



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

2022 INTERIM REPORT

INTERIM FINANCIAL STATEMENTS

The board of directors of China Ecotourism Group Limited (the “Company”) (the “Board” or “Directors”) hereby presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2022, together with the comparative unaudited figures for the corresponding period in 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Notes | Unaudited Six months ended 30 June | |
|--|-------|---------------------------------------|-----------------------|
| | | 2022 HK\$'000 | 2021 HK\$'000 |
| Revenue | 2 | 51,576 | 40,818 |
| Costs of sales and services | 3 | (21,768) | (20,938) |
| Gross profit | | 29,808 | 19,880 |
| Other income | 4 | 241 | 17,369 |
| Other (losses)/gains – net | 5 | (22,832) | (4,060) |
| General and administrative expenses | | (71,275) | (89,571) |
| Operating loss | 6 | (64,058) | (56,382) |
| Finance costs | 7 | (23,880) | (25,265) |
| Loss before income tax | | (87,938) | (81,647) |
| Income tax credit | 8 | 523 | 2,704 |
| Loss for the period | | <u>(87,415)</u> | <u>(78,943)</u> |
| Loss attributable to: | | | |
| Owners of the Company | | (85,939) | (68,538) |
| Non-controlling interests | | (1,476) | (10,405) |
| | | <u>(87,415)</u> | <u>(78,943)</u> |
| Loss per share attributable to owners of the Company for the period | | | |
| – basic | 9 | <u>(2.78) HK cent</u> | <u>(5.40) HK cent</u> |
| – diluted | 9 | <u>(2.78) HK cent</u> | <u>(5.40) HK cent</u> |



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited | |
|--|---------------------------------|----------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| Loss for the period | (87,415) | (78,943) |
| Other comprehensive expense for the period: <i>Items that may be reclassified to profit or loss</i> | | |
| Currency translation differences | (2,913) | (293) |
| Total comprehensive expense for the period | (90,328) | (79,236) |
| Attributable to: | | |
| Owners of the Company | (85,939) | (68,538) |
| Non-controlling interests | (4,389) | (10,698) |
| Total comprehensive expense for the period | (90,328) | (79,236) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | Unaudited as at 30 June 2022 HK\$'000 | Audited as at 31 December 2021 HK\$'000 |
|--|-------|--|---|
| Non-current assets | | | |
| Property, plant and equipment | | 31,257 | 33,063 |
| Right-of-use assets | | 326,511 | 322,969 |
| Intangible assets | | 17,906 | 20,408 |
| Interests in associates | | 189 | 189 |
| Financial assets at fair value through profit or loss | | 3,077 | 4,536 |
| | | 378,940 | 381,165 |
| Current assets | | | |
| Inventories | | 37,081 | 21,347 |
| Accounts receivable | 10 | 19,869 | 11,713 |
| Prepayments, deposits and other receivables | | 65,080 | 57,932 |
| Cash and bank balances | | 53,029 | 101,049 |
| | | 175,059 | 192,041 |
| Total assets | | 553,999 | 573,206 |
| Current liabilities | | | |
| Accounts payable | 11 | 10,749 | 5,485 |
| Accruals and other payables | | 42,367 | 34,830 |
| Contract liabilities | | 38,231 | 35,211 |
| Amounts due to a joint venture | | 10,191 | 6,225 |
| Amounts due to a shareholder | | 13,500 | 1,224 |
| Amounts due to a key management personnel | | 20,171 | 17,935 |
| Tax payable | | 3,379 | 2,013 |
| Bank and other borrowings | | 197,000 | 197,000 |
| Lease liabilities | | 8,417 | 3,457 |
| Convertible bonds | 12 | - | 127,062 |
| | | 344,005 | 430,442 |
| Net current liabilities | | (168,946) | (238,401) |
| Total assets less current liabilities | | 209,994 | 142,764 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

| | Notes | Unaudited as at 30 June 2022 HK\$'000 | Audited as at 31 December 2021 HK\$'000 |
|---|-------|--|---|
| Non-current liabilities | | | |
| Deferred income tax liabilities | | 38,331 | 39,161 |
| Lease liabilities | | 5,862 | 3,375 |
| Convertible bonds | 12 | 155,773 | – |
| | | 199,966 | 42,536 |
| Net assets | | 10,028 | 100,228 |
| Equity attributable to owners of the Company | | | |
| Share capital | 13 | 77,211 | 77,211 |
| Accumulated losses | | (2,073,961) | (1,991,080) |
| Reserves | 14 | 1,767,342 | 1,770,272 |
| | | (229,408) | (143,597) |
| Non-controlling interests | | 239,436 | 243,825 |
| Total equity | | 10,028 | 100,228 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Unaudited Six months ended 30 June 2022 Attributable to owners of the Company | | | | |
|---|---|-----------------------------|--|---|--------------------------|
| | Share Capital <i>HK\$'000</i> | Reserves <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Non- controlling interests <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| At 1 January 2022 | 77,211 | 1,770,272 | (1,991,080) | 243,825 | 100,228 |
| Loss for the period | - | - | (85,939) | (1,476) | (87,415) |
| Other comprehensive expenses: | | | | | |
| Currency translation differences | - | 128 | - | (2,913) | (2,785) |
| Total of comprehensive expenses | - | 128 | (85,939) | (4,389) | (90,200) |
| Release of revaluation reserve upon: | | | | | |
| – Depreciation of owned properties and related leasehold land | - | (3,058) | 3,058 | - | - |
| At 30 June 2022 | 77,211 | 1,767,342 | (2,073,961) | 239,436 | 10,028 |



