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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)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL RESULTS (UNAUDITED)

The board of directors (the “Board” or the “Directors”) of China Ecotourism Group Limited (the “Company”) hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021, together with the comparative audited figures for the year ended 31 December 2020, as follows.

For the reasons explained in the paragraph headed “Review of Unaudited Annual Results” in this announcement, the auditing process of the annual results of the Group for the year ended 31 December 2021 has not been completed and the Company is unable to publish an annual results announcement that has been agreed with the Company’s auditors by 31 March 2022 in accordance with Rule 13.49 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

		Unaudited 2021 HK\$'000	Audited 2020 HK\$'000
	<i>Notes</i>		
Revenue	3	117,155	118,563
Costs of sales and services			
— Depreciation of lottery terminals		(3,867)	(33,605)
— Others		(71,962)	(57,443)
		<u>(75,829)</u>	<u>(91,048)</u>
Gross profit		41,326	27,515
Other income	4	20,493	13,520
Other losses - net	5	(14,187)	(409,777)
Net impairment losses on financial assets		(62,943)	(26,332)
General and administrative expenses		<u>(201,704)</u>	<u>(144,085)</u>
Operating loss	6	(217,015)	(539,159)
Finance costs	7	(57,410)	(86,034)
Share of losses of associates		-	(2,756)
Share of loss of a joint venture		-	(2,496)
		<u>(274,425)</u>	<u>(630,445)</u>
Loss before income tax		(274,425)	(630,445)
Income tax credit	8	3,156	6,527
		<u>(271,269)</u>	<u>(623,918)</u>
Loss attributable to:			
Owners of the Company		(256,398)	(573,971)
Non-controlling interests		(14,871)	(49,947)
		<u>(271,269)</u>	<u>(623,918)</u>
Loss per share attributable to owners of the Company			
— basic	9	<u>(11.73) HK cents</u>	<u>(55.75) HK cents</u>
— diluted	9	<u>(11.73) HK cents</u>	<u>(55.75) HK cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Unaudited 2021 <i>HK\$'000</i>	Audited 2020 <i>HK\$'000</i>
Loss for the year	(272,763)	(623,918)
Other comprehensive income/(expense):		
<i>Items that will not be reclassified to profit or loss</i>		
Gain on revaluation of properties held for own use	-	245,546
Deferred tax arising on revaluation of properties held for own use	-	(7,518)
	<u>-</u>	<u>(7,518)</u>
	-	238,028
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	4,516	22,495
Share of other comprehensive expense of and a joint venture	-	176
	<u>4,516</u>	<u>22,671</u>
Other comprehensive income for the year	4,516	260,699
Total comprehensive expense for the year	<u>(268,247)</u>	<u>(363,219)</u>
Attributable to:		
Owners of the Company	(253,257)	(326,641)
Non-controlling interests	(14,990)	(36,578)
Total comprehensive expense for the year	<u>(268,247)</u>	<u>(363,219)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	Unaudited 2021 HK\$'000	Audited 2020 HK\$'000
Non-current assets			
Property, plant and equipment		45,356	50,138
Right-of-use assets		330,622	342,130
Intangible assets		20,408	63,292
Interests in associates		189	189
Financial assets at fair value through profit profit or loss		<u>4,536</u>	<u>6,769</u>
		<u>401,111</u>	<u>462,518</u>
Current assets			
Inventories		21,356	9,694
Accounts receivable	<i>10</i>	13,270	70,705
Prepayments, deposits and other receivables		73,704	128,123
Cash and bank balances		<u>101,049</u>	<u>76,430</u>
		<u>209,379</u>	<u>284,952</u>
Total assets		<u>610,490</u>	<u>747,470</u>
Current liabilities			
Accounts payable	<i>11</i>	5,485	4,399
Accruals and other payables		56,105	38,872
Contract liabilities		45,808	31,285
Amount due to a joint venture		6,225	6,766
Amount due to a shareholder		1,224	56,880
Amounts due to directors		7,500	19,703
Tax payable		4,355	8,100
Bank and other borrowings		197,000	212,793
Lease liabilities		6,722	10,920
Convertible bonds		<u>127,062</u>	<u>137,205</u>
		<u>457,486</u>	<u>526,923</u>
Net current liabilities		<u>(248,107)</u>	<u>(241,971)</u>
Total assets less current liabilities		<u>153,004</u>	<u>220,547</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)*At 31 December 2021*

