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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 RESULTS FOR THE YEAR ENDED 30 JUNE 2024

FINANCIAL RESULTS

The board of directors (the “Board” or the “Directors”) of China Ecotourism Group Limited (the “Company”) hereby presents the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 30 June 2024, together with the comparative audited figures for the eighteen months ended 30 June 2023 (the “Year 2023”), as follows:-

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 30 June 2024

	<i>Notes</i>	For the year ended 30 June 2024 HK\$'000	For the 18 months ended 30 June 2023 HK\$'000
Revenue	3	<u>67,319</u>	<u>207,797</u>
Costs of sales and services		<u>(39,883)</u>	<u>(145,495)</u>
Gross profit		27,436	62,302
Other income		2,692	3,152
Other losses - net		(62,792)	(32,318)
Net impairment losses on financial assets		(4,155)	(8,187)
Impairment loss of non-financial assets		(6,677)	—
Loss on deconsolidation of a subsidiary		(54,736)	—
Loss on disposal of a property		(88,432)	—
General and administrative expenses		<u>(72,820)</u>	<u>(185,127)</u>
Operating loss	5	(259,484)	(160,178)
Finance costs	6	<u>(21,372)</u>	<u>(59,201)</u>
Loss before income tax		(280,856)	(219,379)
Income tax credit/(expense)	7	<u>6,246</u>	<u>(489)</u>
Loss for the year/period		<u>(274,610)</u>	<u>(219,868)</u>
Loss attributable to:			
Owners of the Company		(271,967)	(219,030)
Non-controlling interests		<u>(2,643)</u>	<u>(838)</u>
		<u>(274,610)</u>	<u>(219,868)</u>
Loss per share attributable to owners of the Company			
— basic (HK\$ per Share)	8	<u>(1.76)</u>	<u>(1.42)</u>
— diluted (HK\$ per Share)	8	<u>(1.76)</u>	<u>(1.42)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2024

	For the year ended 30 June 2024 HK\$'000	For the 18 months ended 30 June 2023 HK\$'000
Loss for the year/period	(274,610)	(219,868)
Other comprehensive expense:		
<i>Items that will not be reclassified to profit or loss</i>		
Loss on revaluation of properties held for own use	<u>(625)</u>	<u>(3,554)</u>
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences arising on translation of financial statements of subsidiaries outside Hong Kong	<u>(7,486)</u>	<u>(14,393)</u>
Total of other comprehensive expenses for the year/period	<u>(8,111)</u>	<u>(17,947)</u>
Total comprehensive expense for the year/period	<u>(282,721)</u>	<u>(237,815)</u>
Attributable to:		
Owners of the Company	(280,081)	(229,134)
Non-controlling interests	<u>(2,640)</u>	<u>(8,681)</u>
Total comprehensive expense for the year/period	<u>(282,721)</u>	<u>(237,815)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

		At 30 June 2024	At 30 June 2023
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		4,133	27,501
Right-of-use assets		209	309,012
Intangible assets		9,965	13,054
Interests in associates		189	189
Investment in a joint venture		—	—
Financial assets at fair value through profit or loss ("FVTPL")		48	554
		<u>14,544</u>	<u>350,310</u>
Current assets			
Equity investment at FVTPL		—	2,706
Inventories		27,132	18,229
Accounts receivable	9	5,036	7,185
Prepayments, deposits and other receivables		19,837	22,527
Restricted bank deposits		20,380	19,447
Cash and bank balances		27,671	84,207
		<u>100,056</u>	<u>154,301</u>
Total assets		<u>114,600</u>	<u>504,611</u>
Current liabilities			
Accounts payable	10	2,485	15,626
Accruals and other payables		71,463	64,622
Contract liabilities		47,911	52,800
Amount due to a former subsidiary		54,591	—
Amount due to a joint venture		11,456	11,296
Amount due to a shareholder		37,324	33,800
Amounts due to key management personnel		19,551	17,638
Tax payable		1,026	2,106
Bank and other borrowings		7,690	241,928
Lease liabilities		1,755	4,556
Derivative financial liabilities at FVTPL		252,767	—
Convertible bonds		—	155,754
		<u>508,019</u>	<u>600,126</u>
Net current liabilities		<u>(407,963)</u>	<u>(445,825)</u>
Total assets less current liabilities		<u>(393,419)</u>	<u>(95,515)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

At 30 June 2024

		At 30 June 2024 HK\$'000	At 30 June 2023 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Deferred tax liabilities		23,014	36,863
Lease liabilities		3,875	5,209
		<hr/> 26,889	<hr/> 42,072
Net liabilities		<hr/> (420,308)	<hr/> (137,587)
Equity attributable to owners of the Company			
Share capital	<i>11</i>	77,211	77,211
Accumulated losses		(2,277,586)	(2,224,196)
Statutory reserve		24,515	23,208
Other reserves		1,523,048	1,751,046
		<hr/> (652,812)	<hr/> (372,731)
Non-controlling interests		<hr/> 232,504	<hr/> 235,144
Total deficit		<hr/> (420,308)	<hr/> (137,587)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on the historical cost basis, except for owned properties and related leasehold land, equity investment at fair value through profit or loss and certain financial assets and liabilities (including derivative instruments) that are measured at revalued amount or fair value.

