900	–	–	–	75,900
	111,422	72,008	–	587,756	771,186

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3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

Impairment of financial assets

The Group has two main types of financial assets that are subject to HKFRS 9's expected credit loss model:

- Accounts receivable; and
- Loan receivables included in prepayments, deposits and other receivables

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(i) Accounts receivable

Accounts receivable include trade receivables and lease receivables.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and lease receivables.

To measure the expected credit losses, trade receivables and lease receivables have been assessed individually with outstanding significant balances exceeding HK$10 million, the remaining balances are grouped based on shared credit risk characteristics and the days past due.

Except for trade receivables and lease receivables with significant outstanding balances, the Group determines the expected credit losses on the remaining balances by using a provision matrix. The expected loss rates are based on the payment profiles of sales or leases over a period of 36 months before 31 December 2021 or 1 January 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2021 was determined as follows for trade receivables.

	2021			2020		
	Expected loss rate	Gross carrying amount – trade receivables HK$'000	Loss allowance HK$'000	Expected loss rate	Gross carrying amount – trade receivables HK$'000	Loss allowance HK$'000
Current (not past due)	0%	7,537	–	0.21%	3,395	7
Less than 3 months past due	0%	–	–	3.57%	1,365	49
3 to 12 months past due	0%	181	–	3.94%	57	2
More than 1 year past due	98.52%	1,282	1,263	92.63%	1,345	1,245
		9,000	1,263		6,162	1,303

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For the year ended 31 December 2021

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

Impairment of financial assets *(Cont'd)*

(i) Accounts receivable *(Cont'd)*

The loss allowance for trade receivables as at 31 December reconcile to the opening loss allowance as follows:

	Lifetime expected credit loss (simplified approach) 2021 HK$'000	2020 HK$'000
Loss allowance as at 1 January	1,303	–
(Decrease)/increase in the allowance recognised in profit or loss	(40)	1,303
Closing loss allowance as at 31 December	1,263	1,303

In relation to lease receivables, a debtor with significant outstanding balance with gross carrying amount of approximately HK$nil as at 31 December 2021 (2020: HK$65,203,000) was assessed individually and details of which are set out in Note 26. The expected credit losses on lease receivables under the individual or collective assessment as at 31 December 2021 and 2020 are assessed to be insignificant. Therefore, no loss allowance for these receivables was recognised.

(ii) Loan receivables

The Group applies the general approach under HKFRS 9 to measure expected credit losses for loan receivables. In assessing whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the loan receivables at the reporting date with the risk of default at the date of initial recognition. Especially the following indicators are incorporated.

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of the borrower; and
- past due information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

Impairment of financial assets *(Cont'd)*

(ii) Loan receivables *(Cont'd)*

The Group recognises lifetime expected credit losses on loan receivables as there has been a significant increase in credit risk since initial recognition of the loans.

The Group measures the expected credit loss using the risk parameter modelling approach that incorporates key measurement parameters, including probability of default, loss given default and exposure at default, with the consideration of forward- looking information such as macroeconomic factors.

The loss allowance for loan receivables as at 31 December reconciles to the opening loss allowance as follows:

	Lifetime expected credit loss (not credit-impaired) HK$'000	Lifetime expected credit loss (credit-impaired) HK$'000	Total HK$'000
Opening loss allowance as at 1 January 2020	10,403	490,901	501,304
Transfer to credit-impaired	(10,403)	10,403	–
Increase in the allowance recognised in profit or loss	–	20,903	20,903
Write off	–	(7,517)	(7,517)
Exchange difference	–	6,330	6,330
Closing loss allowance as at 31 December 2020	–	521,020	521,020
Reclassification from loss allowance for other receivables	–	2,547	2,547
Increase in the allowance recognised in profit or loss	–	61,297	61,297
Write off	–	–	–
Exchange difference	–	3,295	3,295
Closing loss allowance as at 31 December 2021	–	588,159	588,159

Notes to the Consolidated Financial Statements

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3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

Impairment of financial assets *(Cont'd)*

(iii) Other financial assets at amortised cost

Other financial assets at amortised cost include deposits and other receivables.

The loss allowance for other receivables as at 31 December reconciles to the opening loss allowance as follows:

	12-month expected credit loss HK$'000	Lifetime expected credit loss (credit-impaired) HK$'000	Total HK$'000
Loss allowance as at 1 January 2020	–	–	–
Increase in the allowance recognised in profit or loss	1,560	955	2,515
Exchange difference	–	32	32
Loss allowance as at 31 December 2020 and 1 January 2021	1,560	987	2,547
Transfer to credit-impaired	(1,560)	1,560	–
Reclassification to loss allowance for loan receivables	–	(2,547)	(2,547)
Increase in the allowance recognised in profit or loss	–	–	–
Exchange difference	–	–	–
Closing loss allowance as at 31 December 2021	–	–	–

(iv) Net impairment losses on financial assets recognised in profit or loss

	2021 HK$'000	2020 HK$'000
Impairment losses on:		
– trade receivables arising from contracts with customers	(40)	1,303
– loan receivables *(note)*	61,297	20,903
– other financial assets at amortised cost *(note)*	–	2,515
Total	61,257	24,721
Loss on change in fair value of unlisted equity securities	–	1,611
	61,257	26,332

Note: During the year, impairment losses of approximately HK$61,297,000 (2020: HK$23,418,000) were recognised in profit or loss in relation to loan receivables, including an amount of approximately HK$61,297,000 (2020: HK$23,418,000) recognised in the year ended 31 December 2021 to write down the credit impaired loans in respect of which the borrowers had failed to repay the outstanding loans when the Group called for repayment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

2021	Carrying amount as per consolidated statement of financial position HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000
Accounts payable	5,485	5,485	5,485	–	–
Accruals and other payables	34,830	34,830	34,830	–	–
Amount due to a joint venture	6,225	6,225	6,225	–	–
Amount due to a shareholder	1,224	1,224	1,224	–	–
Amounts due to key management personnel	17,935	17,935	17,935	–	–
Bank and other borrowings	197,000	197,000	197,000	–	–
Lease liabilities	6,832	7,223	3,706	3,517	–
Convertible bonds	127,062	127,062	127,062	–	–
	396,593	396,984	393,467	3,517	–

Notes to the Consolidated Financial Statements

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3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

2020	Carrying amount as per consolidated statement of financial position HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000
Accounts payable	4,399	4,399	4,399	–	–
Accruals and other payables	37,683	37,683	37,683	–	–
Amount due to a joint venture	6,766	6,766	6,766	–	–
Amount due to a shareholder	58,069	58,069	58,069	–	–
Amounts due to key management personnel	19,703	20,034	20,034	–	–
Bank borrowings	212,793	212,793	212,793	–	–
Lease liabilities	23,176	25,469	11,651	9,109	4,709
Convertible bonds	137,205	183,620	183,620	–	–
	499,794	548,833	535,015	9,109	4,709

Bank and other borrowings with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. Taking into account the fair value of the Group's pledged property, the Board does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Board believes that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity analysis – Bank and other borrowings with a repayment on demand clause based on scheduled repayments

	Less than 1 month HK$'000	More than 1 month but less than 3 months HK$'000	More than 3 months but less than 6 months HK$'000	More than 6 months but less than 12 months HK$'000	Total undiscounted cash outflows HK$'000	Carrying amount HK$'000
At 31 December 2021	163,351	1,138	1,137	36,896	202,522	197,000
At 31 December 2020	131,048	83,013	–	–	214,061	212,793

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3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as total debt divided by adjusted capital. Total debt comprises accounts payable, accruals and other payables, amount due to a joint venture, amount due to a shareholder, amounts due to key management personnel, bank and other borrowings and lease liabilities as shown in the consolidated statement of financial position. Adjusted capital comprises convertible bonds and all components of equity (including share capital, reserves, accumulated losses and non-controlling interests as shown in the consolidated statement of financial position).

The debt-to-adjusted capital ratios at 31 December 2021 and 2020 are as follows:

	2021 **HK$'000**	2020 HK$'000
Total debt	**269,531**	362,589
Adjusted capital	**227,290**	305,503
Debt-to-adjusted capital ratio	**118.6%**	118.7%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised to three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation *(Cont'd)*

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31 December 2021:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss				
– Unlisted fund investment	–	4,536	–	4,536
– Unlisted equity securities	–	–	6,918	6,918

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31 December 2020:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss				
– Unlisted fund investment	–	6,769	–	6,769
– Unlisted equity securities	–	–	6,899	6,899

There were no transfers between levels 1 and 2 during the year.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Level 2 fair value for fund investment has been determined based on the quote price given by the fund administrator by reference to the net asset value of the relevant fund investment.

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3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation *(Cont'd)*

(c) Financial instructions in level 3

The fair value of unlisted equity securities is determined by the directors of the Company.

The movements during the period in the balance of these level 3 fair value measurements are as follows:

	2021 HK$'000	2020 HK$'000
Unlisted equity securities		
At 1 January	6,899	7,681
Change in fair value recognised in profit or loss the period	–	(1,611)
Exchange difference	19	829
At 31 December	6,918	6,899

Change in fair value for the year ended 31 December 2020 was included in "Net impairment loss on financial assets" in the consolidated statement of profit or loss.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) The Group tests whether non-financial assets have suffered any impairment in accordance with the accounting policy stated in Note 2.10. Determining whether non-financial assets are impaired requires an estimate of the value-in-use of the asset. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) The Group makes provision for impairment of receivables based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical credit loss as well as current and forward looking estimates at the end of each reporting period.

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5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2021 HK$'000	2020 HK$'000
Sales of lottery terminals and related equipment	81,503	35,775
Sales of natural and health food	3,089	8,066
Provision of technical and maintenance services	28,703	33,521
Revenue from contracts with customers (within the scope of HKFRS 15)	113,295	77,362
Lease income from operating leases	11,625	41,201
Total revenue	124,920	118,563

(a) Disaggregation of revenue from contracts with customers (within the scope of HKFRS 15)

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

2021	Lottery systems, terminal equipment and related products HK$'000	Natural and health food HK$'000	Total HK$'000
Types of goods and services			
Sales of lottery terminals and related equipment	81,503	–	81,503
Sales of natural and health food	–	3,089	3,089
Provision of technical and maintenance services	28,703	–	28,703
Total	110,206	3,089	113,295
Geographical markets			
People's Republic of China ("PRC")	108,907	3,089	111,996
Others	1,299	–	1,299
Total	110,206	3,089	113,295
Timing of revenue recognition			
A point in time	82,802		85,891
Over time	27,404	–	27,404
Total	110,206	3,089	113,295

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

5. REVENUE *(Cont'd)*

(a) Disaggregation of revenue from contracts with customers (within the scope of HKFRS 15) *(Cont'd)*

2020	Lottery systems, terminal equipment and related products HK$'000	Natural and health food HK$'000	Total HK$'000
Types of goods and services			
Sales of lottery terminals and related equipment	35,775	–	35,775
Sales of natural and health food	–	8,066	8,066
Provision of technical and maintenance services	33,521	–	33,521
Total	69,296	8,066	77,362
Geographical markets			
PRC	66,371	8,066	74,437
Others	2,925	–	2,925
Total	69,296	8,066	77,362
Timing of revenue recognition			
A point in time	42,565	8,066	50,631
Over time	26,731	–	26,731
Total	69,296	8,066	77,362

(b) Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	31 December 2021 HK$'000	31 December 2020 HK$'000	1 January 2020 HK$'000
Billings in advance of performance:			
Contract liabilities – Sales of lottery terminals and related equipment	**109**	106	193
Contract liabilities – Provision of technical and maintenance services	**35,102**	31,179	18,799
Total contract liabilities	**35,211**	31,285	18,992

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For the year ended 31 December 2021

5. REVENUE *(Cont'd)*

(b) Assets and liabilities related to contracts with customers *(Cont'd)*

(i) Significant changes in contract liabilities

Payments are usually received in advance under the contracts which are mainly from provision of technical and maintenance services.