		Unaudited	Audited
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current liabilities			
Deferred income tax liabilities		39,161	39,993
Lease liabilities		6,827	12,256
		45,988	52,249
Net assets		107,016	168,298
Equity attributable to owners of the Company			
Share capital	<i>12</i>	77,211	25,737
Reserves		1,774,605	1,622,090
Accumulated losses		(1,989,166)	(1,738,885)
		(137,350)	(91,058)
Non-controlling interests		244,366	259,356
Total equity		107,016	168,298

NOTES:

1. GENERAL INFORMATION

China Ecotourism Group Limited was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda.

The Group are technology and operation service providers and suppliers of lottery systems, terminal equipment and gaming products in the China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and KENO-type lottery to new media lottery. In 2019, the Group commenced the business engaging in research and development, processing, production and sales of natural and health food. In 2021, the Group develops and operates the business engaging in eco-tourism.

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under 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.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following amendments to existing standards for the first time for the financial year beginning on 1 January 2021:

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

The amendments to HKFRs in the current year did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

The following are new standards and amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2022 or later periods, but have not been early adopted by the Group.

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹

Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. REVENUE

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

	Unaudited 2021 HK\$'000	Audited 2020 HK\$'000
Sales of lottery terminals and related equipment	73,546	35,775
Sales of natural and health food	3,089	8,066
Provision of technical and maintenance services	28,895	33,521
Revenue from contracts with customers (within the scope of HKFRS 15)	105,530	77,362
Lease income from operating leases	11,625	41,201
Total revenue	117,155	118,563

4. OTHER INCOME

	Unaudited 2021 HK\$'000	Audited 2020 HK\$'000
Interest income from bank deposits and loan receivables	20,360	6,403
Rental income	-	203
Government grants	133	6,914
	20,493	13,520

5. OTHER LOSSES – NET

	Unaudited	Audited
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value (loss)/gain on financial assets at fair value through profit or loss	(2,232)	98
Gain on remeasurement of convertible bonds	26,199	44,813
Gain on lease modification	-	475
Gain on lease termination	372	253
Loss on disposal of property, plant and equipment	(2,467)	(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	-	(17,007)
Foreign exchange losses	(273)	(3,378)
	<u>(14,187)</u>	<u>(409,777)</u>

6. OPERATING LOSS

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

	Unaudited	Audited
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	61,489	31,483
— Repairs and maintenance	206	5,302
— Others	1,542	9,033
	<u>75,829</u>	<u>91,048</u>
Auditors' remuneration	1,100	1,780
Depreciation of other items of property, plant and equipment	2,779	3,497
Depreciation of right-of-use assets	<u>8,305</u>	<u>12,068</u>

7. FINANCE COSTS

	Unaudited 2021 <i>HK\$'000</i>	Audited 2020 <i>HK\$'000</i>
Interest expense on bank and other borrowings	12,330	18,802
Interest expense on lease liabilities	576	1,557
Interest expense on amount due to a shareholder	2,209	4,605
Interest expense on amounts due to directors	20	232
Effective interest expense on convertible bonds	<u>42,275</u>	<u>60,838</u>
	<u>57,410</u>	<u>86,034</u>

8. 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%).

	Unaudited 2021 <i>HK\$'000</i>	Audited 2020 <i>HK\$'000</i>
Current tax		
– PRC Enterprise Income Tax	1,683	1,694
– Adjustments in respect of prior years	<u>(2,733)</u>	<u>(1,365)</u>
Total current tax	(1,050)	329
Deferred tax		
– Origination and reversal of temporary differences	<u>(2,106)</u>	<u>(6,856)</u>
Income tax credit	<u>(3,156)</u>	<u>(6,527)</u>

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 2,185,883,748 (2020: 1,029,480,733) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31 December 2021 did not assume the conversion of the convertible bonds since their assumed conversion would result in a decrease in loss per share. The computation of diluted loss per share for the year ended 31 December 2020 did not assume the conversion of the convertible bonds and the exercise of share options since their assumed conversion and exercise would result in a decrease in loss per share.

