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## **Mobile Internet (China) Holdings Limited**

**移動互聯(中國)控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1439)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

Reference is made to the announcement of Mobile Internet (China) Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 15 June 2020, in relation to the audited annual results of the Group for the year ended 31 December 2019 (the “**2019 Annual Results Announcement**”); the supplemental announcement dated 15 June 2020 (the “**Supplemental Announcement**”); and the annual report of the Group for the year ended 31 December 2019 (the “**2019 Annual Report**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2019 Annual Results Announcement, the Supplemental Announcement and 2019 Annual Report.

In addition to the information provided in the 2019 Annual Results Announcement; the Supplemental Announcement and 2019 Annual Report, the Board would like to provide further information in relation to the disclaimer of opinion (the “**Disclaimer of Opinion**”) issued by the auditor of the Company (the “**Auditor**”) in relation to the consolidated financial statements of the Group for the year ended 31 December 2019.

#### **DETAILS OF THE DISCLAIMER OF OPINION**

As detailed in Note 3 to the consolidated financial statements for the year ended 31 December 2019 (“**Note 3**”) (as set out in the 2019 Annual Report), conditions existed such as to indicate the existence of material uncertainties which may have cast significant doubt regarding the Group’s ability to continue as a going concern.

The management of the Group (the “**Management**”) understood that one of the Auditor’s principal concerns was whether or not the Group would be able successfully to negotiate a restructuring of its debts to Chance Talent Management Limited (“**Chance Talent**”), resulting in material uncertainty over the Company’s status as a going concern.

As at the date of the 2019 Annual Report, the Company was still in negotiations with Chance Talent in regard to the status of the debt owed to Chance Talent. The Auditor also considered the Group's liquidity and financial position as well as the fact that it recorded significant losses for the year. These factors contributed in the view of the Auditor to uncertainty over the Company's status as a going concern, in consequence of which the Auditor issued the Disclaimer of Opinion.

#### **AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION**

In its discussions with the Auditor, the audit committee of the Company (the "**Audit Committee**") generally understood the concerns of the Auditor and appreciated the reasons for the Disclaimer of Opinion.

Nonetheless, the members of the Audit Committee agreed with the Management's position that the Company remains a going concern, on the basis that (i) the Management has been actively negotiating a restructuring of the debt with Chance Talent; (ii) the Company has not been the subject of any winding-up proceedings, which one would normally expect to have commenced if the creditors were intent on obtaining immediate repayment; and (iii) the Company had positive operating cash flows for the year ended 31 December 2019 and hence is operationally solvent. The Audit Committee also recognized the Management's belief that the Group would continue to have positive operating cash flows from its normal business operations, and the Management's view that it was appropriate to use a going concern assumption to prepare the consolidated financial statements.

#### **ACTION PLAN TO ADDRESS THE DISCLAIMER OF OPINION**

The Company sets out below the actions and/or measures that have been or will be taken to mitigate its liquidity position and improve its working capital:

##### **(i) Cost control**

The Company intends to:

###### *Mobile Game Segment*

- Optimize game development costs with a view to achieving better operational results;
- Take stringent expense control in particular with respect to selling and marketing expenses; and
- Cross-train employees in an effort to reduce labour costs and boost profitability.

### *Packaging Segment*

- Optimize product mix by shifting out of lower-margin products (for example flexo-printed products) to focus on higher value-added products (for example stone paper based products);
- Carry out cost-benefit analysis for each client with a view to cultivating key accounts with good credit and order track record;
- Cross-train employees in an effort to reduce labour costs and boost profitability;
- Take prudent cost and inventory management measures;
- Impose stringent selling and administration expenses control;
- Centralize procurement for negotiation of better prices and longer credit periods;
- Optimize production schedules to improve utilization rate; and
- Improve general productivity by seeking constant enhancements in every aspect of production including raw materials, process management, etc.

### **(ii) Negotiations with various creditors and debtors**

*Promissory notes and convertible bond with an aggregate outstanding principal amount of approximately RMB143.1 million (equivalent to HK\$160.0 million) and approximately RMB6.0 million (equivalent to HK\$6.7 million), respectively, issued by the Company to Chance Talent (collectively “**Chance Talent Promissory Notes and Convertible Bond**”).*

The Company has been in discussion with Chance Talent with a view to reaching a settlement with it as soon as practicable. As of the date of this announcement, no agreement has been reached. The Company will make a further announcement on the terms and conditions of the settlement as and when appropriate.