Going concern

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a net loss of approximately HK\$274,610,000 for the year ended 30 June 2024 and, as of that date, the Group’s current liabilities exceeded its current assets and total liabilities exceeded its total assets by approximately HK\$407,963,000 and HK\$420,308,000 respectively. As at that date, the Group’s total liabilities amounted to approximately HK\$534,908,000. During the year, the Group defaulted in repayment of mortgage loans and convertible bonds resulting in appointments of receivers (the “Receiver(s)”) by the bank in respect of the mortgaged property and a trustee of convertible bonds in respect of the charged shares. Moreover, the Company received a winding-up petition filed by a trustee of convertible bonds as at 5 July 2024. The Group might not be able to meet its liabilities in full unless it is able to generate sufficient cash flows from future operations and/or other sources, since as at 30 June 2024, the Group only had cash and bank balances of approximately HK\$27,671,000 and restricted bank deposits of approximately HK\$20,380,000. 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 management of the Group is in the course of seeking for a possible solution to the issues resulting from the defaults and will work closely with its advisors, Acclime Corporate Advisory (Hong Kong) Limited, to conduct a review of the financial positions of the Group and formulate a viable restructuring plan;
- (b) The Group has been actively negotiating with various banks and persons or institutions providing finance to obtain additional new credit facilities;
- (c) The Group has been actively liaise with the Receivers in order to facilitate the sale of the pledged properties;
- (d) The Group has been actively negotiating with bondholders to formulate a debt restructuring plan;
- (e) The Group will continue to seek for equity financing opportunities;
- (f) The Group will continue to implement measures to speed up the collection of outstanding accounts and other receivables; and
- (g) The Group will continue to take active measures to control administrative costs and maintain containment of capital expenditures.

Based on the cash flow forecast of the Group prepared by the management and assuming success of the above measures, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

Change of financial year end date

Pursuant to a resolution of the Board dated 28 December 2022, the Company's financial year end date has been changed from 31 December to 30 June commencing from the financial period from 1 January 2022 to 30 June 2023 in order to enable the Group to rationalise and mobilise its resources with higher efficiency for the preparation of results announcement as well as reports. Accordingly, the comparative figures presented for the audited consolidated statement of profit or loss, audited consolidated statement of comprehensive income, audited consolidated statement of change in equity, audited consolidated statement of cash flows and related notes cover the audited figures of the financial year from 1 January 2022 to 30 June 2023 which may not be comparable with the amounts shown for the current year.

Application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and changes in other accounting policies

The Group has applied the following amendments to HKFRSs and changes in other accounting policies issued by the HKICPA to these financial statements for the current accounting period:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform-Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022 the Hong Kong SAR Government (the “Government”) gazette the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”), which will come into effect from 1 May 2025 (the “Transition Date”). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund (“MPF”) scheme to reduce the long service payment (“LSP”) in respect of an employee’s service from the Transition Date (the abolition of the “offsetting mechanism”). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date. In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP. However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit. The change in accounting policy did not have material impact on the opening balance of equity and no adjustment at 1 July 2023 and the cash flow amounts for the year ended 30 June 2024.

3. REVENUE

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

	For the year ended 30 June 2024 HK\$'000	For the 18 months ended 30 June 2023 HK\$'000
Sales of lottery terminals and related equipment	22,715	136,503
Sales of natural and health food	2,464	2,600
Provision of technical and maintenance services	39,432	63,031
Provision of operation and management service for ecotourism services	<u>2,708</u>	<u>2,926</u>
Revenue from contracts with customers (within the scope of HKFRS 15)	67,319	205,060
Lease income from operating leases	<u>—</u>	<u>2,737</u>
Total revenue	<u>67,319</u>	<u>207,797</u>

4. SEGMENT INFORMATION

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

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

1. Lottery systems, terminal equipment and related products – Provision of technology and operation service for lottery systems, terminal equipment and gaming products, and sales of lottery terminals and related equipment;
2. Natural and health food – Research and development, processing, production and sales of natural and health food; and
3. Ecotourism – project development and operation of ecotourism.

