古兜控股有限公司
Gudou Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8308

2018 Annual Report

CHARACTERISTICS OF GEM OF THE HONG KONG STOCK EXCHANGE

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This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this report misleading.

CONTENTS

DEFINITIONS

In this report, unless the context otherwise requires, the following expressions have the following meanings:

"Articles"	the articles of association of the Company
"Baden Town Villas"	Baden Town Villas（巴登小鎮別墅）, a completed tourism property project in the Gudou Hot Spring Resort
"Board"	the board of Directors
"CG Code"	Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules
"Company"	Gudou Holdings Limited（古兜控股有限公司）, a company incorporated as an exempted company with limited liability in the Cayman Islands
"DF Tourism"	Dynasty Fortune Tourism Property Investments Limited（朝富旅遊產業投資有限公司）, a company incorporated in the British Virgin Islands and is wholly-owned by Dynasty Fortune
"Director(s)"	the director(s) of the Company
"Dynasty Fortune"	Dynasty Fortune Capital Limited（朝富資本有限公司）, a company incorporated in Hong Kong with limited liability, which is beneficially and wholly-owned by Mr. Hui Chin Tong Godfrey, a non-executive Director
"F&B"	food and beverages
"Fu An"	Fu An International Investments Limited（富安國際投資有限公司）, a company incorporated in Hong Kong, which is beneficially owned as to 74.21% by Mr. Li Chao Wang, 15.79% by Ms. Yu Yi Fang and 10.00% by Mr. Dong Yi Ping, all of whom are independent third parties
"GEM"	the GEM of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM, as amended, supplemented and/or otherwise modified from time to time as the context may require
"GFA"	gross floor area
"Grand Luck"	Grand Luck Ventures Limited（泰瑞創投有限公司）, a company incorporated in the British Virgin Islands, which is beneficially and wholly-owned by Mr. Li Chao Wang, an independent third party

Definitions

"Group", "our Group", "the Group", "us" or "our"	the Company and its subsidiaries
"Guangdong Gudou"	Guangdong Gudou Travel Group Company Limited*（廣東古兜旅遊集團有限公司）, a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of View Top
"Guangdong Gudou Hotel Management"	Guangdong Gudou Hotel Management Company Limited*（廣東古兜酒店管理有限公司）, formerly known as "Jiangmen City Gudou Travel and Hotel Management Company Limited*（江門市古兜旅遊酒店管理有限公司）", a limited liability company established in the PRC and a wholly-owned subsidiary of Guangdong Gudou
"Gudou Hot Spring Resort"	Gudou Hot Spring Resort（古兜溫泉綜合度假村）, the hot spring resort located at Jiangmen City, Guangdong Province, the PRC and operated by the Group
"Gudou Hot Spring Valley"	Gudou Hot Spring Valley（古兜溫泉谷）, being the hot spring facilities comprising 62 public hot spring pools located at Gudou Hot Spring Resort
"Gudou Lakeview Tulip Inn Hotel"	Gudou Lakeview Tulip Inn Hotel*（古兜湖景金熙酒店）, one of the themed hotel complexes in the Gudou Hot Spring Resort
"Harvest Talent"	Harvest Talent Investments Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Hon and is one of the controlling shareholders of the Company
"Heart of Spring Apartments"	Heart of Spring Apartments（泉心養生公寓）, a completed tourism property project in the Gudou Hot Spring Resort
"HK$" or "HK dollar(s)"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hot Spring Villa Hotel"	Hot Spring Villa Hotel（溫泉別墅酒店）, one of the themed hotel complexes in the Gudou Hot Spring Resort

Definitions

"Joyful Hotel"	Joyful Hotel（樂活城酒店）, one of the themed hotel complexes in the Gudou Hot Spring Resort
"Joyful Apartments"	Joyful Apartments（樂活城公寓）, a completed tourism property project in the Gudou Hot Spring Resort
"LAT"	Land Appreciation Tax
"Listing"	the listing of the Shares on GEM on 9 December 2016
"Model Code"	a code of conduct adopted by the Company regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules
"Mountain Seaview Hotel"	Mountain Seaview Hotel（山海酒店）, one of the themed hotel complexes in the Gudou Hot Spring Resort
"Mountain Seaview Vacation Apartments"	Mountain Seaview Vacation Apartments（山海度假公寓）, a completed tourism property project in the Gudou Hot Spring Resort
"Mountain Seaview Vacation Residence"	Mountain Seaview Vacation Residence（山海度假公館）, a completed tourism property project in the Gudou Hot Spring Resort
"Mr. Hon"	Mr. Hon Chi Ming, founder of the Group, chairman of the Board, chief executive officer, an executive Director and a controlling shareholder of the Company
"Mrs. Hon"	Ms. Li Wai Ling, the spouse of Mr. Hon and the mother of Mr. Hon Ka Fung, an executive Director
"Occupancy Rate"	Total Occupied Room Nights of a hotel during a period divided by the Total Available Room Nights
"Occupied Room Night(s)"	rooms nights sold and including nights provided to guests and property owners on a complimentary basis
"Period"	the year ended 31 December 2018
"Placing"	the placing of the Shares by the Company in connection with the Listing, particulars of which are set out in the Prospectus