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

| | Unaudited Six months ended 30 June 2021 Attributable to owners of the Company | | | | |
|---|---|----------------------|-----------------------------------|--|-------------------|
| | Share Capital HK\$'000 | Reserves HK\$'000 | Accumulated losses HK\$'000 | Non- controlling interests HK\$'000 | Total HK\$'000 |
| At 1 January 2021 | 25,737 | 1,622,090 | (1,738,885) | 259,356 | 168,298 |
| Loss for the period | - | - | (68,538) | (10,405) | (78,943) |
| Other comprehensive expenses: | | | | | |
| Currency translation differences | - | (559) | - | (293) | (852) |
| Total of comprehensive expenses | - | (559) | (68,538) | (10,698) | (79,795) |
| Shares issued pursuant to rights issue (net share issuance expenses) | 51,474 | 153,933 | - | - | 205,407 |
| Release of revaluation reserve upon: | | | | | |
| - Depreciation of owned properties and related leasehold land | - | (3,058) | 3,058 | - | - |
| At 30 June 2021 | 77,211 | 1,772,406 | (1,804,365) | 248,658 | 293,910 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| Operating cash flows before changes in working capital | (29,552) | (57,206) |
| Changes in working capital | (14,139) | 6,715 |
| Income tax paid | – | (1,241) |
| | <hr/> | <hr/> |
| Net cash used in operating activities | (43,691) | (51,732) |
| Net cash (used in)/generated from investing activities | (1,377) | 17,566 |
| Net cash (used in)/generated from financing activities | (3,788) | 95,540 |
| | <hr/> | <hr/> |
| Net (decrease)/increase in cash and cash equivalents | (48,856) | 61,374 |
| Effect of foreign exchange rate changes | 836 | – |
| Cash and cash equivalents at beginning of the period | 101,049 | 68,057 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period | 53,029 | 129,431 |
| | <hr/> <hr/> | <hr/> <hr/> |



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standards 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

1.1 *Going concern*

In preparing the condensed consolidated interim 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\$87,415,000 for the six months ended 30 June 2022 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$168,946,000. 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 30 June 2022, the Group only had cash and bank balances of HK\$53,029,000. 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.

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\$332,451,000 as at 30 June 2022, 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) During 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;
- (d) The Group will continue to implement measures to speed up the collection of outstanding accounts and other receivables; and
- (e) The Group will continue to take active measures to control administrative costs and maintain containment of capital expenditures.



1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

1.1 *Going concern (Cont'd)*

Based on the cash flow forecast of the Group prepared by the management and assuming success of the above measures, the Directors 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 consider it is appropriate to prepare the condensed consolidated interim 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 condensed consolidated interim financial statements.

1.2 *Application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRS")*

Except for the application of new and amendments to HKFRSs issued by the HKICPA that are effective for the annual periods beginning on or after 1 January 2022, the principal account policies used in the preparation of these condensed consolidated interim financial statements for the six months ended 30 June 2022 are consistent with those adopted in the preparation of audited financial statements for the year ended 31 December 2021.

For the six months ended 30 June 2022, the Group has applied all new and amendments to HKFRSs issued by the HKICPA that are effective for the Group's financial year beginning on or after 1 January 2022. The application of the new and amendments to HKFRSs has had no material impact on the Group's financial performance and positions for the current/prior periods and/or on the disclosures set out in these condensed consolidated interim financial statements.

The Group has not early adopted any new and amendments to HKFRSs that have been issued by the HKICPA but are not yet effective.

2. REVENUE AND SEGMENT INFORMATION

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

| | Unaudited Six months ended 30 June | |
|--|---------------------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Sales of lottery terminals and related equipment | 24,820 | 19,206 |
| Sales of natural and health food | 1,359 | 2,178 |
| Provision of operation and management for ecotourism business | 1,510 | – |
| Provision of technical and maintenance services | 21,392 | 13,520 |
| Revenue from contracts with customers (within the scope of HKFRS 15) | 49,081 | 34,904 |
| Lease income from operating leases | 2,495 | 5,914 |
| Total revenue | 51,576 | 40,818 |

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
3. Ecotourism – Project development and operation of ecotourism

2. REVENUE AND 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:

| | Unaudited Six months ended 30 June 2022 | | | |
|---|--|--|-------------------------------|--------------------------|
| | Lottery systems, terminal equipment and related products <i>HK\$'000</i> | Natural and health food <i>HK\$'000</i> | Ecotourism <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| Segment revenue: | | | | |
| Revenue from contracts with customers (within the scope of HKFRS 15) | 46,212 | 1,359 | 1,510 | 49,081 |
| Lease income | 2,495 | – | – | 2,495 |
| | <u>48,707</u> | <u>1,359</u> | <u>1,510</u> | <u>51,576</u> |
| Revenue from external customers | | | | |
| | <u>(4,344)</u> | <u>(708)</u> | <u>(3,302)</u> | <u>(8,354)</u> |
| Interest income | | | | 241 |
| Fair value loss on financial assets at fair value through profit or loss | | | | (1,459) |
| Loss on remeasurement of convertible bonds | | | | (21,367) |
| Finance costs | | | | (23,880) |
| Unallocated expenses | | | | (33,119) |
| Loss before income tax | | | | <u>(87,938)</u> |



2. REVENUE AND SEGMENT INFORMATION (CONT'D)

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

| | Unaudited Six months ended 30 June 2021 | | | |
|---|--|--|-------------------------------|--------------------------|
| | Lottery systems, terminal equipment and related products <i>HK\$'000</i> | Natural and health food <i>HK\$'000</i> | Ecotourism <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| Segment revenue: | | | | |
| Revenue from contracts with customers (within the scope of HKFRS 15) | 32,726 | 2,178 | – | 34,904 |
| Lease income | 5,914 | – | – | 5,914 |
| | <u>38,640</u> | <u>2,178</u> | <u>–</u> | <u>40,818</u> |
| Revenue from external customers | <u>38,640</u> | <u>2,178</u> | <u>–</u> | <u>40,818</u> |
| Segment (loss)/gain | <u>(39,006)</u> | <u>12</u> | <u>(741)</u> | (39,735) |
| Interest income | | | | 17,369 |
| Fair value loss on financial assets at fair value through profit or loss | | | | (1,869) |
| Finance costs | | | | (25,265) |
| Unallocated expenses | | | | (32,147) |
| Loss before income tax | | | | <u>(81,647)</u> |