Segment revenue and results

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

For the year ended 30 June 2024	Lottery system, 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)	<u>62,147</u>	<u>2,464</u>	<u>2,708</u>	<u>67,319</u>
Segment loss	<u>(14,308)</u>	<u>(81)</u>	<u>(9,322)</u>	<u>(23,711)</u>
Interest income				418
Fair value loss on financial assets at FVTPL				(506)
Fair value loss on equity investment at FVTPL				(2,698)
Net impairment losses on financial assets				(4,155)
Loss on deconsolidation of a subsidiary				(54,736)
Loss on disposal of a property				(88,432)
Finance costs				(21,372)
Unallocated expenses				<u>(85,664)</u>
Loss before income tax				<u>(280,856)</u>
For the 18 months ended 30 June 2023	Lottery system, 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)	199,534	2,600	2,926	205,060
Lease income	<u>2,737</u>	<u>—</u>	<u>—</u>	<u>2,737</u>
Revenue from external customers	<u>202,271</u>	<u>2,600</u>	<u>2,926</u>	<u>207,797</u>
Segment loss	<u>(4,122)</u>	<u>(1,508)</u>	<u>(15,173)</u>	<u>(20,803)</u>
Interest income				1,350
Fair value loss on financial assets at FVTPL				(3,982)
Fair value loss on equity investment at FVTPL				(3,612)
Loss on remeasurement of convertible bonds				(21,367)
Net impairment losses on financial assets				(8,187)
Finance costs				(59,201)
Unallocated expenses				<u>(103,577)</u>
Loss before income tax				<u>(219,379)</u>

Segment assets and liabilities

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

Segment assets

	At 30 June 2024 <i>HK\$'000</i>	At 30 June 2023 <i>HK\$'000</i>
Lottery systems, terminal equipment and related products	63,308	66,334
Natural and health food	911	954
Ecotourism	1,849	9,513
	<hr/>	<hr/>
Total segment assets	66,068	76,801
Interests in associates	189	189
Financial assets at FVTPL	48	554
Equity investment at FVTPL	—	2,706
Unallocated	48,295	424,361
	<hr/>	<hr/>
Consolidated assets	114,600	504,611

Segment liabilities

	At 30 June 2024 <i>HK\$'000</i>	At 30 June 2023 <i>HK\$'000</i>
Lottery systems, terminal equipment and related products	25,367	87,286
Natural and health food	11,152	11,740
Ecotourism	5,464	2,934
	<hr/>	<hr/>
Total segment liabilities	41,983	101,960
Derivative financial liabilities at FVTPL	252,767	—
Unallocated	240,158	540,238
	<hr/>	<hr/>
Consolidated liabilities	534,908	642,198

5. OPERATING LOSS

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

	For the year ended 30 June 2024 HK\$'000	For the 18 months ended 30 June 2023 HK\$'000
Costs of sales and services		
— Amortisation of intangible assets	3,325	4,988
— Business tax	254	514
— Cost of inventories recognised as expense	24,690	123,573
— Repairs and maintenance	3	2,333
— Staff costs	7,372	11,242
— Others	4,239	2,845
	39,883	145,495
Legal and professional fees	5,307	16,448
Auditors' remuneration	1,000	1,680
Depreciation of other items of property, plant and equipment recognised as general and administrative expenses	2,076	4,642
Depreciation of right-of-use assets	7,283	23,990
Impairment loss of non-financial assets		
- property, plant and equipment	1,433	—
- right-of-use assets	5,244	—
	6,677	—
Write off of inventories	6,443	—
Research and development expenditure	6,169	3,162

6. FINANCE COSTS

	For the year ended 30 June 2024 HK\$'000	For the 18 months ended 30 June 2023 HK\$'000
Interest expenses on bank and other borrowings	9,417	25,088
Interest expenses on lease liabilities	543	1,365
Interest expenses on amount due to a shareholder	3,669	3,208
Interest expenses on amounts due to key management personnel of the Group (including the directors of the Company)	2,285	2,684
Effective interest expense on convertible bonds	5,458	26,856
	21,372	59,201

7. INCOME TAX (CREDIT) / EXPENSE

Hong Kong Profits Tax is calculated at the rate of 16.5% (for the 18 months ended 30 June 2023: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the year ended 30 June 2024 and the 18 months ended 30 June 2023 as the Group had no assessable profits arising in or derived from Hong Kong for both year/period.

The applicable enterprise income tax rate for PRC subsidiaries is 25% (for the 18 months ended 30 June 2023: 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% (for the 18 months ended 30 June 2023: 15%).