DEFINITIONS

"PRC" or "China" or "Mainland China"	the People's Republic of China, save that, for the purpose of this report and unless the context otherwise requires, references in this report do not include Hong Kong, Macau Special Administrative Region and Taiwan
"Prospectus"	the Company's prospectus dated 30 November 2016 issued in connection with the Listing
"RMB"	Renminbi, the lawful currency of the PRC
"Room Revenue"	revenue generated from room rates (including related service charges) of the themed hotel complexes in the Gudou Hot Spring Resort
"Royal Spa Hotel"	Royal Spa Hotel（皇家 Spa 酒店）, one of the themed hotel complexes in the Gudou Hot Spring Resort
"Scheme"	the share option scheme of the Company adopted by the Shareholders on 18 November 2016
"sq. m"	square meters
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"South Asian Villas"	South Asian Villas（南亞風情別墅）, a completed tourism property project in the Gudou Hot Spring Resort
"Total Available Room Nights"	all rooms nights available for sale excluding those under renovation or repair and those not for letting
"Total Occupied Room Nights"	all rooms nights sold and including nights provided to guests and property owners on a complimentary basis
"View Top"	View Top Holding Limited（景騰集團有限公司）, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
"Wealth Promise"	Wealth Promise Holdings Limited（富諾控股有限公司）, a company incorporated in the British Virgin Islands and is wholly-owned by Fu An

Definitions

"Weisheng Business Service"	Jiangmen City Weisheng Business Service Company Limited*（江門市偉盛商務服務有限公司）, which is a limited liability company established in the PRC and a wholly-owned subsidiary of Guangdong Gudou
"Yueguangqu Cultural Tourism Development"	Jiangmen City Yueguangqu Cultural Tourism Development Company Limited*（江門市月光曲文化旅遊發展有限公司）, which is a limited liability company established in the PRC and a wholly-owned subsidiary of Guangdong Gudou
"%"	per cent

In this report, the terms "associate(s)", "close associate(s)", "connected", "connected person(s)", "core connected person(s)", "controlling shareholder", "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings ascribed thereto under the GEM Listing Rules, unless the context otherwise requires.

The English translation of names or any descriptions in Chinese are marked with "*" and is for identification purpose only.

Corporate Profile

The Group is a hot spring resort and hotel operator and a tourism property developer in Guangdong Province, the PRC with a renowned brand "Gudou". The Group operates and manages the hot spring resort and hotel facilities of Gudou Hot Spring Resort and develop and sell tourism properties located at our Gudou Hot Spring Resort. The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 January 2014 and its Shares were listed on GEM on 9 December 2016.

The Gudou Hot Spring Resort is located at Xinhui District, Jiangmen City, Guangdong Province, the PRC. It is an integrated resort complex featuring a mixture of hot spring facilities, hotels, F&B outlets, recreational waterpark and ancillary leisure and recreational attractions. Stretching across a total site area of approximately 650,000 sq.m., Gudou Hot Spring Resort offers 62 public hot spring pools with five themed hotel complexes, namely Royal Spa Hotel, Hot Spring Villa Hotel, Mountain Seaview Hotel, Joyful Hotel and Gudou Lakeview Tulip Inn Hotel as at 31 December 2018.

Along with hot spring resort and hotel operations, the Group also develops and sells tourism properties including villas, apartments, studio flats and commercial units within Gudou Hot Spring Resort. As at the date of this report, the Group has completed six tourism property projects with a total saleable GFA of approximately 145,000 sq.m., namely South Asian Villas, Baden Town Villas, Mountain Seaview Vacation Apartments, Joyful Apartments, Mountain Seaview Vacation Residence and Heart of Spring Apartments.