(ii) Revenue recognised in relation to contract liabilities

Revenue recognised during year ended 31 December 2021 that was included in the contract liability balance at the beginning of the year was approximately HK$10,449,000 (2020: HK$5,445,000).

(iii) Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the unsatisfied or partially unsatisfied performance obligations arising from contracts with customers and the expected timing of recognising revenue are as follows:

	2021 HK$'000	2020 HK$'000
Within one year	**33,558**	29,458
More than one year but not more than two years	**19,007**	15,195
More than two years	**35,043**	34,968
	87,608	79,621

(c) Leases

Lease income from operating leases included in the Group's revenue of approximately HK$11,625,000 (2020: HK$41,201,000) for the year ended 31 December 2021 is the income relating to variable lease payments that do not depend on an index or a rate.

6. SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on revenue analysis by products.

Specifically, the Group's reportable segments are as follows:

1. Lottery systems, terminal equipment and related products – Provision of technology and operation service for lottery systems, terminal equipment and gaming products, and sales of lottery terminals and related equipment

2. Natural and health food – Research and development, processing, production and sales of natural and health food

Notes to the Consolidated Financial Statements

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6. SEGMENT INFORMATION *(Cont'd)*

(a) Segment revenue and results

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

2021	Lottery systems, terminal equipment and related products HK$'000	Natural and health food HK$'000	Total HK$'000
Segment revenue:			
Revenue from contracts with customers (within the scope of HKFRS 15)	110,206	3,089	113,295
Lease income	11,625	–	11,625
Revenue from external customers	121,831	3,089	124,920
Segment loss	(107,555)	(240)	(107,795)
Interest income			21,276
Fair value loss on financial assets at fair value through profit or loss			(2,232)
Gain on remeasurement of convertible bonds			26,198
Net impairment losses on financial assets			(61,257)
Finance costs			(57,521)
Gain on disposal of a subsidiary			121
Unallocated expenses			(104,172)
Loss before income tax			(285,382)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION *(Cont'd)*

(a) Segment revenue and results *(Cont'd)*

2020	Lottery systems, terminal equipment and related products HK$'000	Natural and health food HK$'000	Total HK$'000
Segment revenue:			
Revenue from contracts with customers (within the scope of HKFRS 15)	69,296	8,066	77,362
Lease income	41,201	–	41,201
Revenue from external customers	110,497	8,066	118,563
Segment loss	(491,828)	(2,411)	(494,239)
Interest income			6,403
Rental income			203
Fair value gain on financial assets at fair value through profit or loss			98
Gain on remeasurement of convertible bonds			44,813
Write-off of loan receivables			(9,839)
Net impairment losses on financial assets			(20,903)
Finance costs			(86,034)
Share of losses of associates			(2,756)
Share of loss of a joint venture			(2,496)
Unallocated expenses			(65,695)
Loss before income tax			(630,445)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2. Segment loss represents the loss from each segment without allocation of central administration costs (including directors' emoluments), share of losses of associates and joint venture, impairment of financial assets and interest in an associate, write-off of loan receivables, fair value gain/loss on financial assets at fair value through profit or loss, gain on remeasurement of convertible bonds, investment income and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

There were no sales transactions between the operating segments.

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6. SEGMENT INFORMATION *(Cont'd)*

(b) Segment assets and liabilities

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

Segment assets

	2021 HK$'000	2020 HK$'000
Lottery systems, terminal equipment and related products	106,413	247,438
Natural and health food	2,794	2,122
Total segment assets	109,207	249,560
Interests in associates	189	189
Unallocated	463,810	497,721
Consolidated assets	573,206	747,470

Segment liabilities

	2021 HK$'000	2020 HK$'000
Lottery systems, terminal equipment and related products	51,234	51,891
Natural and health food	16,757	17,731
Total segment liabilities	67,991	69,622
Unallocated	404,987	509,550
Consolidated liabilities	472,978	579,172

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interests in associates, investment in a joint venture, financial assets at fair value through profit or loss, cash and bank balances, and other unallocated corporate assets; and
- all liabilities are allocated to operating segments other than amount due to a joint venture, amount due to a shareholder, amounts due to key management personnel, tax payable, bank and other borrowings, lease liabilities, convertible bonds, deferred income tax liabilities and other unallocated corporate liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION *(Cont'd)*

(c) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

2021	Lottery systems, terminal equipment and related products HK$'000	Natural and health food HK$'000	Unallocated HK$'000	Total HK$'000
Additions to non-current assets	10,013	–	–	10,013
Depreciation and amortisation	18,174	–	12,000	30,174
Gain on lease termination	372	–	–	372
Loss on disposal of property, plant and equipment	2,542	–	–	2,542
Impairment of goodwill and other intangible assets	35,786	–	–	35,786
Impairment of property, plant and equipment	12,218	–	–	12,218
Net impairment losses on financial assets	(40)	–	61,297	61,257

2020	Lottery systems, terminal equipment and related products HK$'000	Natural and health food HK$'000	Unallocated HK$'000	Total HK$'000
Additions to non-current assets	7,730	–	–	7,730
Depreciation and amortisation	53,190	71	6,992	60,253
Gain on lease termination	252	1	–	253
Gain on lease modification	475	–	–	475
Loss on disposal of property, plant and equipment	43,406	–	–	43,406
Impairment of goodwill and other intangible assets	381,786	–	–	381,786
Impairment of property, plant and equipment	17,007	–	–	17,007
Net impairment losses on financial assets	5,412	17	20,903	26,332

Note: Non-current assets excluded financial instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION *(Cont'd)*

(d) Geographical information

Information about the Group's revenue from external customers is presented based on the locations of the customers. Information about the Group's non-current assets is presented based on the geographical locations of assets.

	Revenue from external customers		Total non-current assets	
	2021	2020	**2021**	2020
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	123,621	114,877	31,571	95,506
Hong Kong	–	–	345,058	349,126
Others	1,299	3,686	–	11,117
	124,920	118,563	376,629	455,749

Note: Non-current assets excluded financial instruments.

(e) Information about major customers

Revenue from major customers of which amounted to 10% or more of the total revenue, is set out below:

	2021	2020
	HK$'000	HK$'000
Customer A[1]	43,905	32,062
Customer B[1]	19,512	23,045
Customer C[1]	N/A[2]	20,200
Customer D[1]	26,698	–

1 Revenue from lottery systems, terminal equipment and related products.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group for that year.

7. OTHER INCOME

	2021	2020
	HK$'000	HK$'000
Interest income from bank deposits and loan receivables	4,780	6,403
Interest received from CLO (as defined in Note 26 below)	16,496	–
Rental income	–	203
Government grants *(note)*	133	6,914
Others	418	–
	21,827	13,520

Note: During the year, the Group recognised government grants of approximately HK$nil (2020: HK$1,253,000) relating to Employment Support Scheme provided by the Hong Kong government and of approximately HK$133,000 (2020: HK$5,661,000) relating to the subsidies for PRC subsidiaries in High and New Technology industry.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

8. OTHER (LOSSES)/GAINS – NET

	2021 HK$'000	2020 HK$'000
Fair value (loss)/gain on financial assets at fair value through profit or loss	(2,232)	98
Gain on remeasurement of convertible bonds	26,198	44,813
Gain on lease modification	–	475
Gain on lease termination	372	253
Loss on disposal of property, plant and equipment	(2,542)	(43,406)
Write-off of loan receivables	–	(9,839)
Impairment of goodwill and other intangible assets	(35,786)	(381,786)
Impairment of property, plant and equipment	(12,218)	(17,007)
Foreign exchange losses	(272)	(3,378)
	(26,480)	(409,777)

9. OPERATING LOSS

The Group's operating loss is arrived at after charging:

	2021 HK$'000	2020 HK$'000
Costs of sales and services		
– Depreciation of lottery terminals	3,867	33,605
– Amortisation of intangible assets	8,359	10,815
– Business tax	366	810
– Cost of inventories recognised as expense	61,298	31,483
– Repairs and maintenance	205	5,302
– Others	1,549	9,033
	75,644	91,048
Legal and professional fees	88,862	54,385
Auditors' remuneration	1,100	1,780
Depreciation of property, plant and equipment recognised as general and administrative expenses	3,623	3,497
Depreciation of right-of-use assets	14,325	12,068

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For the year ended 31 December 2021

10. FINANCE COSTS

	2021 HK$'000	2020 HK$'000
Interest expense on bank and other borrowings	11,324	18,802
Interest expenses on lease liabilities	576	1,557
Interest expenses on amount due to a shareholder	2,210	4,605
Interest expenses on amounts due to key management personnel of the Group (including the directors of the Company)	1,136	232
Effective interest expense on convertible bonds	42,275	60,838
	57,521	86,034

11. INCOME TAX CREDIT

Hong Kong Profits Tax is calculated at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2021 and 2020 as the Group had no assessable profits arising in or derived from Hong Kong for both years.

The applicable enterprise income tax rate for PRC subsidiaries is 25% (2020: 25%) except for subsidiaries which are qualified as High and New Technology Enterprises and would be entitled to enjoy a beneficial tax rate of 15% (2020: 15%).

Under the Laws of the People's Republic of China on Enterprise Income Tax, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from a PRC subsidiary to non-PRC tax resident group entity in Hong Kong in respect of profits generated after 1 January 2008 shall be subject to the withholding tax at 10%, unless the Hong Kong company can be approved to enjoy a reduced rate of 5% pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.

	2021 HK$'000	2020 HK$'000
Current tax		
– PRC Enterprise Income Tax	–	1,694
– Adjustments in respect of prior years	(3,421)	(1,365)
Total current tax	(3,421)	329
Deferred tax *(Note 34)*		
– Origination and reversal of temporary differences	(1,050)	(6,856)
Income tax credit	(4,471)	(6,527)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

11. INCOME TAX CREDIT *(Cont'd)*

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the Hong Kong Profits Tax rate as follows:

	2021 HK$'000	2020 HK$'000
Loss before income tax	(285,382)	(630,445)
Tax calculated at 16.5%	(47,088)	(104,023)
Income not subject to tax	(3,631)	(11,460)
Expenses not deductible for tax purposes	35,847	94,006
Tax losses which no deferred income tax asset recognised	19,133	30,332
Utilisation of previously unrecognised tax losses	(658)	(2,208)
Adjustments in respect of prior years	(3,421)	(1,365)
Tax concession	(3,472)	–
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	(4,505)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,135)	(7,304)
Others	(46)	–
Tax credit	(4,471)	(6,527)

12. LOSS PER SHARE

	2021 Loss HK$'000	2021 Weighted average number of ordinary shares '000	2021 Per share amount HK cents	2020 Loss HK$'000	2020 Weighted average number of ordinary shares '000 (restated)	2020 Per share amount HK cents (restated)
Basic and diluted loss per ordinary share	(258,312)	2,278,856	(11.34)	(573,971)	1,181,996	(48.56)

Notes:

(a) The loss amounts represent the loss attributable to owners of the Company for the year.

(b) On 10 June 2021, the Company issued 2,058,961,466 new ordinary shares at the subscription price of HK$0.10 each by way of rights issue to qualifying ordinary shareholders. As required by HKAS 33 "Earnings per Share", a retrospective adjustment of approximately 153 million shares representing the bonus element in the rights issue was applied to the calculation of the weighted average number of ordinary shares for the periods prior to the rights issue. Basic and diluted loss per ordinary share for the prior periods have been restated accordingly.

(c) The computation of diluted loss per share for the years ended 31 December 2021 and 2020 did not assume the conversion of the convertible bonds since its assumed conversion would result in a decrease in loss per share.