10. ACCOUNTS RECEIVABLE

	Unaudited 2021 <i>HK\$'000</i>	Audited 2020 <i>HK\$'000</i>
Lease receivables	4,590	65,846
Trade receivables – goods and services	9,984	6,162
	14,574	72,008
Less: Loss allowance	(1,304)	(1,303)
	13,270	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:

	Unaudited 2021 <i>HK\$'000</i>	Audited 2020 <i>HK\$'000</i>
Less than three months	9,134	2,709
Over three months but less than one year	181	441
Over one year	3,955	67,555
	13,270	70,705

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 2021 <i>HK\$'000</i>	Audited 2020 <i>HK\$'000</i>
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

12. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.025 each	
	<i>Number of shares</i>	<i>HK\$ '000</i>
At 1 January 2020, 31 December 2020 and 1 January 2021	1,600,000,000	40,000
Increase in Authorised Ordinary Shares (<i>Note (i)</i>)	3,400,000,000	85,000
	<hr/>	<hr/>
At 31 December 2021	5,000,000,000	125,000
	<hr/> <hr/>	<hr/> <hr/>
	Issued and fully paid ordinary shares of HK\$0.025 each	
	<i>Number of shares</i>	<i>HK\$ '000</i>
At 1 January 2020, 31 December 2020 and 1 January 2021	1,029,480,733	25,737
New shares issued upon Rights Issue (<i>Note (ii)</i>)	1,569,905,533	39,248
New shares issued upon Placing (<i>Note (ii)</i>)	489,055,933	12,226
	<hr/>	<hr/>
At 31 December 2021	3,088,442,199	77,211
	<hr/> <hr/>	<hr/> <hr/>

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.

DIVIDEND

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

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"), video lottery ("VLT"), 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 RMB 373.285 billion, representing an 11.8% year-on-year growth. Of which, the welfare lottery sales edged down by 1.5% year-on-year to RMB 142.255 billion; while the sports lottery sales advanced by 21.9% year-on-year to RMB 231.030 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 RMB 60.016 billion year-on-year to RMB 161.892 billion. Single Match Games ("SMG") sales increased by RMB 59.381 billion year-on-year to RMB 134.299 billion. Paper-based Scratch Card sales increased by RMB 24.991 billion year-on-year to RMB 54.411 billion. KENO-type sales increased by RMB 21.773 billion year-on-year to RMB 22.683 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 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.

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 RMB 96.781 billion. With the approval from the National People’s Congress, the central financial administration allotted RMB 29.864 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 national welfare lottery services”, 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.

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 "green waters and green mountains are gold mountains and silver mountains", proposing the creation of 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 Ecotourism Academy (commonly known as National Tourism Administration Data Centre), a research institute directly under Ministry of Culture and Tourism, released the "Report on the Development of China Tourism Groups (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 RMB 10 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 RMB 16.183 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 RMB 4.339 billion and RMB 3.283 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 RMB 18 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.

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 RMB 54,835,700 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.

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 (“Golden Tourism Group”) and CCCC Water Resources and Hydropower Construction Co., Ltd. (“CCCC WRHC”) (a company under China Communication Construction Company Limited) respectively. The Group and Golden Tourism Group agreed to form a joint venture for the operation of a tourism project located in Mount Sanqing Xiaoyao Valley, Shangrao, Jiangxi Province, a natural world heritage site and the national 5 A-class tourist area. Meanwhile, 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 October, the Group and Golden Tourism Group entered into an equity transfer agreement. Pursuant to it, the Group would acquire 70% interest in Sanqingshan Cultural Tourism Company Limited and the related due diligence is underway.

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.
- In July 2021, the Group announced that it had entered into the strategic cooperation agreement with Golden Tourism Group for joint development of the Mount Sanqing Xiaoyao Valley Project.
- In October 2021, the Group commenced the acquisition of Sanqingshan Cultural Tourism Company Limited. Further details in relation to the acquisition, please refer to the announcements on 18 October 2021, 30 November 2021 and 30 March 2022.