2. REVENUE AND 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

| | Unaudited as at 30 June 2022 HK\$'000 | Audited as at 31 December 2021 HK\$'000 |
|--|--|---|
| Lottery systems, terminal equipment and related products | 189,505 | 106,413 |
| Natural and health food | 764 | 2,794 |
| Ecotourism | 8,016 | – |
| | <hr/> | <hr/> |
| Total segment assets | 198,285 | 109,207 |
| Interests in associates | 189 | 189 |
| Unallocated | 355,525 | 463,810 |
| | <hr/> | <hr/> |
| Consolidated assets | 553,999 | 573,206 |
| | <hr/> <hr/> | <hr/> <hr/> |

Segment liabilities

| | Unaudited as at 30 June 2022 HK\$'000 | Audited as at 31 December 2021 HK\$'000 |
|--|--|---|
| Lottery systems, terminal equipment and related products | 84,555 | 51,234 |
| Natural and health food | 11,501 | 16,757 |
| Ecotourism | 4,430 | – |
| | <hr/> | <hr/> |
| Total segment liabilities | 100,486 | 67,991 |
| Unallocated | 443,485 | 404,987 |
| | <hr/> | <hr/> |
| Consolidated liabilities | 543,971 | 472,978 |
| | <hr/> <hr/> | <hr/> <hr/> |

2. REVENUE AND SEGMENT INFORMATION (CONT'D)

(c) Geographical information

Information about the Group's revenue from external customers is presented based on the location of the customers.

| | Unaudited Six months ended 30 June | |
|------------------------------------|---------------------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| People's Republic of China ("PRC") | 50,796 | 40,818 |
| Others | 780 | – |
| | <u>51,576</u> | <u>40,818</u> |

3. COST OF SALES AND SERVICES

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Depreciation of lottery terminals | – | 2,112 |
| Amortisation of intangible assets | 1,663 | 3,081 |
| Business tax | 194 | 187 |
| Cost of inventories recognised as expense | 19,475 | 14,914 |
| Repairs and maintenance | 32 | 11 |
| Others | 404 | 633 |
| | <u>21,768</u> | <u>20,938</u> |

4. OTHER INCOME

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Interest income from bank deposits and loan receivables | 241 | 1,109 |
| Interest received from Beijing China Lottery Online Technology Company Limited | – | 16,260 |
| | <u>241</u> | <u>17,369</u> |



5. OTHER (LOSSES)/GAINS – NET

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| | HK\$'000 | <i>HK\$'000</i> |
| Fair value loss on financial assets at fair value through profit or loss | (1,459) | (1,869) |
| Loss on remeasurement of convertible bonds | (21,367) | – |
| Gain on lease termination | – | 366 |
| Loss on disposal of property, plant and equipment | – | (2,541) |
| Bad debt written off | (7) | – |
| Foreign exchange gain/(losses) | 1 | (16) |
| | (22,832) | (4,060) |

6. OPERATING LOSS

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| | HK\$'000 | <i>HK\$'000</i> |
| Operating loss is stated after charging: | | |
| Staff costs (excluding share options expenses) | 39,735 | 43,088 |
| Depreciation of other items of property, plant and equipment | 6,107 | 5,790 |

7. FINANCE COSTS

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| | HK\$'000 | <i>HK\$'000</i> |
| Interest expenses on bank and other borrowings | 6,843 | 6,963 |
| Interest expenses on lease liabilities | 331 | 361 |
| Effective interest expenses on convertible bonds | 16,084 | 15,381 |
| Other interest expenses | 622 | 2,560 |
| | 23,880 | 25,265 |

8. INCOME TAX CREDIT

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| – PRC Enterprise Income Tax | – | 2,580 |
| Deferred tax | | |
| – Origination and reversal of temporary differences | 523 | 124 |
| | 523 | 2,704 |

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in or derived from Hong Kong during the six months ended 30 June 2022 (2021: Nil).

Taxation in the PRC has been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates.

9. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of 3,088,442,199 (2021: 1,268,365,765) ordinary shares in issue during the year.

The computation of diluted loss per share for the six months ended 30 June 2022 and 2021 did not assume the conversion of the convertible bonds since its assumed conversion would result in a decrease in loss per share.

10. ACCOUNTS RECEIVABLE

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:

| | Unaudited | Audited |
|--|------------------|-----------------|
| | as at | as at |
| | 30 June | 31 December |
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| Less than three months | 7,011 | 7,537 |
| Over three months but less than one year | 5,864 | 181 |
| Over one year | 6,994 | 3,995 |
| | 19,869 | 11,713 |



11. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable at the end of the reporting period, based on invoice date, is as follows:

| | Unaudited as at 30 June 2022 HK\$'000 | Audited as at 31 December 2021 HK\$'000 |
|--|--|---|
| Less than three months | 8,737 | 2,187 |
| Over three months but less than one year | – | 188 |
| Over one year | 2,012 | 3,110 |
| | 10,749 | 5,485 |

12. CONVERTIBLE BONDS

| | Unaudited as at 30 June 2022 HK\$'000 | Audited as at 31 December 2021 HK\$'000 |
|-----------------------------|--|---|
| Liability component: | | |
| New Option 1 Bonds | 155,773 | 127,062 |

The movement of liability component of the New Option 1 Bonds during the reporting period is set out below:

| | HK\$'000 |
|------------------------|-----------------|
| At 1 January 2022 | 127,062 |
| Interest charged | 16,084 |
| Remeasurement | 21,367 |
| Redemption | (8,740) |
| At 30 June 2022 | 155,773 |