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13. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2021 HK$'000	2020 HK$'000
Wages and salaries	79,231	79,800
Social security costs	5,097	2,433
Pension costs – defined contribution plans	765	767
Other staff welfare	1,248	1,691
	86,341	84,691

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included two (2020: two) directors of the Company, whose emoluments are set out in Note 14. The emoluments payable to the remaining three (2020: three) non-director and non-chief executive highest paid individual during the year are as follows:

	2021 HK$'000	2020 HK$'000
Basic salaries, other allowances and benefits in kind	12,732	17,006
Employer's contributions to pension schemes	419	351
	13,151	17,357

The emoluments fell within the following bands:

	Number of individuals 2021	2020
Emolument bands		
HK$2,000,001–HK$2,500,000	1	–
HK$3,500,001–HK$4,000,000	1	–
HK$4,500,001–HK$5,000,000	–	1
HK$5,500,001–HK$6,000,000	–	1
HK$6,500,001–HK$7,000,000	1	1
	3	3

No emoluments were paid by the Group to non-director and non-chief executive highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2020: nil).

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14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2021 is set out below:

Name of director	Fees HK$'000	Salaries, other allowances and benefits in kind HK$'000	Employer's contributions to pension schemes HK$'000	Total HK$'000
Executive directors				
Ms. Chan Tan Na, Donna	–	5,786	18	5,804
Mr. Wu Jingwei	–	3,029	18	3,047
Mr. Di Ling *(Note (a))*	–	360	–	360
Mr. Qiu Peiyuan *(Note (b))*	–	71	–	71
Mr. Wu Ying Ha *(Note (c))*	–	1,350	9	1,359
Mr. Li Zi Kui *(Note (d))*	–	528	9	537
Ms. Zhu Xinxin *(Note (e))*	–	541	–	541
Independent non-executive directors				
Mr. Huang Shenglan	336	–	–	336
Mr. Chan Ming Fai	336	–	–	336
Dr. Meng Zhijun *(Note (f))*	–	–	–	–
Mr. Cui Shuming *(Note (g))*	168	–	–	168
	840	11,665	54	12,559

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2020 is set out below:

Name of director	Fees HK$'000	Salaries, other allowances and benefits in kind HK$'000	Employer's contributions to pension schemes HK$'000	Total HK$'000
Executive directors				
Ms. Chan Tan Na, Donna	–	5,813	18	5,831
Mr. Wu Jingwei	–	4,893	18	4,911
Mr. Li Zi Kui	–	1,196	50	1,246
Ms. Zhu Xinxin	–	1,015	36	1,051
Independent non-executive directors				
Mr. Huang Shenglan	336	–	–	336
Mr. Chan Ming Fai	336	–	–	336
Mr. Cui Shuming	336	–	–	336
	1,008	12,917	122	14,047

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14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Cont'd)*

Ms. Chan Tan Na, Donna resigned as the chief executive officer of the Company with effect from 1 July 2021 and her emoluments disclosed above include those for services rendered by her as the chief executive.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Neither the chief executive nor any of directors of the Company waived or agreed to waive any emoluments in the years ended 31 December 2021 and 2020.

No emoluments were paid by the Group to the directors and the chief executive as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2020: nil).

Notes:

(a) Mr. Di Ling was appointed as an executive director with effect from 1 July 2021.

(b) Mr. Qiu Peiyuan was appointed as an executive director with effect from 18 November 2021.

(c) Mr. Wu Ying Ha was appointed with effect from 1 July 2021 and resigned with effect from 15 January 2022 as an executive director and chief executive officer of the Company.

(d) Mr. Li Zi Kui resigned as an executive director with effect from 1 July 2021.

(e) Ms. Zhu Xinxin resigned as an executive director with effect from 1 July 2021.

(f) Dr. Meng Zhijun was appointed as an independent non-executive director with effect from 1 July 2021.

(g) Mr. Cui Shuming resigned as an independent non-executive director with effect from 1 July 2021.

15. DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 December 2021 (2020: nil).

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16. PROPERTY, PLANT AND EQUIPMENT

	Owned properties HK$'000	Lottery terminals HK$'000	Lottery terminals under construction HK$'000	Leasehold improvement HK$'000	Plant and equipment HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2020									
Cost	13,250	734,727	327	11,485	25,834	18,393	10,061	8,949	823,026
Accumulated depreciation and impairment	(3,223)	(627,694)	–	(10,789)	(19,442)	(15,809)	(8,903)	(6,996)	(692,856)
Net book amount	10,027	107,033	327	696	6,392	2,584	1,158	1,953	130,170
Year ended 31 December 2020									
Opening net book amount	10,027	107,033	327	696	6,392	2,584	1,158	1,953	130,170
Exchange differences	28	3,171	14	40	350	30	50	38	3,721
Revaluation surplus	19,939	–	–	–	–	–	–	–	19,939
Additions	–	–	–	430	–	–	19	1,704	2,153
Transfer to investment properties	(4,261)	–	–	–	–	–	–	–	(4,261)
Disposals	–	(45,299)	–	–	(896)	(1)	(120)	(891)	(47,207)
Impairment charge	–	(16,742)	(265)	–	–	–	–	–	(17,007)
Depreciation	(291)	(33,605)	–	(193)	(1,382)	(905)	(384)	(610)	(37,370)
Closing net book amount	25,442	14,558	76	973	4,464	1,708	723	2,194	50,138
At 31 December 2020									
Cost or fair value	25,442	66,545	350	9,990	18,661	18,920	9,145	7,504	156,557
Accumulated depreciation and impairment	–	(51,987)	(274)	(9,017)	(14,197)	(17,212)	(8,422)	(5,310)	(106,419)
Net book amount	25,442	14,558	76	973	4,464	1,708	723	2,194	50,138
Year ended 31 December 2021									
Opening net book amount	25,442	14,558	76	973	4,464	1,708	723	2,194	50,138
Exchange differences	114	534	10	24	81	6	12	40	821
Additions	–	–	–	3,179	825	3	512	774	5,293
Transfer	–	86	(86)	–	–	–	–	–	–
Disposals	–	(61)	–	–	(2,671)	(77)	(530)	(142)	(3,481)
Impairment charge	–	(11,250)	–	–	–	(968)	–	–	(12,218)
Depreciation	(1,081)	(3,867)	–	(592)	(773)	(539)	(118)	(520)	(7,490)
Closing net book amount	24,475	–	–	3,584	1,926	133	599	2,346	33,063
At 31 December 2021									
Cost or fair value	25,562	59,522	–	8,560	11,892	10,487	2,247	6,384	124,654
Accumulated depreciation and impairment	(1,087)	(59,522)	–	(4,976)	(9,966)	(10,354)	(1,648)	(4,038)	(91,591)
Net book amount	24,475	–	–	3,584	1,926	133	599	2,346	33,063

Notes:

(i) Depreciation of lottery terminals of approximately HK$3,867,000 (2020: HK$33,605,000) has been charged in costs of sales and services. Depreciation of property, plant and equipment of approximately HK$nil (2020: HK$268,000) has been capitalised in lottery terminals under construction and of approximately HK$3,623,000 (2020: HK$3,497,000) has been charged in general and administrative expenses.

(ii) At 31 December 2021, the Group's owned properties and related leasehold land classified as right-of-use assets with an aggregate carrying amount of approximately HK$336,967,000 (2020: HK$346,000,000) was pledged to secure bank and other borrowings granted to the Group.

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For the year ended 31 December 2021

16. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

Notes: (Cont'd)

(iii) The fair value of the Group's owned properties and related leasehold land as at 31 December 2020 were arrived at on the basis of valuations carried out by Knight Frank Petty Limited and Prudential Surveyors (Hong Kong) Limited, independent qualified valuers not connected with the Group. Management works closely with the external qualified valuers to establish the appropriate valuation techniques and inputs to the model.

The fair value of the owned properties and related leasehold land was determined based on the direct comparison approach that reflects recent transaction prices for similar properties, adjusted for differences in the characteristics such as location, size and condition.

In estimating the fair value of the owned properties and related leasehold land, the highest and best use of the properties is their current use. Details of the Group's owned properties and related leasehold land and information about the fair value hierarchy as at 31 December 2020 are as follows:

Description	Fair value as at 31/12/2021 HK$'000	Fair value hierarchy	Valuation technique	Significant unobservable input	Relationship of unobservable input to fair value
Owned properties and related leasehold land located in Hong Kong	346,000 (Owned properties: 21,400; Leasehold land: 324,600)	Level 3	Direct comparison approach	Adjusted price of HK$635,550 per square meter	A significant increase in the adjusted price used would result in a significant increase in fair value, and vice versa.
Owned property located in the PRC	4,042	Level 3	Direct comparison approach	Adjusted price of HK$54,855 per square meter	A significant increase in the adjusted price used would result in a significant increase in fair value, and vice versa.

There were no transfers into or out of Level 3 during the year.

(iv) If owned properties and related leasehold land were stated on the historical cost basis as at 31 December 2021, the amounts would be as follows:

	2021 HK$'000	2020 HK$'000
Owned properties		
Cost	9,079	9,051
Accumulated depreciation	(2,931)	(2,667)
Net book amount	6,148	6,384
Leasehold land		
Cost	131,900	131,900
Accumulated depreciation	(30,762)	(28,106)
Net book amount	101,138	103,794

(v) Certain lottery terminals and lottery terminals under construction that generate cash flows together with the related goodwill and internally generated development costs are included in the respective cash-generating unit ("CGU") "Provision of traditional computer lottery system and equipment" for the purpose of impairment assessment. Based on the result of the assessment, the directors of the Company determined that the recoverable amount of the CGU is lower than the carrying amount as at 31 December 2021 and 2020. Goodwill related to the CGU amounting to approximately HK$199,403,000 has been fully impaired in the year ended 31 December 2020, and during the year ended 31 December 2021, the impairment amounting to approximately HK$47,036,000 (2020: HK$158,802,000) has been allocated to lottery terminals, lottery terminals under construction and internally generated development costs such that the carrying amount of each category of asset was not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, an impairment of approximately HK$11,250,000 (2020: HK$16,742,000) and HK$nil (2020: HK$265,000), respectively, have been recognised against the carrying amounts of lottery terminals and lottery terminals under construction in the year ended 31 December 2021.

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17. RIGHT-OF-USE ASSETS

This note provides information for leases where the Group is a lessee.

(a) Amount recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2021 HK$'000	2020 HK$'000
Right-of-use assets		
Leasehold land *(Note)*	316,295	324,600
Leased properties	6,674	17,530
	322,969	342,130
Lease liabilities		
Current	3,457	10,920
Non-current	3,375	12,256
	6,832	23,176

Note: At 31 December 2020, the leasehold land was measured using the revaluation model. Information about the fair value measurement of the Group's leasehold land as at 31 December 2020 are set out in Note 16.

Additions to the right-of-use assets during the year ended 31 December 2021 were approximately HK$4,720,000 (2020: HK$2,616,000) and surplus on revaluation of leasehold land during the year ended 31 December 2021 was approximately HK$nil (2020: HK$225,607,000).

(b) Amount recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

	2021 HK$'000	2020 HK$'000
Depreciation of right-of-use assets:		
Leasehold land	8,305	2,897
Leased properties	6,020	9,171
	14,325	12,068
Interest expense (included in finance costs)	576	1,557
Expense relating to short-term leases (included in general and administrative expenses)	922	2,486

The total cash outflow for leases in 2021 was approximately HK$13,802,000 (2020: HK$9,793,000).

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17. RIGHT-OF-USE ASSETS *(Cont'd)*

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices and warehouses. Rental contracts are typically made for fixed periods, but may have extension and termination options as described in (d) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. Periods covered by extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

18. INVESTMENT PROPERTIES

	2021 HK$'000	2020 HK$'000
At 1 January	–	–
Transfer from property, plant and equipment and right-of-use assets	–	44,380
Disposal	–	(44,380)
At 31 December	–	–

The investment properties are leased to tenants under operating leases with rentals payable monthly. There are no variable lease payments that depend on an index or rate. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as the leases are denominated in the respective functional currencies of group entities.