Gudou Hot Spring Resort was awarded as a National Tourist Attraction — Grade AAAA by the National Tourist Attraction Quality Rating Committee in 2005 and a five-star hotspring by the China National Tourism Administration in 2017.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Hon Chi Ming
(Chairman and Chief Executive Officer)
Mr. Huang Zhanxiong
Ms. Zhen Yaman
Mr. Hon Ka Fung

Non-Executive Director

Mr. Hui Chin Tong Godfrey

Independent Non-Executive Directors

Mr. Wu Sai Him
Mr. Chiu Chi Wing
Prof. Wang Dawu

COMPANY SECRETARY

Ms. Chan Sin Ling

COMPLIANCE OFFICER

Ms. Zhen Yaman, qualified attorney in the PRC

AUTHORISED REPRESENTATIVES

Mr. Hon Chi Ming
Ms. Chan Sin Ling

AUDIT COMMITTEE

Mr. Chiu Chi Wing *(Chairman)*
Mr. Wu Sai Him
Prof. Wang Dawu

REMUNERATION COMMITTEE

Mr. Wu Sai Him *(Chairman)*
Mr. Chiu Chi Wing
Prof. Wang Dawu

NOMINATION COMMITTEE

Mr. Wu Sai Him *(Chairman)*
Mr. Chiu Chi Wing
Prof. Wang Dawu

COMPLIANCE COMMITTEE

Ms. Zhen Yaman *(Chairlady)*
Mr. Huang Zhanxiong
Ms. Chan Sin Ling
Mr. Li Yanan

COMPLIANCE ADVISER

Zhongtai International Capital Limited
19th Floor
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

AUDITORS

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd.
Industrial and Commercial Bank of China Limited
Xinhui Rural Commercial Bank Limited

REGISTERED OFFICE

Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Gudou Hot Spring Resort
Yamen Town
Xinhui District
Jiangmen City
Guangdong Province
The PRC

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1103A, 11th Floor
COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
33 Wing Lok Street
Hong Kong

HONG KONG LEGAL ADVISERS

Reed Smith Richards Butler
20th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

PRC LEGAL ADVISERS

GFE Law Office
Units 3409-3412, 34th Floor
Guangzhou CTF Finance Center
Zhujiang New Town
Guangzhou
The PRC

SHARE REGISTRAR AND TRANSFER OFFICES

Principal share registrar and transfer office

Estera Trust (Cayman) Limited
Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Hong Kong branch share registrar

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS

iPR Ogilvy & Mather
23rd Floor
The Center
99 Queen's Road Central
Hong Kong
Email: info.ipr@iprogilvy.com
Tel: (852) 2136 6185
Fax: (852) 3170 6606

STOCK CODE

8308

WEBSITE OF THE COMPANY

www.gudouholdings.com

Chairman's Statement

On behalf of the Board, I am pleased to present the audited consolidated financial results of the Group for the year ended 31 December 2018.

BUSINESS OVERVIEW

The Group recorded turnover of approximately RMB248.7 million for the year ended 31 December 2018, representing a decrease of approximately 21.9% when compared to the previous year. The Group's net profit for the Period was approximately RMB15.6 million as compared to approximately RMB52.4 million in the previous year. We achieved basic earnings per share of approximately RMB1.59 cents as compared to approximately RMB5.35 cents in the previous year (please refer to note 15 to the consolidated financial statements for further details).

Hot Spring Resort and Hotel Operations

The Group's hot spring resort and hotel operations business grew in 2018 compared to 2017. The Group's turnover derived from hot spring resort and hotel operations for the Period increased by approximately 13.7% to approximately RMB142.7 million when compared to previous year.

During the Period, the Group recorded an increase in revenue generated from room revenue, admission fees and catering by approximately 7.3%, 33.3% and 6.1% respectively when compared to 2017. During the Period, the Group entered into various consultancy service agreements with third parties regarding provision of consultancy services in relation to strategic planning in the early stage of project development to leisure hotels and resorts in Guangdong Province and Sichuan Province. Revenue from consultancy services contributed revenue of approximately RMB17.2 million to the Group in the Period, representing an increase of approximately 26.6% when compared to 2017.