- In November to December 2021, the Group pushed for the upgrading of some facilities at the Mount Sanqing Xiaoyao Valley Project, including: planning and design of the experience museum for 360 degree holographic immersive tourism at the Sanqingshan Jinding, as well as negotiation for cooperation on this facility; planning and design of large-scale tourism performing arts project at Mount Sanqing Xiaoyao Valley as well as negotiation for cooperation on this project; the negotiation with Jinmao (China) Hotel Investments and Management Limited for their cooperation on Jinshawan Holiday Hotel and Jinsha Green Valley Springs Hotel.

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.

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.

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 Chinese forest food certification ("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 RMB 100 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.

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.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$117.2 million (2020: HK\$118.6 million) for the year ended 31 December 2021, representing a decrease of approximately 1% over 2020. Loss attributable to owners of the Company for the year ended 31 December 2021 amounted to approximately HK\$256.4 million (2020: HK\$574 million), and is mainly due to net impairment losses of non-current assets of approximately HK\$35.8 million (2020: HK\$398.8 million), net impairment losses on financial assets of approximately HK\$62.9 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\$248.1 million (2020: HK\$242 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 million (2020: HK\$240 million) for a banking facility of an uncommitted revolving loan of approximately HK\$240 million (2020: HK\$240 million).

The Group had outstanding bank and other borrowings as at 31 December 2021 of approximately HK\$197 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 million (2020: HK\$346 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\$148.58 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\$26.22 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\$8.74 million on 7 January 2022.

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\$122.36 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\$107 million at 31 December 2021 (2020: HK\$168.3 million). At 31 December 2021, net current liabilities of the Group amounted to approximately HK\$248.1 million (2020: HK\$242 million), including approximately HK\$101 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 million (2020: HK\$346 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.

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

Save as disclosed in this announcement, 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.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code (the "Code") under Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2021, except for the deviations as disclosed below:

Code provision A.1.1 stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals with active participation, either in person or through other electronic means of communication, of a majority of directors entitled to be present. As the Company did not announce its quarterly results, two regular Board meetings were held during the year for reviewing and approving the 2020 annual results and the 2021 interim results of the Group, which the relevant Code provision had not been fully complied with. Board meetings will be held on other occasions when Board decisions are required.

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 and up to 31 December 2021, the roles of chairperson and the chief executive officer have been properly separated.

Although some of the 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 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. HUANG Shenglan was absent from the 2021 annual general meeting of the Company as is stipulated in Code provision A.6.7 due to his other important engagement.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

REQUIRED STANDARD OF DEALING REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as the Company’s 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 have complied with the Model Code throughout the year ended 31 December 2021.

AUDIT COMMITTEE

The Audit Committee of the Company 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 unaudited annual results contained herein have been reviewed by the Audit Committee and approved by the Board.

REVIEW OF UNAUDITED ANNUAL RESULTS

Due to the recent serious epidemic of the COVID-19 and the curbing and quarantine policies adopted and/or implemented by the Hong Kong government, the Company and the Company’s auditor encountered significant practical difficulties in compiling its report as well as certain staff of the Company and the Company’s auditor had tested positive for COVID-19. Accordingly, it was unable to complete the audit of the Group’s annual results for the year ended 31 December 2021 by 31 March 2022 in accordance with the requirements of the Listing Rules.

The unaudited annual results contained herein have not been agreed with the Company’s auditors. An announcement relating to the audited results will be made by the Company when the auditing process has been completed.

PUBLICATION OF THE UNAUDITED ANNUAL RESULTS ANNOUNCEMENT, FURTHER ANNOUNCEMENT(S) AND ANNUAL REPORT

Following the completion of the auditing process, the Company is expected to issue further announcement(s) on or before 31 May 2022 in relation to, among others, (i) the audited results for the year ended 31 December 2021 as agreed by the Company’s auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders’ eligibility to attend and vote at the said meeting. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process.

The annual report of the Company for 2021 is expected to be published and dispatched to the Company’s shareholders on or before 31 May 2022.

NEW COMPANY WEBSITE

The new website of the Company at www.ecotourgroup.com is officially launched.

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

Hong Kong, 31 March 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.