(a) Amount recognised in the consolidated statement of profit or loss

	2021 HK$'000	2020 HK$'000
Rental income from operating leases	–	203
Less: Direct operating expenses from property that generated rental income	–	(28)
	–	175

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19. INTANGIBLE ASSETS

	Goodwill HK$'000	Internally generated development costs HK$'000	Intellectual properties HK$'000	Total HK$'000
At 1 January 2020				
Cost	1,188,434	209,451	44,593	1,442,478
Accumulated amortisation and impairment	(954,803)	(26,812)	(15,112)	(996,727)
Net book amount	233,631	182,639	29,481	445,751
Year ended 31 December 2020				
Opening net book amount	233,631	182,639	29,481	445,751
Exchange difference	1,103	4,393	1,685	7,181
Additions	–	2,961	–	2,961
Amortisation charge	–	(7,746)	(3,069)	(10,815)
Impairment charge	(234,734)	(141,795)	(5,257)	(381,786)
Closing net book amount	–	40,452	22,840	63,292
At 31 December 2020				
Cost	1,190,713	220,439	47,562	1,458,714
Accumulated amortisation and impairment	(1,190,713)	(179,987)	(24,722)	(1,395,422)
Net book amount	–	40,452	22,840	63,292
Year ended 31 December 2021				
Opening net book amount	–	40,452	22,840	63,292
Exchange difference	–	368	893	1,261
Amortisation charge	–	(5,034)	(3,325)	(8,359)
Impairment charge	–	(35,786)	–	(35,786)
Closing net book amount	–	–	20,408	20,408
At 31 December 2021				
Cost	1,191,436	224,224	48,960	1,464,620
Accumulated amortisation and impairment	(1,191,436)	(224,224)	(28,552)	(1,444,212)
Net book amount	–	–	20,408	20,408

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For the year ended 31 December 2021

19. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) Internally generated development costs include all direct costs incurred in the setting up and development of systems and networks. During the year ended 31 December 2021, the Group incurred research and development expenses of approximately HK$1,216,000 (2020: HK$10,594,000) which are included in general and administrative expenses in the consolidated statement of profit or loss.

(ii) **Impairment tests for goodwill**

The carrying amount of goodwill (net of accumulated impairment losses) is allocated to the CGU as follows:

	2021 **HK$'000**	2020 HK$'000
Provision of traditional computer lottery system and equipment	–	–
Development of lottery transaction and management systems	–	–
	–	–

The recoverable amounts of the CGUs are determined based on value-in-use calculations.

(a) Provision of traditional computer lottery system and equipment

During the year ended 31 December 2020, the COVID-19 pandemic dragged down the China's lottery sales. The Chinese lottery market experienced the longest market closure in its recent history, with a 49-day suspension of all operation of physical lottery stores from the end of January 2020 and lottery sales in the PRC plummeted by approximately 21% year-on-year in 2020, thereby heavily affecting the CGU's business performance. The CGU's overall revenue decreased by 30% in 2020 due to the adverse impact of the COVID-19 pandemic on the CGU and the expiry of a major lease contract in August 2020. The directors of the Company have consequently determined goodwill directly related to this CGU amounting to approximately HK$199,403,000 has been fully impaired as at 31 December 2020 and impairment amounting to approximately HK$158,802,000 has been allocated pro rata to class of assets to the extent the carrying amount of the asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero. Details are set out in Note 16 and (iii) below. The recoverable amount of this CGU amounted to approximately HK$45,364,000 as at 31 December 2020.

The value-in-use calculation used pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The CGU's cash flows beyond the 5-year period were extrapolated using a steady 2% growth rate. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. The key assumptions used for the cash flow projections included the budgeted revenue and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 11.2%, which reflects the specific risks relating to this CGU.

(b) Development of lottery transaction and management systems

In addition to goodwill, intellectual properties have been allocated to this CGU for the purpose of impairment assessment.

The Chinese lottery market was severely hard-hit in 2020 by the outbreak of COVID-19, thereby affecting the business performance of this CGU in the current year. The directors of the Company have consequently determined the goodwill directly related to this CGU amounting to approximately HK$35,331,000 has been fully impaired as at 31 December 2020 and impairment amounting to approximately HK$5,257,000 has been allocated to intellectual properties. The recoverable amount of this CGU amounted to approximately HK$22,840,000 as at 31 December 2020.

Notes to the Consolidated Financial Statements

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19. INTANGIBLE ASSETS *(Cont'd)*

Notes: (Cont'd)

(ii) Impairment tests for goodwill *(Cont'd)*

(b) Development of lottery transaction and management systems (Cont'd)

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The CGU's cash flows beyond the 5-year period were extrapolated using a steady 2% growth rate. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. The key assumptions used for the cash flow projections include the budgeted revenue and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 11.2%, which reflects the specific risks relating to this CGU.

(iii) Impairment test for internally generated development costs

The internally generated development costs with carrying amount of approximately HK$nil (2020: HK$40,452,000) as at 31 December 2021 are intangible assets which do not generate cash inflows that are largely independent of those from other assets or groups of assets. Hence for the purpose of impairment assessment, recoverable amount of these intangible assets is determined for the cash-generating unit to which the assets belong.

The internally generated development costs belong to the CGU "Provision of traditional computer lottery system and equipment". Due to continuous poor performance of this CGU, the directors of the Company determined that the recoverable amount of the CGU is lower than the carrying amount as at 31 December 2021. As a result, internally generated development costs related to the CGU should be fully impaired in the year ended 31 December 2021. During the year ended 31 December 2021, an impairment of approximately HK$35,786,000 (2020: HK$141,795,000) has been recognised against the carrying amount of internally generated development costs in the year ended 31 December 2021.

20. SUBSIDIARIES

The following is a list of the principal subsidiaries at the end of the reporting period:

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2021	Interest held 2020	Principal activities
Capital Way Development Limited	British Virgin Islands, Limited company	US$1	100% (direct)	100% (direct)	Investment holding
China LotSynergy Group Limited (formerly known as China LotSynergy Limited)	British Virgin Islands, Limited company	US$100	100% (direct)	100% (direct)	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited company	US$1,000	100% (direct)	100% (direct)	Investment holding
Tian Ran Lin Chang (Hong Kong) Limited (formerly known as Capital Way Financial Holdings Limited)	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding
Champ Mark Investments Limited	British Virgin Islands, Limited company	3,600 issued shares of no par value	100% (indirect)	100% (indirect)	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

20. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2021	Interest held 2020	Principal activities
Champ Technology Limited	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding
China Eco Tourism Investment Limited	Hong Kong, Limited company	HK$10,000	100% (indirect)	–	Investment holding
China LotSynergy Limited	Hong Kong, Limited company	US$500,000	100% (indirect)	100% (indirect)	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited company	US$2	100% (indirect)	100% (indirect)	Investment holding and treasury management
China LotSynergy Development Limited	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding
China LotSynergy Group Limited	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited company	US$2,000,000	50% (indirect) *(Note (iii))*	50% (indirect) *(Note (iii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited company	HK$1	50% (indirect) *(Note (iii))*	50% (indirect) *(Note (iii))*	Investment holding
Goldwide Limited	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding
Lottnal Holdings Limited	Hong Kong, Limited company	US$350,000	80% (indirect)	80% (indirect)	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited company	US$100	90% (indirect)	90% (indirect)	Investment holding
Qing Yu International Holding Limited ("Qing Yu")	Republic of Seychelles, Limited company	US$1,000,000	100% (indirect)	100% (indirect)	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited company	US$1	100% (indirect)	100% (indirect)	Investment holding

Notes to the Consolidated Financial Statements

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20. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2021	Interest held 2020	Principal activities
Willstrong Investments Limited	British Virgin Islands, Limited company	US$1	80% (indirect)	80% (indirect)	Provision of lottery system and equipment
東莞天意電子有限公司	PRC, Wholly foreign owned enterprise	HK$120,000,000	50% (indirect) *(Note (iii))*	50% (indirect) *(Note (iii))*	Provision of video lottery terminals ("VLT")
廣州洛圖終瑞技術有限公司 (Guangzhou Lottnal Terminal Company Limited)	PRC, Wholly foreign owned enterprise	RMB60,250,000	80% (indirect)	80% (indirect)	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas
廣州市三環永新科技有限公司 (Guangzhou Three Rings Yongxin Technology Company Limited)	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80% (indirect)	80% (indirect)	Provision of lottery system and equipment in the PRC
北京優昌源科技有限公司	PRC, Wholly foreign owned enterprise	HK$10,000,000	100% (indirect)	100% (indirect)	Research and development of lottery system and equipment in the PRC
北京中大彩訊科技有限公司	PRC, Wholly foreign owned enterprise	HK$10,000,000	75% (indirect)	75% (indirect)	Research and development of lottery system and equipment in the PRC
北京華彩贏通科技有限公司 *(Note (i))*	PRC, Limited liability company	RMB50,000,000	100% (indirect)	100% (indirect)	Research and development of lottery system and equipment in the PRC
北京貝英斯數碼技術有限公司 (Beijing Bestinfo Cyber Technology Co., Ltd)	PRC, Limited liability company	RMB5,000,000	100% (indirect)	100% (indirect)	Development of lottery transaction and management systems
天然林場食品有限公司 (Natural Forestfood Farm Company Limited	PRC, Limited liability company	RMB50,000,000	80% (indirect)	80% (indirect)	Research and development, processing, production and sales of natural and health food

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

20. SUBSIDIARIES *(Cont'd)*

Notes:

(i) The Company is a limited liability company established in the PRC. The equity interests are held by individual nominees on behalf of the Group.

(ii) The subsidiaries operate principally in their respective places of incorporation/establishment.

(iii) These companies are consolidated by the Group as the Group holds more than one half of the voting rights in the board of directors of these companies.

The above table lists the subsidiaries of the Group which, in the opinion of the Board, principally affected the results for the year or formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the Board, result in particulars of excessive length.

(a) Material non-controlling interests

The total accumulated non-controlling interest as at the end of the year ended 31 December 2021 was approximately HK$243,825,000 (2020: HK$259,356,000) of which approximately HK$241,022,000 (2020: HK$257,157,000) related to the non-controlling interests in Corich and its subsidiaries, which are principally engaged in provision of VLT. The remaining non-controlling interests are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised consolidated financial information for Corich and its subsidiaries:

Summarised statement of financial position

	2021 HK$'000	2020 HK$'000
Current		
Assets	472,821	508,976
Liabilities	(48,041)	(56,255)
Total current net assets	424,780	452,721
Non-current		
Assets	57	13,770
Liabilities	(8,750)	(18,134)
Total non-current net liabilities	(8,693)	(4,364)
Net assets	416,087	448,357

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20. SUBSIDIARIES *(Cont'd)*

(a) Material non-controlling interests *(Cont'd)*

Summarised financial information on subsidiaries with material non-controlling interests (Cont'd)

Summarised statement of profit or loss and other comprehensive income

	2021 HK$'000	2020 HK$'000
Revenue	–	–
Loss before income tax	(42,608)	(74,331)
Income tax credit	1,657	4,317
Loss for the year	(40,951)	(70,014)
Other comprehensive income	8,682	23,463
Total comprehensive loss for the year	(32,269)	(46,551)
Loss allocated to non-controlling interests	(20,476)	(35,007)
Dividends to non-controlling interests	–	–

Summarised cash flows

	2021 HK$'000	2020 HK$'000
Net cash generated from/(used in) operating activities	15,916	(3,069)
Net cash generated from investing activities	744	2,840
Net cash used in financing activities	(5,964)	(58)
Net increase/(decrease) in cash and cash equivalents	10,696	(287)
Cash and cash equivalents at beginning of year	324	582
Effect of foreign exchange rate changes	127	29
Cash and cash equivalents at end of year	11,147	324

The information above is the amount before intercompany eliminations.