Tourism Property Development

During the Period, the Group recorded a decrease of approximately 45.1% in revenue generated from the tourism property development business amounting to approximately RMB106.0 million in 2018 as compared to approximately RMB193.0 million in 2017. Such decrease was mainly attributable to the decrease in GFA sold and delivered as most units of Mountain Seaview Vacation Residence were delivered in 2017 while only around 62.8% of the total saleable GFA of Heart of Spring Apartments were sold and delivered in 2018.

The Group completed the construction, sold/pre-sold and commenced delivery of its sixth tourism property development project, Heart of Spring Apartments, in 2018. During the Period, the Group sold and delivered 62.8% of the total saleable GFA of Heart of Spring Apartments. The Company expects to sell and deliver further units of Heart of Spring Apartments in 2019.

Further discussions of the Group's business performance during the Period are set out in the section headed "Management Discussion and Analysis" in this report.

Chairman's Statement

PROSPECTS

Upholding its core values and belief in health regimen, the Group will continue to operate and grow its business and enhance its "Gudou" brand in 2019. The Group will enhance the ambiance and existing facilities of Gudou Hot Spring Resort. The Group will continue to explore new business opportunities to provide consultancy services and/or management services to leisure hotels and resorts and other hot spring resort operators, as well as to embark on new tourism property development projects.

In spite of the ongoing challenges in our business, we maintain a positive view towards the future of our Group. Management will review and strive to enhance overall operational efficiency, adjust the Group's property development portfolio and strategies to match our strengths with market demand, and capture the right growth opportunities while guarding the Group against economic headwinds.

APPRECIATION

On behalf of the Board, I would like to express sincere gratitude to the hard work of the Group's staff, and the continuous and valuable support of the Group from all the shareholders and stakeholders.

Hon Chi Ming
Chairman

Hong Kong, 26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

For the Period, the Group recorded turnover of approximately RMB248.7 million (2017: approximately RMB318.5 million), representing a decrease of approximately 21.9% when compared with the previous year. The decrease in turnover was primarily attributable to a decrease in revenue generated from the Group's tourism property development. The turnover from the Group's hot spring resort and hotel operations increased by approximately 13.7% from approximately RMB125.5 million in the previous year to approximately RMB142.7 million for the Period. Such increase was mainly driven by an increase in room revenue, admission income and catering income mainly due to an increase in admission ticket prices and less price discount offered to our hotel customers. The Group's turnover attributable to tourism property development recorded a decline of approximately 45.1% from approximately RMB193.0 million for the year ended 31 December 2017 to approximately RMB106.0 million for the Period. The decrease was primarily attributable to a decrease in GFA sold and delivered during the Period.

Cost of Sales

The Group's cost of sales for the Period was approximately RMB157.4 million, representing a decrease of approximately 20.9% from approximately RMB199.0 million in respect of the year ended 31 December 2017. Such decrease was primarily due to a decrease in cost of sales of the Group's tourism property development, which was mainly resulted from a decrease in the GFA sold and delivered during the Period. The cost of sales of the Group's hot spring resort and hotel operations increased slightly by approximately 2% for the Period along with the increase in turnover from hot spring resort and hotel operations.

Gross Profit and Gross Profit Margin

In line with the Group's decreased turnover, the Group's gross profit for the Period was approximately RMB91.3 million, representing an decrease by approximately 23.6% when compared with its gross profit of approximately RMB119.5 million for the year ended 31 December 2017. The Group's gross profit margin decreased from approximately 37.5% for the year ended 31 December 2017 to approximately 36.7% for the Period, which reflected the larger portion of revenue generated from hot spring resort and hotel operations which had a lower gross profit margin than that of tourism property development.

For the Period, the average gross profit margin for hot spring resort and hotel operations was approximately 31.6% (2017: approximately 23.7%). The increase is primarily due to an increase in revenue of our hot spring resort and hotel operations while most of the relevant costs are partially fixed in nature. The average gross profit margin for tourism property development for the Period was approximately 43.5% (2017: approximately 46.5%). Such decrease is attributable to the higher cost of sales of Heart of Spring Apartments which were sold and delivered for the Period due to a higher land cost when compared to Mountain Seaview Vacation Residence of which most were sold and delivered in 2017.

Fair Value Gains on Investment Properties

The Group's investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. The Group's investment properties were under medium-term leases in the PRC and were classified into two categories, land held for undetermined use and land held for development of investment properties. Fair value gains on investment properties of the Group at the end of 2018 was approximately RMB53.5 million in value, representing an increase of approximately 7.3% as compared to the gains of RMB49.8 million of last year.