	For the year ended 30 June 2024 HK\$'000	For the 18 months ended 30 June 2023 HK\$'000
Current tax		
— PRC Enterprise Income Tax	80	2,003
Deferred tax		
— Reversal of temporary differences	(6,326)	(1,514)
Income tax (credit)/expense	(6,246)	489

8. 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 154,422,109 (for the 18 months ended 30 June 2023: 154,422,109) ordinary shares in issue during the reporting period.

The computation of diluted loss per share for the 18 months ended 30 June 2023 did not assume the conversion of the convertible bonds since its assumed conversion would result in a decrease in loss per share.

9. ACCOUNTS RECEIVABLE

	At 30 June 2024 HK\$'000	At 30 June 2023 HK\$'000
Lease receivables	924	924
Trade receivables – goods and services	16,761	15,257
	17,685	16,181
Less: Loss allowance	(12,649)	(8,996)
	5,036	7,185

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:

	At 30 June 2024 HK\$'000	At 30 June 2023 HK\$'000
Less than three months	3,176	7,164
Over three months but less than one year	1,860	21
	5,036	7,185

10. ACCOUNTS PAYABLE

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

	At 30 June 2024 HK\$'000	At 30 June 2023 HK\$'000
Less than three months	971	14,131
Over three months but less than one year	247	376
Over one year	1,267	1,119
	<u>2,485</u>	<u>15,626</u>

11. SHARE CAPITAL

	Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2022	5,000,000,000	125,000
Share Consolidation (<i>Note</i>)	<u>(4,750,000,000)</u>	<u>-</u>
At 1 July 2023 and 30 June 2024	<u>250,000,000</u>	<u>125,000</u>
Balance of authorised ordinary shares of HK\$0.50 each		
	Issued and fully paid ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2022	3,088,442,199	77,211
Share Consolidation (<i>Note</i>)	<u>(2,934,020,090)</u>	<u>-</u>
At 1 July 2023 and 30 June 2024	<u>154,422,109</u>	<u>77,211</u>
Balance of issued ordinary shares of HK\$0.50 each		

Note: Pursuant to the resolution passed by shareholders of the Company on 18 January 2023, every twenty (20) issued and unissued ordinary shares of HK\$0.025 each were consolidated into one (1) ordinary share of HK\$0.50 each in the share capital of the Company (the "Share Consolidation") became effective on 20 January 2023.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June 2024 (for the eighteen months ended 30 June 2023: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

2023 is the year of economic recovery after the epidemic. In the context of continued deglobalization, intensified geopolitical conflicts, high inflation, continued interest rate hikes by the Federal Reserve, and tightening financial conditions in developed economies, the global economy showed a “weak recovery” trend, and economic growth momentum was seriously lacking.

In 2023, China's economy has resumed growth overall. Although the economy has experienced twists and turns, based on the low base effect in 2022, the actual gross domestic product (GDP) increased by 5.2% year-on-year for the whole year, exceeding expectations and completing the 5% economic growth target.

During mid-2023 to mid-2024 (the “Reporting Period”), the Group’s lottery business and China’s ecotourism and natural health food business generally operated normally and made steady progress.

China’s Lottery Market

From the beginning of 2023 to the first half of 2024, China’s lottery market has developed well. Affected by factors such as the active instant lottery market, the increase in major events such as the Asian Games and the European Cup, and the expansion of channels, national lottery sales have increased significantly compared with the same period.

According to information released by the Ministry of Finance, China’s lottery ticket sales reached RMB 614.275 billion during the Reporting Period, an increase of RMB 97.787 billion or 18.9% year-on-year. Among them, the welfare lottery sales edged up by RMB 46.559 billion or 28.5% year-on-year to RMB 209.645 billion; while sports lottery sales grew by RMB51.228 billion or 14.5% year-on-year to RMB404.630 billion. The increase in sales of all types of lottery products was recorded. During the Reporting Period, Lotto sales increased by 11.7% year-on-year to RMB182.505 billion. Paper-based Scratch Card (“PSC”) sales increased by 71.3% year-on-year to RMB 131.587 billion. Single Match Games (“SMG”) sales increased by 5.5% year-on-year to RMB258.428 billion. KENO type Lottery (“KENO”) sales increased by 33.1% to RMB41.754 billion. The sales of Lotto, SMG, PSC and KENO accounted for 29.71%, 42.07%, 21.42% and 6.80% of total lottery sales, respectively.