Notes to the Consolidated Financial Statements

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21. INTERESTS IN ASSOCIATES

	2021 HK$'000	2020 HK$'000
Share of net assets	189	189
Loan to an associate	32,000	32,000
	32,189	32,189
Less: Impairment loss	(32,000)	(32,000)
	189	189

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. The loan is accounted for as an extension of the Group's investment in the associate as the settlement is neither planned nor likely to occur in the foreseeable future.

Particulars of the associates of the Group at the end of the reporting period are as follows:

Name	Particular of issued share capital/ registered capital	Place of business/ incorporation/ establishment	Interest held 2021	Interest held 2020	Principal activities	Measurement method
Pan Asia Blockchain Lottery Limited ("Pan Asia")	HK$16,000	Hong Kong	37.5%	37.5%	not yet commenced business	Equity
深圳市前海華彩金控科技有限公司 ("前海華彩")	RMB50,000,000	PRC	40%	40%	Dormant	Equity

The associates listed above are private companies and there are no quoted market prices available for the investments.

Sinmax Limited ("Sinmax", a wholly owned subsidiary of the Company), Pan Asia Blockchain Holding Limited ("PABH") and Pan Asia entered into a shareholders' agreement in relation to the capital injection of funds into Pan Asia and to govern the affairs of Pan Asia and set certain principles regarding the operations of Pan Asia's business and certain obligations of the parties. However, during the financial year ended 31 December 2019, PABH breached certain clauses of the shareholders' agreement and as a result, Pan Asia did not commence operations and its future developments were adversely affected. The Group has commenced legal proceedings to seek to recover the sum of HK$35,000,000 that has been paid by the Group pursuant to the shareholders' agreement. As the other parties involved in the shareholders' agreement could not be contactable, the Group considers the likelihood of recovery of the investment sums to be low and full provision for impairment loss of approximately HK$32,000,000 was recognised to fully write down the investment in the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

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21. INTERESTS IN ASSOCIATES *(Cont'd)*

Commitments in respect of the associates

The Group has the following commitment relating to its associates:

	2021 HK$'000	2020 HK$'000
Commitment to provide funding	19,590	19,027

The interests in associates are not material to the Group nor did these associates conducted any significant business activities or transactions during the year ended 31 December 2021 and 2020 that could give rise to material financial impact to the consolidated financial statements of the Company. There are no other matters in relation to the interests in associates that should be brought to the attention of the financial statements users. As a result, no summarized financial information for associates is presented.

22. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE

	2021 HK$'000	2020 HK$'000
Share of net assets	–	–

The amount due to joint venture is unsecured, interest-free and repayable on demand.

Particulars of the joint venture of the Group at the end of the reporting period are as follows:

Name	Particulars of issued share capital	Place of business/ incorporation	Interest held 2021	Interest held 2020	Principal activity	Measurement method
CLS-GTECH Company Limited ("CLS-GTECH")	US$25,689,900	PRC/British Virgin Islands	50%	50%	Development of nationwide unified platform for lottery operation in the PRC	Equity

The joint venture listed above is a private company and there is no quoted market price available for its shares.

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22. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE *(Cont'd)*

Summarised financial information for the joint venture

Set out below are the summarised financial information for CLS-GTECH which is accounted for using the equity method:

Summarised statement of financial position

	2021 HK$'000	2020 HK$'000
Current		
Cash and cash equivalents	220	232
Other current assets (excluding cash and cash equivalents)	775	753
Total current assets	995	985
Financial liabilities	7,345	7,007
Total current liabilities	7,345	7,007
Non-current		
Non-current assets	–	–
Financial liabilities	–	–
Other non-current liabilities	–	–
Total non-current liabilities	–	–
Net liabilities	(6,350)	(6,022)

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22. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE *(Cont'd)*

Summarised financial information for the joint venture *(Cont'd)*

Summarised statement of profit or loss and other comprehensive income

	2021 HK$'000	2020 HK$'000
Revenue	–	–
Depreciation and amortisation	–	–
Interest income	1	1
Interest expense	–	–
Loss from continuing operations	(149)	(11,014)
Income tax	–	–
Post-tax loss	(149)	(11,014)
Other comprehensive (expense)/income	(179)	156
Total comprehensive expense	(328)	(10,858)
Dividends received from joint venture	–	–
Unrecognised share of loss of joint venture for the year	(164)	(3,011)

The summarised financial information above represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRS.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its investment in joint venture.

	2021 HK$'000	2020 HK$'000
Net liabilities	(6,350)	(6,022)
Proportion of the Group's ownership	50%	50%
Group's share of net liabilities of the joint venture	(3,175)	(3,011)
Cumulative unrecognised share of loss of the joint venture	3,175	3,011
Carrying amount of the investment	–	–

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22. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE *(Cont'd)*

Summarised financial information for the joint venture *(Cont'd)*

Cash and short-term deposits of approximately HK$132,000 (2020: HK$145,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

23. FINANCIAL INSTRUMENTS BY CATEGORY

2021	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
Financial assets as per consolidated statement of financial position:			
Financial assets at fair value through profit or loss:			
– under non-current assets	–	4,536	4,536
– under current assets	–	6,918	6,918
Accounts receivable	11,713	–	11,713
Deposits and other receivables (including loan receivables)	38,608	–	38,608
Cash and bank balances	101,049	–	101,049
	151,370	11,454	162,824

2021	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss HK$'000	Total HK$'000
Financial liabilities as per consolidated statement of financial position:			
Accounts payable	5,485	–	5,485
Accruals and other payables	34,830	–	34,830
Amount due to a joint venture	6,225	–	6,225
Amount due to a shareholder	1,224	–	1,224
Amounts due to key management personnel	17,935	–	17,935
Bank and other borrowings	197,000	–	197,000
Lease liabilities	6,832	–	6,832
Liability component of convertible bonds	127,062	–	127,062
Derivatives component of convertible bonds	–	–	–
	396,593	–	396,593

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23. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

2020	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
Financial assets as per consolidated statement of financial position:			
Financial assets at fair value through profit or loss:			
– under non-current	–	6,769	6,769
– under current	–	6,899	6,899
Accounts receivable	70,705	–	70,705
Deposits and other receivables (including loan receivables)	98,046	–	98,046
Cash and bank balances	76,430	–	76,430
	245,181	13,668	258,849

2020	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss HK$'000	Total HK$'000
Financial liabilities as per consolidated statement of financial position:			
Accounts payable	4,399	–	4,399
Accruals and other payables	37,683	–	37,683
Amount due to a joint venture	6,766	–	6,766
Amount due to a shareholder	58,069	–	58,069
Amounts due to key management personnel	19,703	–	19,703
Bank borrowings	212,793	–	212,793
Lease liabilities	23,176	–	23,176
Liability component of convertible bonds	137,205	–	137,205
Derivatives component of convertible bonds	–	–	–
	499,794	–	499,794

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss including the following:

	2021 HK$'000	2020 HK$'000
Unlisted fund investment	4,536	6,769

Financial assets at fair value through profit or loss are denominated in US$.

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For the year ended 31 December 2021

25. INVENTORIES

	2021 HK$'000	2020 HK$'000
Raw materials	7,975	5,267
Work in progress	3,725	1,089
Finished goods	9,647	3,338
	21,347	9,694

26. ACCOUNTS RECEIVABLE

	2021 HK$'000	2020 HK$'000
Lease receivables	3,976	65,846
Trade receivables – goods and services	9,000	6,162
	12,976	72,008
Less: Loss allowance	(1,263)	(1,303)
	11,713	70,705

Lease income from lottery terminals and systems is billed on a monthly basis and is due 15 to 30 days after month-end. Revenue from sales of goods is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Revenue from provision of technical and maintenance services is billed on a half-yearly or yearly basis and is due 30 days after the invoice date. The ageing analysis of the accounts receivable net of loss allowance at the end of the reporting period, based on invoice date, is as follows:

	2021 HK$'000	2020 HK$'000
Less than three months	7,537	2,709
Over three months but less than one year	181	441
Over one year	3,995	67,555
	11,713	70,705

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26. ACCOUNTS RECEIVABLE *(Cont'd)*

Included in the Group's accounts receivable which were past due over one year at 31 December 2020 was lease receivables of approximately HK$65,203,000 (equivalent to approximately RMB54,836,000) due from Beijing China Lottery Online Technology Limited ("CLO") and that were in dispute. The Group has filed a civil action with the People's High Court of Beijing. On 10 August 2018, the People's High Court of Beijing ruled that CLO was required to pay the lease payments. However, CLO appealed against the decision of the Court. On 25 March 2021, the Group received a civil judgment from the Supreme People's Court of the PRC which ordered that CLO was required to pay the outstanding lease receivables of approximately HK$65,203,000 (equivalent to approximately RMB54,836,000) with interest, at a rate for the identical kind of loans published by the People's Bank of China accrued from 15 July 2015 to the date of payment. During the year ended 31 December 2021, the Group received the outstanding lease receivables together with related interest.

Details of impairment assessment of trade receivables and lease receivables are set out in Note 3.1(b).

The carrying amounts of the Group's accounts receivable are denominated in the following currencies:

	2021 **HK$'000**	2020 HK$'000
RMB	10,957	68,655
US$	756	2,050
	11,713	70,705

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 **HK$'000**	2020 HK$'000
Loan receivables *(Note (a))*	–	65,247
Advance to a related company *(Note (a))*	516	502
Loan to a company incorporated in Hong Kong *(Note (b))*	5,000	–
Other loan* *(Note (c))*	–	3,510
Sub-total**	5,516	69,259
Investment in an unlisted equity securities* *(Note (d))*	6,918	6,899
Amount due from key management personnel* *(Note (e))*	2,645	2,645
Amount due from a former director of the Company* *(Note (f))*	1,009	1,009
Deposits and other receivables	29,438	25,133
Prepayments	12,406	23,178
	57,932	128,123

* In prior years, investment in an unlisted equity securities, advance to a related company, other loan and amounts due from key management personnel and a former director were included in "Deposits and other receivables", and in the current year, the Group determined to separate them from "Deposits and other receivables". The comparative figures have been restated to conform with the current year's presentation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Cont'd)*

** The following is analysed for reporting purpose:

	2021 HK$'000	2020 HK$'000
Gross carrying amounts as at 31 December		
– Loan receivables *(Note (a))*	582,073	586,267
– Advance to a related company *(Note (a))*	1,532	1,489
– Loan to a company incorporated in Hong Kong *(Note (b))*	5,000	–
– Other loan *(Note (c))*	5,070	5,070
	593,675	592,826
Loss allowances as at 31 December		
– Loan receivables *(Note (a))*	(582,073)	(521,020)
– Advance to a related company *(Note (a))*	(1,016)	(987)
– Loan to a company incorporated in Hong Kong *(Note (b))*	–	–
– Other loan *(Note (c))*	(5,070)	(1,560)
	(588,159)	(523,567)
Net carrying amount	5,516	69,259

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Cont'd)*

Notes:

(a) Background information of the loan receivables is as follows:

Loan (collectively, the "Loans")	Borrower (collectively, the "Borrowers")	Date of agreement for loan	Amount of the (a) principal and (b) interest rates (the "Loan Amount")	Term of the Loan and repayment terms	Principal and interest at 31 December 2021 Gross amount HK$'000	Loss allowance HK$'000	Net HK$'000
1	Seng Keng Promocao De Jogos sociedade Unipessoal Limitada*	21 August 2014	(a) HKD50,000,000 (b) 8% p.a.	Within 180 days; repayable on demand at request of the Lender, or Borrower may repay a portion before the maturity date	78,098	(78,098)	–
2	Global Link Investment Limited*	14 May 2014	(a) HKD80,000,000 (b) 7% p.a.	4 months	116,105	(116,105)	–
3	Wealthy Capital Enterprises Inc.*	4 February 2016	(a) HKD100,000,000 (b) 6% p.a.	Approximately 10 months	108,602	(108,602)	–
4a	Unionconcept Investment Ltd.*	21 November 2016	(a) HKD48,000,000 (b) 5% p.a.	12 months, may repay before the maturity date	59,099	(59,099)	–
4b	Unionconcept Investment Ltd.*	12 December 2016	(a) HKD40,000,000 (b) 5% p.a.	12 months, may repay before the maturity date	48,984	(48,984)	–
5a	Oceanic Ray Limited**	15 January 2015	(a) HKD20,000,000 (b) 5.5% p.a.	1 year, may repay before the maturity date	28,654	(28,654)	–
5b	Oceanic Ray Limited**	9 August 2016	(a) HKD25,000,000 (b) 5% p.a.	6 months, may repay before the maturity date	32,461	(32,461)	–
6	Shenzhen Sea World Industrial Development Co., Ltd. (深圳市海上世界實業發展有限公司)*	23 June 2016	(a) RMB15,000,000 (b) 8% p.a.	4 months, may repay prior to the maturity date	27,455	(27,455)	–
7	Beijing Huishengxin Business Service Co., Ltd. (北京匯晟鑫商務服務有限公司)*	10 August 2016	(a) RMB16,000,000 (b) 6.8% p.a.	6 months, may repay before the maturity date	29,295	(29,295)	–
8a	Shenzhen Xiangfu Yeguang Jewelry Co., Ltd. (深圳市祥富業廣珠寶有限公司)*	5 March 2018	(a) RMB5,000,000 (b) 4.35% p.a.	24 months, may repay before the maturity date	6,685	(6,685)	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Cont'd)*

Notes: (Cont'd)

(a) *(Cont'd)*

Loan (collectively, the "Loans")	Borrower (collectively, the "Borrowers")	Date of agreement for loan	Amount of the (a) principal and (b) interest rates (the "Loan Amount")	Term of the Loan and repayment terms	Principal and interest at 31 December 2021 Gross amount HK$'000	Loss allowance HK$'000	Net HK$'000
8b	Shenzhen Xiangfu Yeguang Jewelry Co., Ltd. (深圳市祥富業廣珠寶有限公司)*	8 March 2018	(a) RMB35,000,000 (b) 4.35% p.a.	12 months	46,635	(46,635)	–
9a & b	Zhongrong Green Financial Leasing Co., Ltd. ("Zhongrong Green") (中融綠色融資租賃有限公司)***	18 May 2018	(a) RMB20,000,000 (b) 8% p.a. (revised to 5.22% upon extension of Loan 9a & b)	RMB20 million, provided in two tranches: (i) Tranche 1: RMB10 million for 1 year from drawdown (subsequently extended to 17 May 2020); (ii) Tranche 2: RMB10 million for 6 months from drawdown (subsequently extended to 31 December 2020)	–	–	–
					582,073	(582,073)	–
	Add: Advance to Zhongrong Green				1,532	(1,016)	516
					583,605	(583,089)	516

* These borrowers and each of their ultimate beneficial owners are independent third parties of the Company.

** Oceanic Ray Limited of Loan 5 is controlled by Mr. Chen Lei ("Mr. Chen"), a director of certain subsidiaries of the Company as at 31 December 2021 & 2020.

*** Zhongrong Green Financial Leasing Co., Ltd. (中融綠色融資租賃有限公司) is controlled by the spouse of Ms. Chan Tan Na, Donna, chairperson and executive director of the Company.

The management became acquainted with the ultimate beneficial owners of the Borrowers through various formal or informal business occasions. Some of the ultimate beneficial owners of the Borrowers had previously brought business opportunities to the Group and established a good rapport with the Company in the past. As such, the Company considered that generally they were reliable and trustworthy. Through leveraging on the ultimate beneficial owners' business connections in the People's Republic of China ("PRC" or "Mainland China"), the management believed that the provision of the Loans to the Borrowers would be able to help the Group build and further its business relationship generally across the regions in Mainland China in order to explore new business opportunities in the traditional lottery market, in particular, those in Southern China.

After granting the Loans, the Group and the ultimate beneficial owners of the Borrowers did try the best to continue the work to tap into various provinces for business expansion. While it later transpired that the provincial governments became more reluctant to grant approvals for new lottery business projects, it was the honest belief of the Group at the material time that it could expend/further develop the business with the ultimate beneficial owners. The Group was well aware of the maturity of the Loans and the Group made repeated requests to demand for repayment but in vain as the ultimate beneficial owners of all the Loans, other than Loan 3, Loan 5 and Loan 9, were not contactable on or before first quarter of 2020. Based on the above, the directors of the Company estimated that loss allowances of approximately HK$364,201,000 and HK$412,356,000 were made as at 31 December 2020 and 2021 respectively, for all the Loans (other than Loan 3, Loan 5 and Loan 9), which were based on 89% and 100% of gross amounts of these loan receivables (including related interest receivables) respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Cont'd)*

Notes: (Cont'd)

(a) *(Cont'd)*

In respect of Loan 3, when the bankruptcy order was filed against the ultimate beneficial owner of the Borrower under Loan 3, the Company was made aware that another company also filed for bankruptcy against the same individual. The Company considered the likelihood of recovering the Loan Amount under Loan 3 as very low. Based on the above, the directors of the Company estimated that loss allowances of approximately HK$97,566,000 and HK$108,602,000 were made as at 31 December 2020 and 2021 respectively, for Loan 3, which were based on 89.84% and 100% of gross amount of this loan receivable (including related interest receivable) respectively.

In respect of Loan 5, the directors of the Company considered that Mr. Chen's managerial skill and leadership, he was appointed as director of certain subsidiaries of the Company. While the Company was aware that Mr. Chen remained to be indebted to the Group when he was appointed as a director in these subsidiaries, the Company recognised that Mr. Chen did try his best to promote the lottery business for a substantial period of time. In view of the work done by Mr. Chen and his leadership skills, the Company decided not chase Oceanic Ray Limited for repayment of the loan nor take legal action against him and Oceanic Ray Limited. Based on the above, the directors of the Company estimated that loss allowances of approximately HK$54,393,000 and HK$61,115,000 were made at 31 December 2020 and 2021, respectively, for Loan 5, which were based on 89% and 100% of gross amount of this loan receivable (including related interest receivable) respectively.

In respect of Loan 9, due to (i) the new regulations promulgated in the PRC regarding the lottery market which rendered the potential video-based lottery business project unlikely to materialize; and (ii) the Group was informed by the Borrower under Loan 9 that such Borrower was in financial difficulty, the Group entered into a debt restructuring agreement with this borrower whereby the borrower agreed with the Group to pay RMB6,327,787.40 (i.e., 30% of original gross amounts of Loan 9a and 9b) on or before 31 December 2021 for the settlement of Loan 9a and Loan 9b. During the year ended 31 December 2021, this borrower paid RMB6,327,787.40 to the Group for the settlement of Loan 9a and 9b. Based on the above, the directors of the Company determined to write-off the portion of this loan receivable amounting to approximately HK$9,839,000, which was included in "Other (losses)/gains – net" in the consolidated statement of profit or loss for the year ended 31 December 2020, and the directors of the Company estimated that loss allowance of approximately HK$4,861,000 was made at 31 December 2020 for Loan 9, which was based on 66.27% of gross amount of this loan receivable (including related interest receivable and after write-off of a portion of loan receivable), and during the year ended 31 December 2021, the reversal of loss allowance of approximately HK$5,122,000 made in prior years arose due to this borrower settled the Loan 9a and 9b.

(b) The loan to Bright Kinsmart Investment Limited, a company incorporated in Hong Kong, bears interest at 1% per annum, is unsecured and repayable on 13 July 2022.

(c) In prior years, a loan of US$650,000 (approximately equivalent to HK$5,070,000) was made to National Sport Lottery Co., Ltd ("National Sport Lottery"), one of the Group's customers, for the purposes of development of the sport lottery business in Cambodia. However, the lottery business in Cambodia has been seriously affected due to the outbreak of Covid-19 and the Group's services to the sport lottery in Cambodia have been dropped significantly since the year of 2020. As a result, the Group decided to make an impairment of HK$3,510,000 and HK$1,560,000 for this loan in respect of the years ended 31 December 2021 and 2020.

(d) The unlisted equity securities are 5.09% equity investment in Hunan Pu Qin Lao Ling Development Co., Ltd. ("湖南普親老齡產業發展有限公司" or "Hunan Pu Qin"), a company established in the Mainland China and engaged in provision of elderly care services. The Group classified its investment in Hunan Pu Qin at fair value through profit or loss under current assets, as the investment is held for short-term purposes. No dividends were received on this investment during the year (2020: nil). In the opinion of the Company's directors, the carrying amounts of the investment in Hunan Pu Qin at 31 December 2021 and 2020 approximated its fair values at those dates, and no disclosures under HKFRS 13 are considered as this investment is insignificant to the Group.

(e) The amount due from the Group's chief financial officer, one of the Group's key management personnel, is unsecured, non-interest bearing and repayable on demand.

(f) The amount due from Mr. Li Zi Kui, who resigned as executive director of the Company with effect from 1 July 2021, is unsecured, non-interest bearing and repayable on demand.

Notes to the Consolidated Financial Statements

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28. CASH AND BANK BALANCES

	2021 HK$'000	2020 HK$'000
Cash and bank balances	87,739	65,036
Time deposits	13,310	11,394
Cash and bank balances in the consolidated statement of financial position	101,049	76,430
Less: Time deposits with maturity of more than three months	(13,310)	(8,373)
Cash and cash equivalents in the consolidated statement of cash flows	87,739	68,057

At 31 December 2021, the Group had cash and bank balances of approximately HK$72,580,000 (2020: HK$67,800,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

The bank balances are deposited with creditworthy financial institutions with no recent history of default.

29. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable at the end of the reporting period, based on invoice date, is as follows:

	2021 HK$'000	2020 HK$'000
Less than three months	2,187	849
Over three months but less than one year	188	748
Over one year	3,110	2,802
	5,485	4,399

The carrying amounts of the Group's accounts payable are denominated in RMB.

30. AMOUNT DUE TO A SHAREHOLDER

At 31 December 2021, the amount due to a shareholder of RMB1,000,000 (approximately equivalent to HK$1,224,000) (2020: RMB1,000,000 (approximately equivalent to HK$1,189,000)) bears interest at 4% per annum, is unsecured and is repayable within one year. As at 31 December 2020, the amount of HK$1,189,000 due to the shareholder was included in "Accruals and other payables", and therefore, the comparative figure has been reclassified under "Amount due to a shareholder" to conform with the current year's presentation.

Apart from the above, the amount due to the shareholder as at 31 December 2020 also comprised an unsecured loan in a principal amount of HK$50,000,000 at interest rate of 9.5% per annum due 20 January 2021, an unsecured loan in a principal amount of HK$6,500,000 at interest rate of 8% per annum due on demand after 20 January 2021 and related interest payable of approximately HK$380,000. During the year ended 31 December 2021, the loan amount of HK$50,000,000 was set off against the proceeds from issue of shares to the shareholder under the rights issue pursuant to the terms of the deed of set-off and the remaining loan of HK$6,500,000 was settled in cash.

Notes to the Consolidated Financial Statements

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31. AMOUNTS DUE TO KEY MANAGEMENT PERSONNEL

	2021 HK$'000	2020 HK$'000
Amount due to Ms. Chan Tan Na, Donna, an executive director of the Company	2,500	4,063
Amount due to Mr. Wu Jingwei, an executive director of the Company	5,000	5,079
Amount due to Ms. Zhu Xinxin, a senior management of the Group (see note below)	10,435	10,561
	17,935	19,703

The amounts due to key management personnel bears interest at a range of 3.80% to 8.00% per annum (2020: 3.85% to 8.00% per annum), are unsecured and are repayable within one year or on demand.