Selling Expenses

The Group's selling expenses for the Period were approximately RMB26.8 million, representing an increase of approximately 18.4% over the selling expenses of approximately RMB22.6 million for the previous year. The increase is primarily attributable to an increase in promotional expenses incurred by the Group in connection with the sales of the Heart of Spring Apartments and the hot spring resort and hotel operations.

Administrative Expenses

The Group's administrative expenses for the Period were approximately RMB47.9 million, representing a slight increase of approximately 1.9% over the administrative expenses of approximately RMB47.1 million for the year ended 31 December 2017.

Income Tax Expenses

The Group's income tax expenses for the Period were approximately RMB39.3 million, representing a decrease by approximately 25.0% from approximately RMB52.4 million for the year ended 31 December 2017, which is mainly due to a decrease in the taxable profits for the year which was in line with the decrease in turnover.

Net Profit and Net Profit Margin

The Group's net profit for the Period was approximately RMB15.6 million, representing a decrease of 70.3% when compared to the net profit of the Group of approximately RMB52.4 million for the year ended 31 December 2017. Such decrease in net profit was primarily attributable to a decrease in revenue recognised for the Group's tourism property development business as a result of less than expected gross floor area delivered and sold in the Period and a decrease in other income in relation to a one-off gain on disposal of property, plant and equipment and prepaid land lease payments in 2017.

Along with the decrease in the Group's net profit for the Period, its net profit margin (which is calculated by dividing its net profits for the relevant period by the turnover for the same period) has also decreased from approximately 16.5% for 2017 to approximately 6.3% for the Period. Such decrease was mainly due to (i) a decrease in gross profit margin; (ii) a decrease in other income; and (iii) an increase in selling expenses, partially offset by an increase in fair value gains on investment properties.

Liquidity and Financial Resources and Capital Structure

During the Period, the operations of the Group were funded by internally generated cash flows and bank borrowings.

As at 31 December 2018, the Group had bank and cash balances of approximately RMB41.5 million which were denominated in RMB and HK dollars.

Management Discussion And Analysis

The Group's outstanding capital commitments as at 31 December 2018 amounted to approximately RMB30.0 million (2017: approximately RMB5.1 million). Such commitments primarily related to construction in progress of the Group. Such outstanding commitments are expected to be funded by internal funds and/or bank borrowings.

As at 31 December 2018, the Group had an outstanding bank loan of RMB291.5 million which were denominated in RMB and among which RMB71.0 million were fixed rate borrowings. The annual loan repayment amounted to RMB93.0 million, which is in line with the Group's repayment schedule. The proceeds from the borrowings were primarily used for capital expenditure, working capital and operating expenses of the Group. As at 31 December 2018, there were no shareholders' loans outstanding.

The Group's gearing ratio as at 31 December 2017 and 2018, which was calculated by dividing its total borrowings by its total equity as at those dates, was approximately 0.8 and 0.7 respectively. The decrease in the Group's gearing ratio as at 31 December 2018 was primarily attributable to the repayment of certain bank loans and the increase in total equity as a result of recording net profit in 2018.

The Group remains committed to a high degree of financial control, a prudent risk management and the best utilisation of financial resources. In order to achieve better cost control and minimise its costs of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated in RMB, followed by HK dollars.

Charges on Group Assets

As at 31 December 2018, an amount of approximately RMB462.5 million (2017: approximately RMB416.5 million) was pledged to certain banks to secure bank facilities granted to the Group.

Significant Investments/Material Acquisitions and Disposals

The Group had not made any significant investments or material acquisitions and disposals of subsidiaries during the Period.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

Exposure to Fluctuations in Exchange Rates

The Group's revenue and costs are primarily denominated in RMB. Some costs may be denominated in HK dollars. The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Human Resources

As at 31 December 2018, the Group had a workforce of 666 full-time employees of whom approximately 98.6% were employed in the PRC and approximately 1.4% in Hong Kong. The Group's staff costs for the years ended 31 December 2017 and 2018 amounted to approximately RMB55.8 million and RMB54.0 million, respectively. The Group hires part-time employees from time to time to cope with additional staffing requirements for our hot spring resort and hotel operations during peak seasons. The Group's employees in Hong Kong are required to participate in the Mandatory Provident Fund scheme under which the Group is required to contribute a fixed percentage of the employees' payroll costs (up to a maximum of HK$1,500 per month) to the scheme. For the employees of the Group's PRC subsidiaries, the Group makes contributions to various government sponsored employee benefit funds, including housing provident fund, basic pension insurance fund, basic medical insurance, unemployment insurance, maternity insurance and work related injury insurance funds in accordance with applicable PRC laws and regulations.