China’s Ecotourism Market

In 2023, the domestic tourism market was recovered strongly and fully, the cultural tourism industry re-entered the path of restorative growth, and the restorative growth of the cultural tourism economy continued to improve. In the past year, third- and fourth-tier cities have emerged from reverse tourism, alternative tourist destinations, Chinese-style Hanfu, music festivals, and barbecues. They are emerging tourist destinations, growing sources of tourists, and the market foundation for the sustainable development of the tourism economy. In the context of consumption downgrading, consumption stratification has become more obvious. New customer groups for cultural tourism consumption have emerged, and customer groups that pursue individuality and value experiential consumption have become mainstream. The number of domestic tourists and tourism revenue in 2023 has reached 80.25% and 85.59% respectively compared to 2019. Inbound and outbound tourist arrivals and international tourism revenue has recovered to 65% and 59% of 2019 respectively. In 2024, domestic tourism and national leisure enter a new stage of prosperity and development.

In the first half of 2024, there were RMB2.725 billion domestic tourists, a year-on-year increase of 14.3%. Domestic tourists spent a total of RMB2.73 trillion on travel, an increase of 19% year-on-year. Tourism consumption was full of vitality and showed the remarkable characteristics of diversification, quality and personalization in the first half of the year. Users from first-tier and new first-tier cities are still the main force in tourism consumption. The tourism market in third- and fourth-tier cities and counties has burst out with strong vitality and has become a new growth point for tourism consumption. The night economy, film and television works, content cultivation have become the traffic code for the rapid growth of tourism consumption. Since the beginning of this year, China's visa-free "circle of friends" has continued to expand. The implementation of the 144-hour transit visa-free policy and the improvement of entry convenience have attracted more and more foreign tourists to travel to China, and the inbound tourism market has increased significantly.

The main policy direction for the high-quality development of China's cultural tourism industry in 2024 is to increase the supply of high-quality products, enrich product categories, improve the quality of tourism services, and enhance 5G smart tourism services. Immersive digital cultural tourism, innovative interpretations, mini dramas, scene-based emotional services, unique fireworks have become new driving forces in the Chinese tourism market. "Tourism + elderly care + medical care + entertainment + nostalgia" has become a new tourism industry.

BUSINESS REVIEW AND OUTLOOK

Lottery Business

Computer-generated ticket games ("CTG")

CTG is the major product of China's lottery industry and is sold through lottery sites and special betting terminal equipment. The Group's subsidiaries, Guangzhou Lottinal Terminal Company Limited, Guangzhou Three Rings Yongxin Technology Company Limited and Beijing Bestinfo Cyber Technology Co., Ltd., focus on the provision of core products and services such as CTG core transaction systems and comprehensive information management systems, lottery betting terminals, lottery scanners and readers to national lottery organizations, hence they are recognized by China's Welfare Lottery and Sports Lottery. The lottery betting terminal equipment developed and produced by Guangzhou Lottinal Terminal Company Limited are widely used in 19 provinces across the country; Beijing Bestinfo Cyber Technology Co., Ltd. has been providing system software R&D and maintenance services to Guangdong Welfare Lottery and other lottery organizations for more than 20 years, and has witnessed the annual sales of Guangdong Welfare Lottery from RMB 1 billion to RMB 10 billion, and then to RMB 20 billion. Such continuous breakthroughs have made it a success of the largest scale and the highest sales volume in provincial level within the domestic welfare lottery industry.

During the Reporting Period, the Group's computer-generated ticket business in the welfare lottery and sports lottery markets continues to develop. The Guangdong Welfare Lottery served by the Group achieved sales of approximately RMB20.64 billion, firmly ranking first in provincial welfare lottery markets. Meanwhile, the Chongqing Welfare Lottery service provided by the Group achieved sales of RMB 4.97 billion, a year-on-year increase of 35%. In the sports lottery sector, the Group has won bids for sports lottery sales terminal projects and terminal maintenance and procurement projects in Guizhou, Inner Mongolia, Shaanxi, Heilongjiang, Sichuan, Guangxi, Guangdong, Zhejiang, Hunan, Henan and other provinces. In terms of system software services, the Group won the sixth consecutive bid for the maintenance and development project of the Guangdong Welfare Lottery Computer-Generated Ticket Game sales management system in May 2024, providing Guangdong Welfare Lottery with a new site management, training and assessment system to achieve site information real-time electronically, and it also supports real-time information tracking and management on the mobile client, moving Guangdong Welfare Lottery continues to improve information management and enhance the level of refined management.

Overseas Business

In the context of global economic uncertainty, the Group seeks certain and feasible overseas markets and product business models, and actively explores and cultivates intensively in two emerging economic markets, namely the Philippines and Ghana.

In a report released by the World Bank in June 2024, the Philippines and Cambodia were listed as economic leaders in Southeast Asia. The Group leverages the local resource advantages of its partners in the Philippines, takes advantage of the Philippines' demographic benefits, and launches a local products with low betting amounts and high rewards. At the same time, the Group continues to integrate the entertainment and fun with more casual games into lottery products, and continues to explore market potential.