*Promissory note with an outstanding principal amount of approximately RMB80.5 million (equivalent to HK\$90.0 million) issued by the Company to Peng Dongmiao (“**Mr. Peng**” and “**Peng Promissory Note**”, respectively).*

On 8 June 2020, the Company and Mr. Peng agreed to extend the maturity date of the Peng Promissory Note to 7 June 2021 and to amend the interest rate thereunder from the original 4% p.a. to 7% p.a. from 1 January 2020. The Directors consider that the increase in the interest rate is fair and reasonable and in the interests of the Shareholders as a whole. It was determined after arm’s length negotiation with Mr.

Peng with reference to the lending rate of 7.5% p.a. to 8.5% p.a. charged by Chance Talent under the Chance Talent Promissory Notes and Convertible Bond before they became default.

**(iii) Plan for strengthening balance sheet**

The Company has been actively exploring different ways to strengthen its balance sheet, including but not limited to the following:

- The Company is actively seeking to strengthen its capital base through, share placements and other capital-raising exercises, among other things; and
- The Company is making continuous efforts to seek potential new investors who may be interested in either debt financing or equity financing of the Company or a combination of both.

**(iv) Financial support provided by major shareholders**

The Company maintains close communication with its controlling shareholder, Novel Blaze Limited, as well as the Company's second largest shareholder, Wealthy Achievers Limited. Although no definitive agreement has been entered into, the Company considers that both major shareholders would be willing to offer financial support on a best efforts basis to enable the Group to continue as a going concern, based on the communication with and the previous support received from both major shareholders.

**REMOVAL OF THE DISCLAIMER OF OPINION**

The Disclaimer of Opinion was mainly due to the Auditor's concern as to whether or not the Group will be able to negotiate a restructuring of its debts with Chance Talent successfully. The Group has discussed with the Auditor, and has agreed with the Auditor that if the Company would be able to restructure and/or refinance its borrowings and without other material threat to going concern, the modification opinion in relation to the current year may be removed for the year ending 31 December 2020.

**MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED RESULTS**

The Board would like to provide a summary of the material differences between its unaudited and audited results.

As disclosed in the Supplemental Announcement, an additional impairment loss of RMB112 million ("**Upward Adjustment**") was recognised on goodwill because of impairment reassessment. The impairment of goodwill of RMB105.2 million stated in the Unaudited Results Announcement was based on the business valuation carried out then which was not reviewed by the Auditor. The Auditor subsequently reviewed and performed audit adjustments as part of their audit works leading to the Upward Adjustment. Further details are set out below.

**(i) Details of the audit works performed by Auditor resulting in the Upward Adjustments:**

The Group's mobile game business is carried out through Cable King Limited and its subsidiaries (together "**Cable King**"). The Company provided Cable King's preliminary profit forecast covering a five-year period from 1 January 2020 to 31 December 2024 (the "**Forecast**") to the independent professional valuer (the "**Valuer**") in March 2020.

The Auditor has performed the following audit works:

- (a) evaluating the Valuer's competence, capabilities and objectivity;
- (b) assessing the methodologies used and the appropriateness of the key assumptions, including:
  - (i) reviewing the revenue growth rate;
  - (ii) reviewing the game launch schedule;
  - (iii) reviewing the operating profit margin; and
  - (iv) reviewing the discount rate used to assess net present value, etc.

The Auditor raised their concerns about the going concern status of the Group and the ability of the Group to provide sufficient working capital to Cable King to develop its business and meet its operational needs.

Following queries raised by the auditors, the management of Cable King adopted a more prudent approach in preparing the Forecast, ultimately resulting in the Upward Adjustments which are calculated with the Forecast as a key input.

The COVID-19 outbreak started at the end of 2019 and subsequently spread globally. Although it was expected that the economy would become worse before it becomes better, it was generally believed that the economy would nevertheless recover soon when the valuation work was carried out in March 2020 for the purposes of the Unaudited Results Announcement.

After the Auditor reviewed the Forecast and assumption, they consider the Forecast and assumption were too optimistic. Therefore, the Company reassessed and prepared an updated Forecast with the work with valuers. As a result, the Forecast prepared earlier needs to be adjusted downward to reflect the increasing uncertainties in business environment.

In tandem with the above, the valuation was adjusted based on the adjusted forecast model, resulting in the Upward Adjustments in the impairment.