To uphold the "Gudou" brand image and to ensure the quality of our service, all our new hotel staff are required to attend a three-day hospitality pre-job training. The Group also provides hospitality training to its hotel staff on a monthly basis. The Group provides our employees with work safety training to enhance their safety awareness.

The Group generally recruits its employees from the open market. The Group formulates its recruitment policy based on market conditions, our business demands and expansion plans. The Group offers different remuneration packages to our staff based on their positions. In general, the Group pays basic salary and incentive, based on years of service, to all its employees. The Group's sales personnel and service personnel will also receive additional pay based on their individual skills and performance.

Environmental Matters

The Company is subject to environmental laws and regulations in the PRC which govern, among others, air pollution, noise pollution and water and waste discharge. As required by the applicable laws and regulations in the PRC, property development project is required to submit an environmental impact assessment report to the relevant governmental authorities for approval before the commencement of construction work. Property developers are also required to obtain various approvals and permits at various stages of their property development projects.

The Company outsources its construction work to construction contractors, who are independent third parties. Pursuant to the respective agreements entered into between the construction contractors and the Group, the construction contractors and any subcontractors, are required to comply with the environmental impact assessment requirement and the applicable environmental laws and regulations. During the Period, the Group paid approximately RMB240,000 (2017: RMB38,000) as the annual fee for compliance with the applicable environmental laws and regulations.

During the Period and to the best of the Directors' knowledge, the Group did not receive any material complaint from its customers or any other parties in respect of any environmental protection issues, and the Group has not experienced any material environmental incidents arising from its business activities. During the Period, no material administrative sanctions or penalties were imposed upon us for the violation of environmental laws or regulations which had an adverse impact on its operations.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. HON Chi Ming

Mr. HON Chi Ming（韓志明）(formerly known as 韓明 and HAN Ming), aged 57, is the founder, chairman, chief executive officer and executive Director of the Group. He is also the president of Guangdong Gudou, and the director of all of the Group's subsidiaries, except Weisheng Business Service and Yueguangqu Cultural Tourism Development. He is primarily responsible for the overall management, strategic planning and development of our Group. He founded the Group in 2000. Mr. Hon graduated from South China Normal University（華南師範大學）with a bachelor's degree in physics in July 1983.

Mr. Hon has been the executive president of Guangdong Hot Spring Association（廣東溫泉協會）since November 2014. Mr. Hon was also granted the professional qualification as an assistant economist in February 1990 by the Jiangmen City Science and Technology Committee*（江門市科學技術委員會）.

Mr. Hon is the father of Mr. Hon Ka Fung. Mr. Hon is the sole director of Harvest Talent.

Mr. HUANG Zhanxiong

Mr. HUANG Zhanxiong（黃展雄）, aged 57, is our executive Director, the vice president of Guangdong Gudou, the general manager of Guangdong Gudou Hotel Management, and also the director of Weisheng Business Service and Yueguangqu Cultural Tourism Development. Mr. Huang is primarily responsible for the overall management, strategic planning and development of our Group's hot spring resort and hotel operations. He joined our Group in April 2006. Prior to joining our Group, from 2003 to 2006, Mr. Huang was the recreation centre manager of a hotel. Mr. Huang has been the vice president of the Second Council of Jiangmen Wuyi Catering Industry Association*（江門市五邑餐飲行業協會第二屆理事會）since October 2013.