As one of the countries with the fastest economic growth in Africa, Ghana is also an important base for the Group's overseas business. Recently, the IMF raised Ghana's economic growth forecast for 2024 to 3.1% from the previous 2.8%. The IMF representative in Ghana said that the Ghanaian government's economic stability and development policies are achieving results. The Group's deployment of lottery POS equipment in Ghana has exceeded 12,000 units, and it has added quick-open and instant-opening gameplay methods based on Ghana's local 5/90 games; at the same time, the product sales model has been extended from POS equipment to mobile clients. The Group's lottery business sales in Ghana achieved an average monthly growth rate of 27.4% during the fiscal year.

Smart Retail

In recent years, there has been an increasingly strong demand for the digitalisation and intelligensation 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.

Video Lottery

Dongguan Tianyi Electronics Company Limited ("DGTY"), a subsidiary of the Group, was the exclusive equipment provider for the China Welfare Lottery Video Lottery – Welfare VLT, is 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

Project of Jiyuan Wangwu Shan Scenic Area and Wulongkou Scenic Area Project

In 2023, the number of tourists and tourism revenue in Wangwu Shan Scenic Area increased by 13.2% and 34.6% respectively compared with the same period in 2019; while in Wulongkou Scenic Area, affected by the implementation of the local government’s policy of benefiting people from exemptions and reductions, has basically remained the same as the same period in 2019; the brand influence of the scenic area has been further enhanced; the tourism market has been further consolidated and expanded, and markets such as the three eastern provinces, Inner Mongolia, Gansu, and Ningxia have launched and gained strong momentum. Wangwu Shan Scenic Area and Wulongkou Scenic Area were selected as provincial civilized tourism demonstration units and for Safe Consumption Creation Demonstration Scenic Spots in Henan Province; Wangwu Old Street has won the national-level night cultural tourism consumption cluster and multiple provincial honors; as such, the creation of Wangwu Shan National 5A Tourist Attraction has been fully launched.

In the first half of 2024, the project site will implement the development theme of “use culture to shape tourism, use tourism to highlight culture, and promote the integrated development of culture and tourism” and focus on the management philosophy of “strengthening operations, strengthening management, reducing costs, and seeking benefits”. The number of tourists received and tourism revenue in Wangwu Shan Scenic Area and Wulongkou Scenic Area increased by 5.5% and 6.8% respectively compared with the same period last year. The creation of 5A Scenic Spot in for Wangwu Shan Scenic Area was fully launched and steadily advanced; the “Golden Summit” project of the Temple of Heaven was completed and put into operation; the special activity of “climbing to the top at night to watch the sunrise” was launched; the third Wangwushan International Tourism Festival was successfully held. Our brand influence and market visibility have been further enhanced.

Natural and Health Food Business

During the Reporting Period, the Company's subsidiary Natural Forestfood Farm Company Limited. (“NFFL”) made major adjustments to its products and operations based on market demand and development trends.

In terms of products, based on the original product structure, a new production line for bar-packed wheat protein powder was officially put into operation. During the new product launch period, more than 500 boxes were sold. Currently, a single production line has a stable daily production capacity of more than 500 boxes and can be expanded at any time. Bar-packed protein powder products exceeds 3,000 boxes in stock. In addition, more flavors are also being developed.

Yongzhentang Honey had launched two new products in gift boxes, which was completed and launched to the market before the Mid-Autumn Festival. As soon as the new honey gift box was launched, it was well received by customers for its excellent quality and exquisite packaging. During the Mid-Autumn Festival new product launch period, more than 900 boxes were sold.

In terms of operations, the traffic growth of traditional e-commerce platforms is currently slowing down and competition is fierce. The e-commerce sales scene is shifting from the platform to the community, from the public domain to the private domain, and the sales model is changing from the operation orientation of the traditional platform to the resources orientation of the community and private domain. The platform prefers to cooperate directly with brands and manufacturers. NFFL keeps up with market changes, focuses on developing distribution group leaders and developing private communities. And a grading system for group leaders has been formulated, with different levels corresponding to different agent prices and reward policies, to encourage group leaders to expand sales and achieve distribution fission. At the same time, NFFL opened a WeChat video account forest food flagship store, it has settled in the “Aikucun” platform mainly distributed by group leaders, and the “Taobao Factory” store officially opened by Taobao.

Futhermore, NFFL will develop more private community, distribution group leaders and platform self-operated cooperation models. It will leverage the advantages of its own factories to deepen cooperation with the platform which is expected to increase sales, and bring higher performance and profit growth to the Group.