13. SHARE CAPITAL

| | Unaudited Authorised ordinary shares of HK\$0.025 each | |
|---|--|-----------------------|
| | <i>Number of shares</i> | <i>HK\$'000</i> |
| At 1 January 2021 | 1,600,000,000 | 40,000 |
| Increase in authorised ordinary shares (note (i)) | 3,400,000,000 | 85,000 |
| | <u>5,000,000,000</u> | <u>125,000</u> |
| At 30 June 2021, 31 December 2021 and 30 June 2022 | <u>5,000,000,000</u> | <u>125,000</u> |
| | Unaudited Issued and fully paid ordinary shares of HK\$0.025 each | |
| | <i>Number of shares</i> | <i>HK\$'000</i> |
| At 1 January 2021 | 1,029,480,733 | 25,737 |
| New shares issued upon Rights Issue (note (ii)) | 1,569,905,533 | 39,248 |
| New shares issued upon Placing (note (ii)) | 489,055,933 | 12,226 |
| | <u>3,088,442,199</u> | <u>77,211</u> |
| At 30 June 2021, 31 December 2021 and 30 June 2022 | <u>3,088,442,199</u> | <u>77,211</u> |

Notes:

- (i) Pursuant to the resolution passed by shareholders of the Company on 10 May 2021, the authorised share capital of the Company was increased from HK\$40,000,000 to HK\$125,000,000 as a result of the addition of 3,400,000,000 ordinary shares of HK\$0.025 each.
- (ii) On 10 June 2021, the Company has completed the Rights Issue and the Placing of shares involving issuance of 1,569,905,533 shares of rights shares and 489,055,933 shares of the placing shares.

14. RESERVES

| | Unaudited Six months ended 30 June 2022 | | | | | Total HK\$'000 |
|---|--|--------------------------------|------------------------------|--|------------------------------------|-------------------|
| | Share Premium HK\$'000 | Capital reserve HK\$'000 | Other reserve HK\$'000 | Currency translation reserve HK\$'000 | Revaluation reserve HK\$'000 | |
| Balance as at 1 January 2022 | 1,625,182 | 15,158 | (42,657) | (62,520) | 235,109 | 1,770,272 |
| Release of revaluation reserve upon: | | | | | | |
| – depreciation of leasehold land and building | – | – | – | – | (3,058) | (3,058) |
| Currency translation differences | | | | | | |
| – overseas subsidiaries | – | – | – | 128 | – | 128 |
| Balance as at 30 June 2022 | 1,625,182 | 15,158 | (42,657) | (62,392) | 232,051 | 1,767,342 |



14. RESERVES (CONT'D)

| | Unaudited Six months ended 30 June 2021 | | | | | Total HK\$'000 |
|--|--|--------------------------------|------------------------------|--|------------------------------------|-------------------|
| | Share Premium HK\$'000 | Capital reserve HK\$'000 | Other reserve HK\$'000 | Currency translation reserve HK\$'000 | Revaluation reserve HK\$'000 | |
| Balance as at 1 January 2021 | 1,471,249 | 15,158 | (42,657) | (62,886) | 241,226 | 1,622,090 |
| Issue of new shares upon Right Issue | 117,370 | - | - | - | - | 117,370 |
| Issue of new shares upon Placing | 36,563 | - | - | - | - | 36,563 |
| Release of revaluation reserve upon: - depreciation of leasehold land and building | - | - | - | - | (3,058) | (3,058) |
| Currency translation differences - overseas subsidiaries | - | - | - | (559) | - | (559) |
| Balance as at 30 June 2021 | <u>1,625,182</u> | <u>15,158</u> | <u>(42,657)</u> | <u>(63,445)</u> | <u>238,168</u> | <u>1,772,406</u> |

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (2021: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Since the beginning of the year, global economic recovery and growth has suffered a major setback and global, systematic economic and financial risks have continued to build under the combined effect of the COVID-19 pandemic, the Russian-Ukrainian war and unyielding inflation in major developed countries. At present, the COVID-19 pandemic represents the most significant factor contributing to the volatility in domestic economic growth. Affected by lockdown and control measures against the COVID-19 pandemic, China's year-on-year economic growth rate for the second quarter of the current year declined to 0.4%, the lowest level reported in the past two years and a 2.6% decrease compared to the first quarter. Economists generally agree that China would not be able to achieve the target growth rate of around 5.5% for the current year, which means that the Chinese economy will miss the government's projected growth rate for the first time since 1998.

Against the backdrop of increasing external factors of uncertainty and notably greater downside pressure for the domestic economy, the Group persisted in an approach that emphasised stability and prudent progress, as it continued to implement a diversified development strategy and strived to develop ecotourism business as well as the natural and health food business in China while enhancing its existing lottery business.

China's Lottery Market

In recent years, China reported a substantial decline in lottery sales as a result of adjustments in the policy for the lottery industry and the COVID-19 pandemic. The lottery market gradually picked up since 2021.

During the first half of 2022, China registered growth in lottery sales. According to the data released by the Ministry of Finance, for January to June 2022, China's lottery ticket sales amounted to RMB182.063 billion, representing a year-on-year increase of RMB3.626 billion or 2.0%. Out of the above, welfare lottery sales amounted to RMB74.862 billion, representing a year-on-year increase of RMB7.160 billion or 10.6%; sports lottery sales amounted to RMB107.202 billion, representing a year-on-year decrease of RMB3.534 billion or 3.2%. Regarding the development of various types of lotteries, the sales performance of major lottery products during the first half of the year were rather volatile when compared with the same period of the previous year, reflecting factors such as the distribution of lottery awards for promotional purposes, expanded scope of sales for KENO-type lottery and the UEFA European Football Championship held during the same



period of the previous year. For January to June 2022, lotto sales decreased by 9.1%, year-on-year, to RMB76.396 billion. Single Match Games (“SMG”) sales declined by 3.0%, year-on-year, to RMB58.004 billion. Paper-based Scratch Card sales increased by 29.0%, year-on-year, to RMB33.671 billion. KENO type lottery sales increased by 65.5%, year-on-year, to RMB13.993 billion. Video lottery sales amounted to RMB460,000. The sales of Lotto, SMG, Paper-based Scratch Card and KENO-type lotteries accounted for 42.0%, 31.8%, 18.5% and 7.7% of total lottery sales, respectively. In terms of regional sales, 18 provinces in the nation reported year-on-year growth in lottery sales.