**(ii) Derivation of the Original Impairment of goodwill of RMB105.2 million based on the business valuation**

The Forecast was prepared based on Cable King's then estimated cash flows and assuming that there is sufficient working capital for the operation and development of Cable King.

The Valuer calculated the value in use based on the preliminary Forecast with certain key assumptions, including the assumption of sufficient working capital as abovementioned, as well as the data input as envisaged in March 2020. According to the valuation results which were finalized on 31 March 2020, approximately RMB105.2 million of goodwill was proposed to be impaired.

**(iii) Reasons for the Upward Adjustment not having been anticipated at the time of the publication of the Unaudited Results Announcement**

As mentioned above, as the COVID-19 outbreak started at the end of 2019 and subsequently spread globally. Although it was expected that the economy would become worse before it becomes better, it was generally believed that the economy would nevertheless recover soon when the March valuation work was carried out for the purposes of the Unaudited Results Announcement. However, after the Auditor reviewed the Forecast and its assumptions, they felt that the Forecast and its assumptions were too optimistic. The Company reassessed and prepared an updated forecast with the Valuer. As a result, the Forecast prepared earlier was adjusted downward to reflect the increased uncertainty in the business environment.

The audit works were still in the process at that time. Therefore, the valuation and the impairment amount as stated in the Unaudited Results Announcement did not factor in certain considerations which were only confirmed later with the progress of the audit works, including the working capital consideration as mentioned above.

The Auditor started their audit work in the mainland after the Unaudited Results Announcement was made, and reviewed the valuation throughout the audit process. As announced on 6 May 2020, the Company was scheduled to publish the 2019 Annual Results Announcement and the 2019 Annual Report on 29 May 2020.

On 27 May 2020, the Company was informed by the Auditor that it has further comments on the valuation which might lead to the possible Upward Adjustment. The Company immediately sought an extension of the deadline to 15 June 2020 for the publication of 2019 Annual Results Announcement and the 2019 Annual Report, allowing it to have more time to discuss the issue, among others, with the Auditor and the Valuer. On 28 May 2020, the Company published an announcement to the same effect.

Subsequently, the Auditor and the Valuer agreed that the working capital consideration should be factored into account for a potentially lower level of investment and capital expenditure for Cable King.

In the subsequent two weeks, the Company discussed with the Auditor and the Valuer to reassess the forecast. Given the fierce competition and games' shortened life span, the ability to upgrade existing games and/or to develop and release new games will be crucial to the business performance, hence the value of the segment. Possible delay and rolling out of new games and/or upgrading of the existing games due to constraints in investment and/or working capital would adversely affect the value in use and the recoverable amount of the segment.

Therefore, the Auditor and the Valuer agreed that a more conservative model should be adopted in calculating the recoverable amount of the segment. As a result, the valuation model was updated, resulting in the Upward Adjustments being finalized on 11 June 2020. The 2019 Annual Results Announcement, the 2019 Annual Report and the Supplemental Announcement were published on time on 15 June 2020.

**(iv) The Board's view on the timing of announcement regarding the possible downward adjustment of valuation and the possible increase in impairment provision**

The Company considers that it has announced the downward adjustment of valuation and the possible increase in impairment provision in the most timely manner possible.

The Company had scheduled a board meeting on 29 May 2020 to approve its annual results. On 27 May 2020, the Company was informed by the Auditor that the reassessment of the Forecast may lead to a much larger provision for impairment than originally contemplated.

The Company announced on 28 May 2020 the postponement of the board meeting and a delay in the release of its results. The Company also sought and obtained a waiver from the Stock Exchange on 2 June 2020 for a delay in the publication of the 2019 Annual Results Announcement and the 2019 Annual Report to 15 June 2020.

Given that in acting prudently and responsibly the Company's board of directors needed time to consider the revised and increased impairment, to consider their impact on the Company and its results, and to approve the results following the revised impairment, the Company considers that 15 June 2020 (when the annual results incorporating the revised impairment provision were released) was the earliest possible date that fair and complete information regarding the revised impairment could be published.

The Company believes that, in the circumstances described above, it announced the increased goodwill impairment in a timely manner.

By order of the Board  
**Mobile Internet (China) Holdings Limited**  
**Chen Hong Cai**  
*Chairman*

Jiangxi Province, the PRC, 8 September 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Hong Cai (Chairman), Mr. Sun Shao Hua and Ms. Zheng Li Fang; and the independent non-executive directors of the Company are Mr. Liu Da Jin and Mr. Wu Ping.*