FUTURE OUTLOOK

In the past year, as the external environment became more complex, severe and uncertain, and the country faced various cyclical and structural challenges internally, China's economy is generally operating stably, making progress while maintaining stability. New impetus of growth are accelerating, new progress has been made in high-quality development, and the 5% growth target has been exceeded, which fully demonstrates that China's economy has a huge resilience and potential development.

The January 2024 edition of the World Bank's “Global Economic Prospects” report predicts that global economic growth will slow down for the third consecutive year, from 2.6% in 2023 to 2.4% in 2024; the World Bank predicts that China's economy will shift from high-speed growth in previous years to medium-low growth, and its contribution to global economic development will decline; China faces multiple challenges such as the decline in foreign trade and foreign investment, continued weakness in the real estate industry, local government debt risks, an aging population, and slower productivity growth than in the past.

The Group believes that the long-term positive trend of China's economy has not changed, and we are confident that China's economy will overcome the current difficulties. At the same time, we remain cautiously optimistic about the future business development of the Group.

In recent years, China's lottery industry has been transforming and upgrading from high-speed to high-quality development, which has brought new impetus to the development of the industry, and so lottery sales have continued to grow. Thanks to the healthy development of China's lottery industry and the technical advantages and service experience accumulated in the lottery industry, the Group's lottery business has developed steadily and continues to maintain its leading position in the industry. Meanwhile, the Group will further expand its overseas lottery business and provide new lottery products and services to overseas emerging economic markets.

The Group will also continue to integrate resources to promote the continuous innovative development of China's ecotourism and natural health food businesses, cultivate new business growth points, and bring greater investment returns to shareholders.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$67.3 million (for the 18 months ended 30 June 2023: HK\$207.8 million) for the year ended 30 June 2024, representing a decrease of approximately 67.6% over last period. Loss attributable to owners of the Company for the year ended 30 June 2024 amounted to approximately HK\$272 million (for the 18 months ended 30 June 2023: HK\$219 million).

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group had outstanding bank and other borrowings as at 30 June 2024 of approximately HK\$7.7 million (at 30 June 2023: HK\$241.9 million). As at 30 June 2024, the bank borrowings and banking facilities of the Group were secured by (i) owned properties and leasehold land of the Group with a carrying amount of approximately HK2.2 million (at 30 June 2023: approximately HK\$322.4 million); and (ii) a personal guarantee executed by a director of the Company (at 30 June 2023: a personal guarantee executed by a director of the Company). At 30 June 2024, the carrying amount of bank loans that are repayable on demand due to breach of loan covenants has been adjusted due to deconsolidation of a subsidiary and loss on control of the pledged property. At 30 June 2024, the carrying amount of a secured loan from a finance company has been reclassified as derivative financial liabilities at FVTPL.

On 7 April 2017, the Company had 7.5% convertible bonds due 2019 in the aggregate outstanding principal amount of HK\$175,950,000 (the “New Option 1 Bonds”) constituted by a trust deed. The trust deed was later as supplemented and amended by a supplemental trust deed dated 28 March 2019, a second supplemental trust deed dated 4 November 2019, a third supplemental trust deed dated 28 April 2020, a fourth supplemental trust deed dated 3 May 2021, a fifth supplemental trust deed dated 3 November 2021 and a sixth supplemental trust deed dated 5 May 2022 (the “6th Supplemental Trust Deed”). On 5 May 2022, the Company and the holders of New Option 1 Bonds entered into the 6th 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 was repayable in one lump sum on 7 November 2023 and bore interest at 7.0% per annum with effective from 5 May 2022.

The outstanding principal and accrued interest due and payable of New Option 1 Bonds on 7 November 2023 (the “Maturity Date”) was HK\$154,162,000 and HK\$5,440,376.98 respectively. The Company has not made any payment of the principal and interest on the New Option 1 Bonds within three business days after the Maturity Date, therefore on 10 November 2023 an event of default occurred. On 8 December 2023, the Company received statutory demand from the trustee of New Option 1 Bonds demanding payment amount of HK\$160,780,174.66. On 8 July 2024, the Company received a winding-up petition in relating to the outstanding principal of the New Option 1 Bonds in an aggregate amount of HK\$154,162,000 and the accrued interest of HK\$14,562,142.52. The winding up petition has been adjourned. At 30 June 2024, the carrying amount of convertible bonds has been reclassified as derivative financial liabilities at FVTPL.

The Group’s total deficit amounted to approximately HK\$420.3 million at 30 June 2024 (at 30 June 2023: HK\$137.6 million). At 30 June 2024, net current liabilities of the Group amounted to approximately HK\$408.0 million (at 30 June 2023: HK\$445.8 million), including approximately HK\$48.10 million in cash and deposits with banks and financial institution (at 30 June 2023: HK\$103.7 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2024 was approximately 466.8% (at 30 June 2023: 127.3%).