China’s Ecotourism Market

According to statistics available from the Ministry of Culture and Tourism, despite the considerable negative impact of the COVID-19 pandemic since 2020 in China’s tourism industry, there have been signs of recovery for the tourism sector since 2021. As at the end of 2021, there were 14,196 Grade A scenic areas and 1.57 million tourism workers in China. In 2021, there were 3.246 billion tourist visits in domestic tourism, representing a year-on-year growth of 12.8%. Domestic tourism revenue (total tourism consumption) amounted to RMB2.29 trillion, representing a year-on-year growth of 31%. In early 2022, the Chinese government introduced a series of policies to assist distressed businesses and industries. The domestic tourism market is expected to gain pace in recovery, and the industry has been quickly gaining confidence again.

According to “Certain policies on facilitating resumed development of distressed sectors in the service industry” (“Certain Policies”) jointly published by 14 departments including the National Development and Reform Commission and the Ministry of Culture and Tourism in February 2022, tourism has been listed as a key industry for receiving government assistance and robust policy support. The “Notice on proper implementation of facilitating resumed development and distress relief for the tourism industry” published by the Office of the Ministry of Culture and Tourism on 30 March 2022 sets out ten requirements in relation to the “genuine promotion of the implementation of ‘Certain Policies’ to enhance policy fulfilment for tourism companies and stabilise the fundamental task of resuming the development of the industry”. Local authorities have subsequently announced a range of policies for assistance in a robust move to aid the recovery of the tourism industry.



The “Opinion on further releasing consumption potential to facilitate ongoing resumption of consumption” published by the General Office of the State Council in April 2022 points out that consumer consumption the end demand, a key segment and important engine in terms of freeing domestic macro-economic circulation and a perpetual driving force in the national economy, where the protection and improvement of people’s livelihood is at stake. As an important component in the consumption of urban citizens, tourism plays a significant role in facilitating economic and social development.

On 21 June 2022, the nationwide inter-provincial tourism market was fully opened up again as the three provinces of Hubei, Qinghai and Ningxia announced the resumption of inter-provincial travels. According to information available from tourism platforms such as Ctrip, Tuniu, Lvmama and Fliggy, bookings in the summer tourism market has been extremely enthusiastic. On 29 June 2022, the “star asterisk” of the nationwide communication itinerary card was canceled and the itinerary code duration was adjusted from 14 days to 7 days, as a range of policies favourable to summer travelling were announced.

Since the conclusion of the 18th National Congress of the Chinese Communist Party, the Chinese government has placed a strong emphasis on the development of the nation’s ecological civilisation with the commencement of a range of radical and pioneering initiatives, underpinned by the goal of building a “Beautiful China” and the proposition of ecological concepts such as “lucid waters and lush mountains are invaluable assets”. In recent years, ecotourism has seen encouraging developments in China. According to the “Report on the Development of Ecotourism in China (2021–2022)”, as at the first half of 2021, China boasted 1.121 billion tourist visits nationwide in ecotourism, increasing by 413 million or 58.33% compared to 708 million in the first half of 2020. Long holidays and holiday weekends have provided a notable driving force for ecotourism. Tourism rebounded following the easing of the pandemic as families showed a strong desire to travel, while ecotourism demonstrated robust vigour to become a new channel for the transformative development of local economies and for the agricultural population to increase income and lift themselves from poverty.



BUSINESS REVIEW AND OUTLOOK

Lottery Business

Computer-generated ticket games (“CTG”) is the major product of China’s lottery industry. As one of the earliest manufacturers providing CTG systems and core products such as lottery terminals, lottery scanners and readers, the Group has maintained its position as an industry leader and an accredited and highly rated CTG terminal supplier in China’s welfare lottery and sports lottery sectors.

During the first half of 2022, the Group reported ongoing development of its CTG business in the welfare lottery and sports lottery markets. In the welfare lottery sector, the Group’s sales in the Guangdong Welfare Lottery market, the largest provincial welfare lottery market it serves, amounted to RMB8.677 billion for January to June 2022, representing year-on-year growth of 11.8%, as it remained the top seller in provincial welfare lottery markets in China. Sales from the Chongqing Welfare Lottery market served by the Group for January to June 2022 amounted to RMB1.821 billion, representing year-on-year growth of 21.2%. In March 2022, the Group won the procurement contract of Guangdong Province for the provision of CTG lottery sales terminals to continue to supply CTG sales terminal to the Guangdong Welfare Lottery market. In April, it further won the procurement contract of Guangdong Province for the provision of technical services for the welfare CTG sales management system of Guangdong Province. In the sports lottery sector, despite the decline in demand from end-users in the local sports lottery markets due to the restrictions on the sale of high-frequency lottery games and quick-draw lottery games, the Group won the provincial sports lottery terminal procurement contracts of Shanxi and Xinjiang, as well as the after-sales maintenance service contracts from the provincial sports lottery authorities of Henan and Zhejiang.

During the first half of 2022, expansion in the overseas market was restrained by the global COVID-19 pandemic. Nevertheless, the Group continued to make technical preparations for the expansion of overseas lottery business. The Group developed an operational and supervisory platform for Ghana’s National Lottery Authority and designed a new range of lottery types and games catered to the local market with more robust interactive features. In the meantime, the Group was actively advancing and implementing the preparatory work relating to two projects, “handheld terminal lottery” and “mobile phone lottery”, signed up with our Filipino partner. In connection with handheld terminal lottery, the Group will supply up to ten thousand handheld terminals for the Philippine Charity Sweepstakes Office (“PCSO”)



on a nationwide basis, to introduce a more convenient and proactive “lottery station at hand” in addition to the existing traditional model of “sales inside the station”. The new model will further expand the coverage of lottery sales, thereby raising more welfare funds for the government and providing more job opportunities. In connection with the mobile phone business, the Philippines is the third largest market for mobile phones and tablets in Southeast Asia with approximately 113 million mobile users and approximately 26 million smartphones, holding out broad prospects for the mobile lottery business. It is understood that PCSO will collaborate with GCASH, the largest payment platform in the Philippines, to advance the mobile lottery business, which will not only enhance the experience of lottery purchase via mobile phones, but will also expedite the conversion of users of payment services into lottery buyers. According to relevant plans, the two projects of handheld terminal lottery and mobile lottery are scheduled to go online successively in six months’ time.