Note: Ms. Zhu Xinxin resigned as an executive director of the Company with effect from 1 July 2021 but remains as the Group's key management personnel.

32. BANK AND OTHER BORROWINGS

	2021 HK$'000	2020 HK$'000
Secured bank loans	162,000	212,793
Secured loan from a finance company	35,000	–
	197,000	212,793

The carrying amounts of the Group's bank and other borrowings are denominated in HK$.

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For the year ended 31 December 2021

32. BANK AND OTHER BORROWINGS *(Cont'd)*

At 31 December 2021, the Group's bank and other borrowings were due for repayment as follows:

	2021 HK$'000	2020 HK$'000
Bank loans due for repayment within one year	**162,000**	212,793
Loan from a finance company due for repayment within one year	**35,000**	–
	197,000	212,793

At 31 December 2021, the bank borrowings carry interest at rates ranging from 4.83% to 7.23% (2020: 5.31% to 9.19%) per annum.

Loan from the finance company bears interest at 19% per annum for the first month, and thereafter 13% per annum.

At 31 December 2021, the Group's bank and other borrowings were secured by: (i) the Group's owned properties and related leasehold land with an aggregate carrying amount of approximately HK$336,967,000 (2020: HK$346,000,000) and (ii) a personal guarantee executed by a director of the Company.

33. CONVERTIBLE BONDS

	2021 HK$'000	2020 HK$'000
Liability component:		
New Option 1 Bonds	**127,062**	137,205
Derivatives component:		
New Option 1 Bonds	**–**	–
	127,062	137,205

On 7 April 2017, the Company issued 7.5% convertible bonds due 2019 in the aggregate principal amount of HK$175,950,000 (the "New Option 1 Bonds").

Notes to the Consolidated Financial Statements

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33. CONVERTIBLE BONDS *(Cont'd)*

The New Option 1 Bonds entitle the holders to convert them into ordinary shares of the Company at any time on or after 18 May 2017 up to the close of business on the 7th day prior to 7 April 2019 (the "Maturity Date"). The terms and conditions of the New Option 1 Bonds contain a cash settlement option pursuant to which the Company has the option to pay to the relevant holder of the New Option 1 Bonds an amount of cash as determined under the terms and conditions of the New Option 1 Bonds in order to satisfy such conversion right in whole or in part.

The New Option 1 Bonds conversion price was reset on a one-time basis on 7 November 2017 from the initial conversion price at HK$0.288 to HK$0.24. Pursuant to the terms and conditions of New Option 1 Bonds, the conversion price will be subject to adjustment upon the occurrence of the specified events. The New Option 1 Bonds conversion price was adjusted to HK$0.23 with effect from 26 April 2018 following the placing of new shares.

If the New Option 1 Bonds have not been converted or redeemed, they will be redeemed on Maturity Date at principal amount together with any accrued but unpaid interest. Interest of 7.5% will be payable quarterly in arrears.

The Company, at the option of the holders of New Option 1 Bonds, redeemed some of New Option 1 Bonds on 7 April 2018, at the principal amount of HK$1,150,000 together with interest accrued.

On 28 March 2019, the Company and the holders of New Option 1 Bonds entered into the supplemental trust deed to extend the maturity date from 7 April 2019 to 7 November 2019 and amend the conversion price from HK$0.23 to HK$0.20 with effect from 29 March 2019. Pursuant to the supplemental trust deed dated 28 March 2019, the interest for the extended period from 7 April 2019 to 7 November 2019 was charged at 8.5% per annum and payable in arrear on 7 November 2019.

On 14 June 2019, the New Option 1 Bonds conversion price was adjusted to HK$2 after the Share Consolidation.

On 4 November 2019, the Company and the holders of New Option 1 Bonds entered into the second supplemental trust deed to further extend the maturity date from 7 November 2019 to 7 November 2020. The Company will redeem the New Option 1 Bonds in an amount equal to 50% of the principal amount outstanding on 7 May 2020 and in an amount equal to 50% of the principal amount outstanding on 7 November 2020. The interest for the extended period from 8 November 2019 to 7 November 2020 will be charged at 8.5% per annum and payable in arrear on 7 November 2020. Pursuant to the second supplemental trust deed dated 4 November 2019, at any time the Company may, having given not less than 30 no more than 60 days' notice to the holders of New Option 1 Bonds, redeem the New Option 1 Bonds in whole at their principal amount together with any interest accrued but unpaid to the date fixed for redemption.

On 28 April 2020, the Company and the holders of New Option 1 Bonds entered into the third supplemental trust deed to further extend the maturity date from 7 November 2020 to 7 November 2021. On 7 November 2020, the Company redeemed part of the New Option 1 Bonds in the principal amount of HK$26,220,000 pursuant to the third supplemental trust deed. Under the terms of the third supplemental trust deed, part of the New Option 1 Bonds in the principal amount of HK$26,220,000 will be payable on 7 May 2021 and the remaining outstanding principal amount of HK$122,360,000 will be payable on the New Option 1 Bonds maturity date on 7 November 2021. The interest for the extended period from 8 November 2020 to 7 November 2021 will be charged at 8.5% per annum and payable in arrear on 7 November 2021.

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33. CONVERTIBLE BONDS *(Cont'd)*

On 3 May 2021, the Company and the holders of New Option 1 Bonds entered into the fourth supplemental trust deed to further extend the maturity date from 7 November 2021 to 7 November 2022. On 31 July 2021, the Company redeemed part of the New Option 1 Bonds in the principal amount of HK$26,220,000 pursuant to the fourth supplemental trust deed. Under the terms of the fourth supplemental trust deed, part of the New Option 1 Bonds in the principal amount of HK$26,220,000 will be payable on 7 November 2021 and 7 May 2022, and the remaining outstanding principal amount of HK$69,920,000 will be payable on the New Option 1 Bonds' maturity date on 7 November 2022. The interest for the extended period from 8 November 2021 to 7 November 2022 will be charged at 8.5% per annum and payable in arrears on 7 November 2022.

On 10 June 2021, the New Option 1 Bonds conversion price was adjusted to HK$1.69 after the completion of the Company's rights issue.

On 3 November 2021, the Company and the holders of New Option 1 Bonds entered into the fifth supplemental trust deed to change the repayment instalments that part of the New Option 1 Bonds in the principal amounts of HK$8,740,000 and HK$17,480,000 will be payable on 7 January 2022 and 7 May 2022 respectively, and the remaining outstanding principal amount of HK$96,140,000 will be payable on the New Option 1 Bonds' maturity date on 7 November 2022.

Subsequent to the end of the reporting period on 5 May 2022, the Company reached an agreement with the holders of New Option 1 Bonds to further extend the maturity date from 7 November 2022 to 7 November 2023 and the principal amount outstanding of the New Option 1 Bonds was increased from HK$113,620,000 to HK$154,162,000 (including accrued interest up to (but excluding) 7 May 2022). 100% of New Option 1 Bonds is now repayable in one lump sum on 7 November 2023 and bears interest at 7.0% per annum with effective from 5 May 2022. No adjustments have been made to the Company's consolidated financial statements for the year ended 31 December 2021 as result of this amendments to the terms and conditions of New Option 1 Bonds and therefore New Option 1 Bonds is presented as a current liability as at 31 December 2021.

The New Option 1 Bonds contain two components, liability component and derivatives (including conversion option) component. At 31 December 2021, the effective interest rate of the liability component is 34.85% (2020: 44.02%) per annum. The derivatives component is measured at fair value with changes in fair value recognised in profit or loss. Monte Carlo Model is used for valuation of the derivatives component.

The movement of liability component and derivatives component of the New Option 1 Bonds for the current and prior years is set out below:

	Liability component HK$'000	Derivatives component HK$'000	Total HK$'000
At 1 January 2020	147,400	–	147,400
Interest charge	60,838	–	60,838
Remeasurement	(44,813)	–	(44,813)
Redemption	(26,220)	–	(26,220)
At 31 December 2020 and 1 January 2021	137,205	–	137,205
Interest charge	42,275	–	42,275
Remeasurement	(26,198)	–	(26,198)
Redemption	(26,220)	–	(26,220)
At 31 December 2021	127,062	–	127,062

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34. DEFERRED INCOME TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred income tax assets and liabilities have been offset. The following is the analysis of the deferred income tax balances for financial reporting purposes:

	2021 HK$'000	2020 HK$'000
Deferred income tax assets	–	–
Deferred income tax liabilities	(39,161)	(39,993)
	(39,161)	(39,993)

The movement in deferred income tax assets and liabilities during the year is as follows:

	Intangible assets acquired in business combination HK$'000	Convertible bonds HK$'000	Revaluation of properties HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on dividend income HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2020	7,370	6,321	–	1,909	30,863	(8,230)	38,233
Charged to equity	–	–	7,518	–	–	–	7,518
(Credited)/charged to profit or loss	(2,262)	(250)	–	(557)	(4,505)	718	(6,856)
Exchange difference	417	–	–	–	681	–	1,098
At 31 December 2020	5,525	6,071	7,518	1,352	27,039	(7,512)	39,993
(Credited)/charged to profit or loss	(805)	(605)	(245)	–	–	605	(1,050)
Exchange difference	196	–	22	–	–	–	218
At 31 December 2021	4,916	5,466	7,295	1,352	27,039	(6,907)	39,161

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2021, the Group did not recognise deferred income tax asset in respect of tax losses amounting to approximately HK$933,846,000 (2020: HK$818,758,000) that can be carried forward to offset against future taxable profits. Tax losses amounting to approximately HK$604,238,000 (2020: HK$550,355,000) will expire from 2022 to 2026 (2020: 2021 to 2025).

At 31 December 2021, deferred tax liabilities have not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries amounting to approximately HK$13,000 (2020: HK$14,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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For the year ended 31 December 2021

35. SHARE CAPITAL

	Authorised ordinary shares of HK$0.025 each			
	2021		2020	
	Number of shares	**HK$'000**	Number of shares	HK$'000
At 1 January	1,600,000,000	40,000	1,600,000,000	40,000
Increase in authorised share capital *(Note (i))*	3,400,000,000	85,000	–	–
At 31 December	5,000,000,000	125,000	1,600,000,000	40,000

	Issued and fully paid ordinary shares of HK$0.025 each			
	2021		2020	
	Number of shares	**HK$'000**	Number of shares	HK$'000
At 1 January	1,029,480,733	25,737	1,029,480,733	25,737
Share issued pursuant to rights issue *(Note (ii))*	2,058,961,466	51,474	–	–
At 31 December	3,088,442,199	77,211	1,029,480,733	25,737

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes:

(i) By a special resolution passed at the special general meeting held on 10 May 2021, the authorised share capital of the Company was increased from HK$40,000,000 divided into 1,600,000,000 shares to HK$125,000,000 divided into 5,000,000,000 shares by the creation of additional 3,400,000,000 shares of par value of HK$0.025 each.

(ii) On 10 June 2021, the Company completed a rights issue of 2,058,961,466 rights shares at the subscription price of HK$0.10 per rights share on the basic of two rights shares for every one share at the Company. The net proceeds from rights issue were approximately HK$205,407,000 of which approximately HK$51,474,000 was credited to share capital and the balance of approximately 153,933,000 after deducting directly attributable costs of approximately HK$489,000 was credited to the share premium account.

36. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the adoption of a share option scheme (the "2012 Option Scheme").

The purpose of the 2012 Option Scheme is to provide incentives to employees (including executive and non-executive directors) and other eligible participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are value to the Group.

Under the 2012 Option Scheme, the Company may grant options to employees (including executive and non-executive directors) of the Group and other participants to subscribe for shares in the Company. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of issued shares from time to time.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

36. SHARE OPTION SCHEME *(Cont'd)*

The subscription price will be determined by the Board and will not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each grant. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the Board may determine and expiring on the last day of the period.