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

At 30 June 2023, the Group's owned property and related leasehold land classified as right-of-use assets ("Property") with an aggregate carrying amount of approximately HK\$318,376,000 was pledged to secure bank and other borrowings granted to the Group (30 June 2024: nil).

The own property located in the PRC with an aggregate carrying value of approximately HK\$2,165,000 (30 June 2023: HK\$4,042,000) have been pledged to secure the bank borrowing granted to the Group for the years ended 30 June 2024 and 18 months ended 30 June 2023 respectively.

Contingent Liabilities

As at 30 June 2024, the Group did not have any material contingent liabilities (at 30 June 2023: Nil).

Staff

As at 30 June 2024, the Group employed 196 full time employees (at 30 June 2023: 209). 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 30 June 2024.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by McMillan Wood (Hong Kong) CPA Limited, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 30 June 2024:

Disclaimer of Opinion

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

Basis for Disclaimer of Opinion

We draw attention to Note 2.2 in the consolidated financial statements, which describes that the Group incurred a net loss of approximately HK\$274,610,000 for the year ended 30 June 2024 and, as of that date, the Group's current liabilities exceeded its current assets and total liabilities exceeded its total assets by approximately HK\$407,963,000 and HK\$420,308,000 respectively. As at that date, the Group's total liabilities amounted to HK\$534,908,000. During the year, the group defaulted in repayment of mortgage loans and convertible bonds ("CB"), resulting in appointments of receivers (the "Receivers") by the bank in respect of the mortgaged property and a trustee of CB in respect of the charged shares for possession. In addition, a trustee of CB filed winding up petition against the Company on 5 July 2024. These events and conditions, along with other matters as set forth in note 2.2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors have certain plans and measures to improve the Group's liquidity and financial position, which are set out in Note 2.2 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the outcomes of these plans and measures, which are subject to multiple uncertainties, including (i) whether the Receivers could sell the pledged properties and the amount of the respective consideration; (ii) whether the Group can further negotiate debt restructuring plan with CB holders; (iii) whether the Company is successful in implementing alternative capital raising initiatives to provide additional funds for the Group; and (iv) whether the Group is able to implement its cost control measures to attain positive cash flows from operations of the Group.

As a result of above multiple uncertainties, the potential interactions of these uncertainties, and the possible cumulative effect thereof, we were unable to assess the appropriateness or reasonableness of assumptions adopted in the Group's cash flow forecast in supporting the use of the going concern basis in the preparation of these consolidated financial statements. As a result of these limitations and uncertainties, we were unable to form an opinion as to whether the going concern basis of preparation is appropriate. Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue as a going concern and to settle its obligations and commitments, and adjustments may have to be made to write down the Group's assets to amounts that can be realised, to provide for any further liabilities which might arise and to reclassify noncurrent assets and noncurrent liabilities as current assets and current liabilities. The effects of these adjustments, which could be both material and pervasive, have not been reflected in these consolidated financial statements.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code (the "Code") under Appendix C1 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 30 June 2024, 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 chairman of the Board (the "Chairman") 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 former chief executive officer on 14 January 2022 and up to date of this announcement, 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 Chairman 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 DEALING 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 current Directors, the Directors confirmed that they have complied with the Code of Conduct throughout the year ended 30 June 2024.

AUDIT COMMITTEE

Since the resignation of Mr. CHAN Ming Fai as Independent Non-executive Director on 19 July 2024, the Audit Committee of the Company currently comprises two Independent Non-executive Directors of the Company, Dr. MENG Zhijun and Mr. DUAN Xinxiao.

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 consolidated results contained herein have been reviewed by the Audit Committee and approved by the Board.

REVIEW OF ANNUAL RESULTS

The figures in respect of the Company’s consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 30 June 2024 as set out in this announcement have been agreed by the Group’s auditor, McMillan Woods (Hong Kong) CPA Limited (“McMillan”), to the amounts set out in the Company’s audited consolidated financial statements for the year ended 30 June 2024.

The work performed by McMillan in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no opinion or no assurance has been expressed by McMillan on this announcement.

By order of the Board
China Ecotourism Group Limited
JIA Muyun
Chairman

Hong Kong, 30 September 2024

As at the date of this announcement, the Board comprises Mr. JIA Muyun, Mr. DI Ling and Ms. ZHU Xinxin as Executive Directors; and Dr. MENG Zhijun and Mr. DUAN Xinxiao as Independent Non-executive Directors.