In recent years, there has been an increasingly strong demand for the digitalisation and intelligentisation of retail lottery sales. As such, the industry has been facing developments and changes involving channel restructuring and as well as expansion and innovation, and lottery institutions have continued to enhance the development of channel infrastructure and regulated management.

The Group has pioneered in the proposition of the new retail concept for lottery in the industry, underpinned by the comprehensive application of innovative technologies such as smart hardware, the Internet of things, Big Data, blockchain and AI in the operation, management and marketing of lottery sale channels. The development of comprehensive smart retail solutions, including a variety of smart terminal products, smart storefront management, smart payment, smart marketing and Big Data service systems, has been completed to provide comprehensive services to lottery issuers and sales outlets.

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



DGTY and Beijing China Lottery Online Technology Company Limited (“CLO”) entered into a ten-year cooperative contract in 2005, pursuant to which DGTY would supply Welfare VLT terminal equipment to CLO and received commensurate remuneration for use. After the expiry of the mutual contract in 2015, CLO continued to conduct sales using the terminals of DGTY and generate ongoing revenue, but did not make any payment of remuneration for use to DGTY.

DGTY filed a civil lawsuit with the People’s High Court of Beijing in 2016, demanding the payment of remuneration for use by CLO for its continued use of DGTY terminals after the expiry of the contract. The People’s High Court ruled that CLO was required to pay RMB54,835,700 and accrued interests to DGTY. In view of the fact that CLO continued to conduct lottery sales and generate revenue by using terminals owned by DGTY during a period of more than five years after the expiry of the contract and provisions under pertinent laws and regulations, the Group might take further legal action to protect its legal rights and interests.

China’s Ecotourism Business

Baili Hongshan in Xingguo County, Jiangxi Province project under negotiation

Located within Changgang Township and Dinglong Township in Xingguo County, Ganzhou City, Jiangxi Province, the Baili Hongshan Tourist Attraction (southern scenic area) features Fairy Peach Peak with the unique Danxia landform, the millennium-old Hanging Temple and Bingxin Temple, a natural Fengshui treasure land. As an ecotourism zone that embodies the amalgamation of Confucian, Buddhist and Taoist cultures, the Red Culture and folk cultures and showcases stunning ecological landscapes with rich cultural heritage, it is a perfect blend of natural wonders and cultural experiences. The project is located in the southern region of Jiangxi, the bridgehead of the Guangdong-Hong Kong-Macau Greater Bay Area (“GBA”) and a new hub for open cooperation between Jiangxi and Guangdong. The Jiangxi-Shenzhen High Speed Rail which became operational on 10 December 2021 has facilitated a 3-hour high-speed rail transport zone connecting various locations in the Pearl River Delta region.



In 2021, the Group conducted several on-site surveys on the land blocks in the tourism zone and completed detailed construction and enhancement plans. On 10 March 2022, the Group and the People's Government of Xingguo County entered into a preliminary agreement for a joint venture for the development and operation of the scenic area. Completion of this project will give a strong boost to the development of the tourism industry in Xingguo County, Jiangxi province, as well as generally enhance the Group's core competitiveness and influence in the GBA to lay a foundation for the Group's sustainable development.

Entrusted operation and management of two national 4A scenic areas with full discretion

On 23 May 2022, the Group entered into the "Discretionary Management Contract of Wangwu Shan Scenic Area and Wulongkou Scenic Area" with Jiyuan City Cultural Tourism Investment Group Limited, whereby the two parties agreed to cooperate by way of team management and a management team deployed by the Group will provide professional and standardised management enabling service for the two aforementioned national 4A scenic areas. The term of cooperation shall be from 1 June 2022 to 31 December 2025. Pursuant to the contract, the Group will receive management fees in respect of the operational rights for the two national 4A scenic areas and a share of revenue generated from scenic area ticket sales.

Extending over 265 square kilometres, Wangwu Shan Scenic Area is one of China's nine famous ancient mountains and the first-ranked among the top ten Taoist grounds where the sacred shrine of the mainstream Taoist Quanzhen Sect is located. Legend has it that the famous Chinese fable, "Yu Gong moved away the mountains", was told against the physical background of this location. Tiantanshan, the main peak where an altar is said to have been built by Xuanyuan Huangdi, the prime ancestor of the Chinese race, to pay tribute to heaven, is traditionally also known as the "Spine of Taihang" or the "Earth Pillar that Holds Up Heaven". Over 98% of the entire scenic area is covered by forests, where ginkgo trees, the rarest "living fossil" in the world aged over two thousand years, can be found. Comprises 7 scenic areas with 125 scenic spots complemented by comprehensive infrastructure facilities for scenic areas, Wangwu Shan Scenic Area is a marvelous location for holiday resort and rehab.

Wulongkou Scenic Area comprises five major scenic areas including the spring (Wenquan), the valley (Pangu) and the river (Qinhe), boasting 68 natural or cultural scenic spots which feature precious historic sites such as the ruins of water conservancy work and Pangu Temple from the Qin



Dynasty, as well as the ancient gallery road in the Kingdom of Wei from the Three-Kingdom Period. It is also a national-grade protected natural habitat for rhesus monkeys inhabited by more than 3,000 monkeys living in 12 troops. The local springs provides mineral geothermal resources with the highest water temperature and superior water quality among springs in inland China, making it an exceptionally ideal location for rehabilitation.

The cooperation between the two parties will advance the market-driven operation of Wangwu Shan Scenic Area and Wulongkou Scenic Area, enhance our brand image and optimise our product mix, generate sound economic and social benefits, and help to achieve the management objectives of qualitative, internationalised and sustainable development of the scenic areas.

The said business cooperation enables the Group to embrace a new model of business operation by accepting the appointment to manage premium tourism resources. The business will lay a sound foundation for the Group's long-term, sustainable development as it holds out broad prospects for development with immense potential for growth.