Ms. ZHEN Yaman

Ms. ZHEN Yaman（甄雅曼）, aged 39, is our executive Director. She joined our group in May 2016 and is mainly responsible for the overall management and overseeing legal, compliance and corporate governance matters of our Group. Ms. Zhen has over 10 years of experience in legal, compliance and corporate governance matters. She is also the chairlady of our compliance committee and the compliance officer of our Company. Ms. Zhen graduated from Sun Yat-sen University with a bachelor's degree in law*（法學學士學位）in June 2002. She then obtained her master's degree in commercial law from the University of Melbourne in August 2005. Ms. Zhen obtained her Legal Professional Qualification Certificate*（法律職業資格證書）in 2008 and her Lawyer's Practising Certificate*（律師執業證書）in 2009. Ms. Zhen joined GFE Law Office in December 2006 where she was involved in various legal and compliance advisory works, including advising corporate issuers on listings in overseas stock markets (including Hong Kong). From April 2014 to May 2017, Ms. Zhen acted as the legal consultant of Genius Supreme Investments Limited, a wholly-owned subsidiary of Premiere Eastern Energy Limited which is a company listed on Australian Securities Exchange (ASX ticker code: PEZ). She was involved in the listing of Premiere Eastern Energy Limited and was responsible for its on-going corporate governance matters. In May 2017, Ms. Zhen worked as a legal manager of international department of Aoyuan Group (Guangzhou) Company Limited, a subsidiary of China Aoyuan Property Group Limited ("Aoyuan") (stock code: 3883) which is a company listed on the Main Board of the Stock Exchange. Since January 2018 and February 2019, Ms. Zhen has worked as a risk control manager, and then an assistant general manager of the risk control and compliance centre, of Aoyuan Finance Holdings Company, which is also a subsidiary of Aoyuan.

Mr. HON Ka Fung

Mr. HON Ka Fung（韓家峰）, aged 29, is our executive Director. Mr. Hon Ka Fung joined our Group in July 2012 and is responsible for advising on the strategic planning of mid- to long-term developments of our Group. Mr. Hon Ka Fung graduated from the University College London with a bachelor's degree in science majoring in urban planning, design and management in August 2012.

Mr. Hon Ka Fung is the son of Mr. Hon and Mrs. Hon.

NON-EXECUTIVE DIRECTOR

Mr. HUI Chin Tong Godfrey

Mr. HUI Chin Tong Godfrey（許展堂）, aged 59, is our non-executive Director. Mr. Hui joined our Group in September 2014. He served as an independent non-executive director of Vinda International Holdings Limited ("Vinda") (stock code: 3331) (a manufacturer and seller of household paper products and personal care products in the PRC), a company listed on the Main Board of the Stock Exchange, from 2007 to October 2015 and then served as consultant to the board of directors of Vinda from October 2015 to December 2017. Mr. Hui obtained his bachelor's degree in business administration from The Chinese University of Hong Kong in December 1983 and a master's degree in business administration (investment and finance) from the University of Hull in December 1994.

Mr. Hui is a director of Dynasty Fortune and DF Tourism.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WU Sai Him

Mr. WU Sai Him（胡世謙）, aged 70, is our independent non-executive Director. Mr. Wu joined our Group on 18 November 2016.

Mr. Wu graduated from National Taiwan University with a bachelor of science in civil engineering in June 1969. He then obtained his master of science in structural engineering from University of Strathclyde in August 1974. Mr. Wu is a fellow of The Institution of Structural Engineers, The Hong Kong Institution of Engineers and The Hong Kong Institution of Highways and Transportation. From May 1994 to May 2016, Mr. Wu was the chairman of The Lighthouse Club (Hong Kong branch). Mr. Wu has been an adjunct professor at the Department of Real Estate and Construction at the University of Hong Kong since June 2014. Mr. Wu has over 38 years of experience in building construction and civil-engineering field in Hong Kong and Macau.

Mr. Wu worked at Leighton Contractors (Asia) Limited from 1981 to 1986 as the chief engineer and from 1986 to 1994 as the general manager and executive director of technical services. Mr. Wu served as the executive director at Gammon Construction Limited from 1994 to 1999, the general manager construction of East Rail Extensions Division, Kowloon-Canton Railway Corporation from 1999 to 2001, the advisor for Brandrill Limited from 2002 to 2003, and director of commercial development of COINS Asia Pacific Limited from 2003 to 2005.

Biographical Details of Directors and Senior Management

Mr. CHIU Chi Wing

Mr. CHIU Chi Wing（趙志榮）, aged 55, is our independent non-executive Director. Mr. Chiu joined our Group on 18 November 2016. Mr. Chiu graduated from Lingnan College (now known as Lingnan University) with an honours diploma in accountancy in November 1986.

Mr. Chiu is a Certified Public Accountant and has been a fellow member of the Hong Kong Institute of Certified Public Accountants since September 1997. He has also been a fellow member of the Chartered Association of Certified Accountants since October 1994 and a member of the Society of Chinese Accountants and Auditors since July 1993.

Since February 2017, Mr. Chiu has been an independent non-executive director of Hing Ming Holdings Limited (stock code: 8425), a company listed on the GEM Board of the Stock Exchange.