Movements in number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price (HK$ per share) *(Note)*	Options (thousands) *(Note)*
At 1 January 2020	1.64	18,925
Lapsed	1.64	(18,925)
At 31 December 2020	–	–
Exercisable at 31 December 2020	–	–

No option has been granted or exercised under the 2012 Option Scheme during the year ended 31 December 2021 and 2020.

37. STATUTORY AND OTHER RESERVES

(a) Statutory reserve

Statutory reserve was established in accordance with the relevant PRC rules and regulations and the articles of association of the PRC subsidiaries of the Group. The subsidiaries are required to transfer at least 10% of their net profit, as determined under the PRC accounting rules and regulations, to statutory reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders.

Statutory reserve can be used to make good prior years' losses, if any, and may be converted into share capital by issuing new shares to equity shareholders proportionate to their existing percentage of equity interests provided that the balance after such issue is not less than 25% of the registered capital.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

37. STATUTORY AND OTHER RESERVES *(Cont'd)*

(b) Other reserves

	Share premium HK$'000	Capital reserve HK$'000 *(Note)*	Other reserve HK$'000	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Total HK$'000
At 1 January 2020	1,471,249	15,158	(42,657)	(72,731)	8,486	9,664	1,389,169
Share option scheme:							
– vested share options expired	–	–	–	–	(8,486)	–	(8,486)
Gain on revaluation of properties held for own use	–	–	–	–	–	244,823	244,823
Deferred tax arising on revaluation of properties held for own use	–	–	–	–	–	(7,338)	(7,338)
Release of revaluation reserve upon:							
– depreciation of owned properties and related leasehold land	–	–	–	–	–	(241)	(241)
– disposal of properties	–	–	–	–	–	(5,682)	(5,682)
Currency translation differences							
– overseas subsidiaries	–	–	–	9,669	–	–	9,669
– overseas associates	–	–	–	98	–	–	98
– overseas joint venture	–	–	–	78	–	–	78
At 31 December 2020	1,471,249	15,158	(42,657)	(62,886)	–	241,226	1,622,090
Shares issued pursuant to rights issue (net of share issuance expenses)	153,933	–	–	–	–	–	153,933
Release of revaluation reserve upon:							
– depreciation of owned properties and related leasehold land	–	–	–	–	–	(6,117)	(6,117)
Currency translation differences							
– overseas subsidiaries	–	–	–	366	–	–	366
– overseas associates	–	–	–	–	–	–	–
– overseas joint venture	–	–	–	–	–	–	–
At 31 December 2021	1,625,182	15,158	(42,657)	(62,520)	–	235,109	1,770,272

Note: Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired through an exchange of shares pursuant to the group reorganisation (the "Reorganisation") on 6 September 2001.

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For the year ended 31 December 2021

38. CASH FLOW INFORMATION

(a) Cash used in operation

	2021 HK$'000	2020 HK$'000
Loss before income tax	(285,382)	(630,445)
Adjustments for:		
Depreciation of property, plant and equipment	7,490	37,102
Depreciation of right-of-use assets	14,325	12,068
Amortisation of intangible assets	8,359	10,815
Loss on disposal of property, plant and equipment	2,542	43,406
Gain on lease termination	(372)	(253)
Fair value loss/(gain) on financial assets at fair value through profit or loss	2,232	(98)
Gain on remeasurement of convertible bonds	(26,198)	(44,813)
Gain on lease modification	–	(475)
Gain on disposal of a subsidiary	(121)	–
Impairment of goodwill and other intangible assets	35,786	381,786
Impairment of property, plant and equipment	12,218	17,007
Net impairment loss on financial assets	61,257	26,332
Write-off of loan receivables	–	9,839
Interest income	(4,780)	(6,403)
Finance costs	57,521	86,034
Share of losses of associates	–	2,756
Share of loss of a joint venture	–	2,496
Operating cash flows before changes in working capital	(115,123)	(52,846)
Changes in working capital:		
– Inventories	(12,562)	4,705
– Accounts receivable	63,512	6,153
– Prepayments, deposits and other receivables	13,730	7,368
– Accounts payable	1,170	1,245
– Accruals and other payables	(3,435)	2,457
– Contract liabilities	5,076	10,673
– Amount due to a joint venture	–	(1,955)
	67,491	30,646
Cash used in operations	(47,632)	(22,200)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

38. CASH FLOW INFORMATION *(Cont'd)*

(b) Reconciliation of liabilities arising from financing activities

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

	Bank and other borrowings HK$'000	Lease liabilities HK$'000	Amount due to a shareholder HK$'000	Amounts due to key management personnel HK$'000	Promissory note HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2020	245,500	40,680	–	–	6,000	147,400	439,580
Financing cash flows	(51,509)	(7,307)	52,275	19,471	(6,000)	(26,220)	(19,290)
Interest expenses	18,802	1,557	4,605	232	–	60,838	86,034
Transfer from accruals and payables (See Note 30 above)	–	–	1,189	–	–	–	1,189
New leases entered	–	3,260	–	–	–	–	3,260
Lease termination	–	(4,068)	–	–	–	–	(4,068)
Remeasurement	–	(12,755)	–	–	–	(44,813)	(57,568)
Exchange difference	–	1,809	–	–	–	–	1,809
At 31 December 2020	212,793	23,176	58,069	19,703	–	137,205	450,946
Financing cash flows	(26,324)	(12,880)	(9,089)	(2,801)	–	(26,220)	(77,314)
Interest expenses	11,324	576	2,210	1,136	–	42,275	57,521
New leases entered	–	4,720	–	–	–	–	4,720
Lease termination	–	(10,174)	–	–	–	–	(10,174)
Remeasurement	–	–	–	–	–	(26,198)	(26,198)
Transfer accrued interests to interest payables under "Accruals and payables"	(793)	–	–	(103)	–	–	(896)
Set-off against proceeds from issue of shares pursuant to rights issue	–	–	(50,000)	–	–	–	(50,000)
Exchange difference	–	1,414	34	–	–	–	1,448
At 31 December 2021	197,000	6,832	1,224	17,935	–	127,062	350,053

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

39. EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to participate in a defined contribution retirement scheme (the "Original Scheme"), which is managed by independently administered funds. The Group's monthly contributions are based on 5% of employees' monthly salaries. The employees are entitled to receive 100% of the Group's contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service or at a reduced scale of 30% to 90% after completing three to nine years of services.

For the Group's Hong Kong employees employed after 1 December 2000, the Group has arranged for these employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a maximum contribution of HK$1,500 per month per employee.

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group contributes to the retirement plans at rates ranging from approximately 8% to 19% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes and plans were approximately HK$5,862,000 (2020: HK$3,200,000), with no (2020: nil) deduction of forfeited contributions. At 31 December 2021, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods (2020: nil).

The Group's contribution payable at 31 December 2021 amounted to approximately HK$127,000 (2020: HK$96,000).

40. DISPOSAL OF SUBSIDIARIES

Pursuant to the equity transfer agreement entered into between a non-wholly owned subsidiary of the Company (the "Subsidiary") and an independent third party ("Individual"), the Subsidiary disposal of its 100% equity interests in 北京靈彩科技有限公司 ("Ling Cai"), which is a dormant company, to the individual. The disposal was completed on 20 January 2021. A one-off non-cash gain of approximately HK$121,000 arising from the difference between the release of currency translation reserve of approximately HK$234,000 and the carrying amount of net assets of Ling Cai of approximately HK$113,000 upon the disposal was recognised in profit or loss.

Net cash outflow arising on disposal is HK$14,000, which is related to the cash and cash equivalents disposed of.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

41. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following material related party transactions and balance during the year:

(a) Key management personnel remuneration

Key management includes directors and certain senior management who have important roles in making operational and financial decision. The remuneration paid or payable to key management is shown below:

	2021 HK$'000	2020 HK$'000
Short-term employee benefits	15,207	30,931
Post-employment benefits	100	473
	15,307	31,404

Total remuneration is included in "staff cost" (see Note 13).

(b) Balances and transactions with related parties

	Notes	Amounts owed by the Group to related parties As at 31 December		Related income/ (expense) Year ended 31 December	
		2021 HK$'000	2020 HK$'000	2021 HK$'000	2020 HK$'000
Amount due to a related company	(i)	10,132	10,017	–	–
Consultancy fee paid and payable to a related party	(ii)	–	–	(1,660)	(1,780)

Notes:

(i) The related company is controlled by the spouse of Ms. Chan Tan Na, Donna, chairperson and executive director of the Company. The outstanding balance with this related company is non-trading in nature and is included in "Accruals and other payables", non-interest bearing, unsecured and repayable on demand.

(ii) The related party is the spouse of Ms. Chan Tan Na, Donna due from related companies.

Notes to the Consolidated Financial Statements

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42. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of Financial Position

At 31 December 2021

	2021 HK$'000	2020 HK$'000
Non-current assets		
Investments in subsidiaries	9	9
Current assets		
Prepayments	53	39
Amounts due from subsidiaries	249,508	194,805
Cash and bank balances	17,934	101
	267,495	194,945
Total assets	267,504	194,954
Current liabilities		
Accruals and other payables	3,694	1,091
Amounts due to subsidiaries	44,993	9,993
Convertible bonds	127,062	137,205
	175,749	148,289
Net current assets	91,746	46,656
Net assets	91,755	46,665
Equity attributable to owners of the Company		
Share capital	77,211	25,737
Reserves *(Note)*	14,544	20,928
	91,755	46,665

The statement of financial position of the Company was approved by the Board of Directors on 30 June 2022 and was signed on its behalf by:

CHAN TAN NA, DONNA	**QIU PEIYUAN**
Director	*Director*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

42. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Cont'd)*

Statement of Financial Position *(Cont'd)*

Note: Reserve movement of the Company

	Share premium HK$'000	Contributed surplus HK$'000 *(Note (i))*	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2020	1,471,249	16,209	8,486	(1,286,129)	209,815
Share option scheme:					
– vested share options expired	–	–	(8,486)	–	(8,486)
Loss for the year	–	–	–	(180,401)	(180,401)
At 31 December 2020	1,471,249	16,209	–	(1,466,530)	20,928
Shares issued under rights issue	154,423	–	–	–	154,423
Share issuance expenses	(489)	–	–	–	(489)
Loss for the year	–	–	–	(36,781)	(36,781)
At 31 December 2021	1,625,183	16,209	–	(1,503,311)	138,081

Note:

(i) Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

43. EVENTS AFTER THE REPORTING PERIOD

(a) On 5 May 2022, the Company reached an agreement with the holders of New Option 1 Bonds to further extend the maturity date from 7 November 2022 to 7 November 2023 and the principal amount outstanding of the New Option 1 Bonds was increased from HK$113,620,000 to HK$154,162,000 (including accrued interest up to (but excluding) 7 May 2022). 100% of New Option 1 Bonds is now repayable in one lump sum on 7 November 2023, bears interest at 7.0% per annum with effective from 5 May 2022 and is secured by a share change over all of the issued shares in the share capital of a wholly-owned subsidiary of the Company (which is a property holding company).

(b) In May 2022, the Company entered into a discretionary management contract with Jiyuan City Cultural Tourism Investment Group Limited ("Jiyuan City Cultural Tourism Investment Group") for the operation of two national 4A tourist attractions – Wangwu Shan Scenic Area and Wulongkou Scenic Area. Pursuant to it, Jiyuan City Cultural Tourism Investment Group will commission the Company to carry out daily operations of the aforementioned two national tourist attractions with full authority. The period of cooperation between both parties will commence on 1 June 2022 and end on 31 December 2025.

44. COMPARATIVE AMOUNTS

Reclassifications have been made on some of the comparative amounts to ensure the comparability.