Natural and Health Food Business

During the first half of 2022, against the backdrop of recurring epidemic outbreaks in isolated regions, Natural Forestfood Farm Company Limited, a subsidiary of the Company, sustained growth in business results with slight volatility in growth rate. The Company consolidated expanded its product categories and expanded their varieties, while building and upgrading the Forest Food Network and APP with an united layout comprising the five major platforms of its official website, Tmall, JD Mall, WeChat Mall and APP.

With the development of the live streaming business, live streaming e-commerce has become a dominant trend in the e-commerce sector, affording a more visualised, sentimental and interactive consumer experience and reshaping users' e-commerce shopping patterns as the live streaming e-commerce market has sustained rapid growth. During the first half of the year, the outrageous popularity of live streaming shows such as "Liu Genghong" and "Oriental Selection" announced the arrival of a new transformation in the live streaming format, as live streaming e-commerce was gradually refocusing on the substance of the products and contents. In view of the above, the Company has recently developed live streaming channels such as Douyin Store as its sixth major platform. In the meantime, we have built a live streaming operation and product marketing team to prepare ourselves for breakthrough in business results in the upcoming live streaming channel operations.



In the second half of 2022, the Company will bring into play the strengths of Forest Food and focus on the deployment of live streaming marketing channels through product diversification and plan consolidation. With a combination of collaborated live streaming with Multi-Channel Network (MCN) and live stream on our own platforms, the six major platforms will be advanced in a synchronous manner to increase sales. Meanwhile, the second half of the year will coincide with a number of festive days as well as the peak season for centralised procurement by corporations. In addition to its own mushroom products, the Company is also actively exploring more suppliers of premium products in poverty eradication areas, which is expected to generate greater growth in results for the Company.

FUTURE OUTLOOK

Despite uncertainties in the future political, economic and market environment, the Group remains cautiously optimistic about its future business outlook. We anticipate continued easing of the pandemic in Mainland China in the second half of the year, when the lockdown and control measures will be gradually abolished, while the government will continue to increase market stimulus and launch policies that offer assistance to distressed industries. As a result, China's lottery market and ecotourism market will continue to revert to stable growth.

On the back of its in-depth understanding of and ongoing investment in the lottery business over the years, the Group will continue to consolidate its strengths and engage in extensive cooperation in multiple aspects, such as sales channel, core systems, gaming products and the development of responsible lotteries, in an active bid to contribute to the creation of a healthy ecosystem for China's welfare lottery industry which is accountable, trustworthy and sustainable.

The Group will also continue to consolidate its resources in various aspects to seize market opportunities arising from the national policies for assisting the ecological protection and tourism industries in the wake of the easing pandemic in China, driving development of the ecotourism and natural and health food businesses as it incubates new business growth niches through ongoing innovation to strive for greater investment returns for shareholders.



FINANCIAL REVIEW

In the first half of 2022, the Group recorded a turnover of approximately HK\$51.58 million (the first half of 2021: approximately HK\$40.82 million), representing an increase of approximately 26.36% over the same period of last year. Loss attributable to owners of the Company for the first half of 2022 amounted to approximately HK\$85.94 million (the first half of 2021: approximately HK\$68.54 million). The increase in the loss attributable to owners of the Company, and is mainly due to loss on remeasurement of convertible bonds of approximately HK\$21.37 million.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

As at 30 June 2022, the Group had net current liabilities of approximately HK\$168.9 million (at 31 December 2021: HK\$238.4 million). The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 30 June 2022, the Company had an outstanding corporate guarantee limited to approximately HK\$240.0 million (at 31 December 2021: HK\$240.0 million) for a banking facility of an uncommitted revolving loan of approximately HK\$240.0 million (at 31 December 2021: HK\$240.0 million).

The Group had outstanding bank and other borrowings as at 30 June 2022 of approximately HK\$197.0 million (at 31 December 2021: HK\$197.0 million). As at 30 June 2022, 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\$332.5 million (at 31 December 2021: HK\$337.0 million); and (ii) a personal guarantee executed by a director of the Company (at 31 December 2021: a personal guarantee executed by a director of the Company).

At 30 June 2022, the carrying convertible bonds of the Company was amounted to HK\$155.8 million (at 31 December 2021: HK\$127.1 million) and the aggregate outstanding principal amount of HK\$154.2 million (the "New Option 1 Bonds"). Under the first supplemental trust deed 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 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 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 effect from 5 May 2022.

During the period 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. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds was 91,220,118 shares of the Company.

The Group's total equity amounted to approximately HK\$10.0 million at 30 June 2022 (at 31 December 2021: HK\$100.2 million). At 30 June 2022, net current liabilities of the Group amounted to approximately HK\$168.9 million (at 31 December 2021: HK\$238.4 million), including approximately HK\$53.0 million in cash and deposits with banks and financial institution (at 31 December 2021: HK\$101.0 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2022 was approximately 98.2% (at 31 December 2021: 82.5%).



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 Asset

At 30 June 2022, the Group's leasehold land and buildings at net book value of approximately HK\$332.5 million (at 31 December 2021: HK\$337.0 million) were pledged to banks to secure the bank borrowings granted to the Group.

Contingent Liabilities

At 30 June 2022, the Group did not have any material contingent liabilities (at 31 December 2021: Nil).

Significant Investments, Material Acquisition and Disposal

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) conditionally agreed to acquire, and the Vendor conditionally agreed to sell, representing 70% of the total equity interest of Sanqingshan Cultural Tourism Company Limited (三清山文化旅遊股份有限公司) at the consideration of RMB210.0 million. In view of the severe COVID-19 epidemic in China and Hong Kong in the first quarter of 2022, 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 on 27 June 2022.

Save as disclosed, for the six months ended 30 June 2022, the Group did not hold any significant investment with a value of 5% or more of the Group's total assets and there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.



Staff

As at 30 June 2022, the Group employed 219 staff (2021: 184). 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.

SHARE OPTION SCHEME

A share option scheme of the Company was adopted on 18 May 2012 (the "2012 Option Scheme"), and the limit of granting option under the 2012 Option Scheme was refreshed on 27 May 2015 and 13 June 2019 respectively. The 2012 Option Scheme was valid and effective for a period of ten years commencing from 18 May 2012 and was expired on 18 May 2022 (the "Expiry Date").

There is no outstanding share option as at 31 December 2021 and the Expiry Date. During the period from 1 January 2022 to the Expiry Date, no share option was granted, exercised, cancelled or lapsed under the 2012 Option Scheme.

At the annual general meeting of the Company held on 2 August 2022, an ordinary resolution was passed by the shareholders of the Company to adopt a new share option scheme (the "2022 Option Scheme") for the Company. As at the date of this report, no share option was granted, exercised, cancelled or lapsed under the 2022 Option Scheme.



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

As at 30 June 2022, the interests and short positions of the Directors and chief executives 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 Director | Number of Shares | Approximate percentage of the Company's issued share capital <i>(Note 2)</i> |
|------------------------|-----------------------------------|---|
| 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) <i>(Note 1)</i> | 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 30 June 2022.
3. The letter "L" denotes long position(s).



Save as disclosed above, as at 30 June 2022, none of the Directors or chief executives 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.

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

As at 30 June 2022, 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 executives of the Company) had interests and short positions in the shares and underlying shares of the Company:

| Name of shareholder | Number of shares | Approximate percentage of the Company's issued share capital <i>(Note 5)</i> |
|---|--------------------------------------|--|
| Ms. LAU Ting | 1,100,655,686 (L) <i>(Note 1)</i> | 35.64% (L) |
| Mr. CHAN Shing | 89,271,455 (L) <i>(Note 2)</i> | 2.89% (L) |
| Mr. CAO Junsheng | 250,500,000 (L) <i>(Note 3)</i> | 8.11%(L) |
| China Carbon Neutral Development Group Limited <i>(Note 4)</i> | 200,000,000 (L) | 6.47%(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. Such shares were held by Mao Yuan Capital Limited which was wholly owned by Mr. CAO Junsheng.
4. A company which is listed in the Hong Kong Stock Exchange.
5. 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 30 June 2022.
6. The letter “L” denotes long position(s).

Save as disclosed above, as at 30 June 2022, there was no person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or 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 meeting of any other member of the Group.



RIGHTS ISSUE AND PLACING OF NEW SHARES

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 rights shares for every one 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 ordinary shares of the Company (the "Share(s)") (including 489,055,933 Untaken Shares (as defined below) under the Rights Issue) were issued under the Rights Issue and the Placing (as defined below), and have a total nominal value of HK\$51,474,037.

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 places at the placing price of HK\$0.10 per placing share.

The Group encountered imminent cash flow demand in view of the debt repayment obligations, including but not limited to the repayment of the New Option 1 Bonds which would be due in May 2021 and the repayment of an then existing bank borrowing which would be due on 30 June 2021, the Board considered that it had become critical for the Company to be able to raise funds as soon as possible and the Rights Issue and the Placing represents an opportunity to raise fund for the Company to satisfy its pressing financial needs and thus improve the financial position of the Group. The net price per Share issued under the Right Issue and the Placing was approximately HK\$0.097 and the closing price of the Shares was HK\$0.143 per Share as quoted on the Stock Exchange on 29 January 2021, being the date on which the subscription price and placing price is fixed under the Rights Issue and the Placing.



The net proceeds (after deducting the relevant expenses) from the Rights Issue and the Placing was approximately HK\$199.40 million (“Net Proceeds”). Details of the intended use of the Net Proceeds and the amount utilized for the intended use respectively during the reporting period and up to the date of this report are as follows:

| Intended use | Approximate amount of Net Proceeds | Approximate amount utilised as at 01/01/2022 | Approximate amount utilised as at 30/06/2022 | Approximate amount unutilised as at 30/06/2022 | Approximate amount utilised as at the date of this report |
|--|------------------------------------|--|--|--|---|
| | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million |
| (a) Partial repayment of the New Option 1 Bonds | 80.00 | 26.22 | 34.96 | 45.04* | 34.96 |
| (b) Partial repayment of an existing bank borrowing (including interest) | 30.00 | 30.00 | 30.00 | 0.00 | 30.00 |
| (c) The Set-Off | 50.00 | 50.00 | 50.00 | 0.00 | 50.00 |
| (d) General working capital of the Group | 39.40 | 39.40 | 39.40 | 0.00 | 39.40 |
| Total: | 199.40 | 145.62 | 154.36 | 45.04 | 154.36 |

* 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. The unutilized Net Proceeds are expected to be utilized until then.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2022.



CHANGE OF COMPANY WEBSITE

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

EVENT AFTER REPORTING PERIOD

Mr. Shiu Wing Yan resigned as the company secretary of the Company (the “Company Secretary”) and Ms. Wong Yin Ming was appointed as the Company Secretary with effect from 1 August 2022.

Save as disclosed above, there are no significant events since the end of the reporting period and up to the date of this report.

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 unaudited consolidated interim results of the Group for the six months ended 30 June 2022 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Company 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”) throughout the six months ended 30 June 2022, except for the deviations as disclosed below:

According to Code provision B.2.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The chairperson of the Board (the “Chairperson”) is not subject to retirement by rotation 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. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.



According to Code provision C.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Since the resignation of Mr. Wu Ying Ha on 14 January 2022 and up to date of this report, the Company has not appointed the chief executive officer of the Company. The Board is looking for a suitable candidate to meet the needs of the effective operation of the Group. The Chairperson and the executive Directors are responsible to oversee the management of day-to-day operations of the Group until the appointment of the chief executive officer of the Company. The Board is reviewing the effectiveness of the structure to balance the power and authority of the Board and authority of the Board and the management from time to time.

REQUIRED STANDARD OF DEALINGS REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings regarding securities transactions by Directors set out in the Model Code as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Code of Conduct during the six months ended 30 June 2022.

On behalf of the Board
China Ecotourism Group Limited
CHAN Tan Na, Donna
Chairperson

Hong Kong, 19 August 2022

As at the date of this report, 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.