Prof. WANG Dawu

Prof. WANG Dawu（王大悟）, aged 72, is our independent non-executive Director. Prof. Wang joined our Group on 18 November 2016. Prof. Wang graduated from University of Missouri with a master's degree in business administration in August 1988. Prof. Wang was appointed as a student advisor at the Shanghai Academy of Social Sciences for the masters students in the field of tourism management from September 2001 to August 2004 and subsequently a student advisor for the doctorate of philosophy students in the field of industrial economics from September 2006 to August 2009. In January 2009, he was a part-time lecturer under the cooperative education program at the Shanghai Normal University. In March 2011, Prof. Wang was appointed as a guest lecturer of the Shanghai Institute of Visual Art of Fudan University.

Prof. Wang is a recognised expert in the tourism and hospitality industry in the PRC, and has won many industry awards, including being selected as an ambassador of the China-UK Arts Exchange*（中英藝術交流形象大使）and a World Cultural Celebrity*（世界文化名人）by the World Artists Federation and the Royal Academy of Arts in 2014. He has published written works based on his experience and knowledge in the tourism and hospitality industry. Prof. Wang has also been involved in the formulation of national tourism standards as well as tourism planning and strategic development projects hosted by the Tourism Research Centre of the Shanghai Academy of Social Sciences in the PRC.

COMPANY SECRETARY AND OTHER SENIOR MANAGEMENT

Ms. CHAN Sin Ling

Ms. CHAN Sin Ling（陳善鈴）CPA, aged 38, is our chief financial officer and company secretary. She is primarily responsible for the financial management and corporate governance of our Group. Ms. Chan joined our Group in January 2014. Prior to joining our Group, she worked in BDO Limited from September 2002 to December 2013, during which she was promoted from an associate to a senior manager of the assurance department and was mainly responsible for leading and managing an audit team and providing audit and other assurance services to clients. Ms. Chan graduated from City University of Hong Kong with a bachelor's degree of business administration in accountancy in July 2002. She is a Certified Public Accountant and has been a fellow member of the Hong Kong Institute of Certified Public Accountants since October 2017.

Mr. WANG Jun（王俊）

Mr. WANG Jun（王俊）, aged 41, is the vice president and financial controller of Guangdong Gudou. Mr. Wang joined our Group in July 2010 as the financial controller. Mr. Wang was promoted progressively over the years to the vice president and financial controller of Guangdong Gudou in November 2014 and is mainly responsible for our Group's financial, taxation and financial planning arrangements. Prior to joining our Group, from 2001 to 2004, Mr. Wang worked as the financial manager of a PRC enterprise principally engaged in tourism and recreational activities and the leasing and management of hotel property and was mainly responsible for the internal financial accounting and management of the PRC enterprise. From 2004 to 2010, Mr. Wang worked as the financial controller of a PRC enterprise principally engaged in property development and management and the sale of construction materials and was mainly involved in the establishment of its financial structure, systems and procedures. Mr. Wang graduated from Nanjing University of Science and Technology（南京理工大學）with a degree in computerised professional accounting（財會電算化專業專科）in July 1999. He passed the national examination for intermediate accounting in May 2004. He then completed a training course in intermediate accounting provided by the Wuyi University Computer Training Centre（五邑大學計算機培訓中心）in June 2004.

Mr. LIANG Juquan

Mr. LIANG Juquan（梁鉅泉）, aged 46, is the vice president of Guangdong Gudou. Mr. Liang joined our Group in October 2002. Mr. Liang was promoted progressively over the years to the vice president of Guangdong Gudou in January 2015 and is mainly responsible for the development and sales of our Group's tourism property development operation and assisting our chairman in liaising with governmental administrative departments. Mr. Liang graduated from Jiangmen City Xinhui District Technical Secondary School*（江門市新會區中等專業學校）in the PRC with a diploma in marketing in July 2001. Mr. Liang has been a qualified construction management assistant engineer*（建築工程管理助理工程師）since December 2014 as certified by the Jiangmen City Xinhui District Human Resources and Social Security Bureau*（江門市科學技術委員會）. He completed a training course on the real estate development statistical reporting system*（房地產開發統計報表制度課程）provided by Guangdong Real Estate Association（廣東省房地產行業協會）in November 2007.

Ms. MAI Cuilan

Ms. MAI Cuilan（麥翠蘭）, aged 38, is the deputy general manager of Guangdong Gudou Hotel Management. Ms. Mai joined our Group in October 2001 as a salesperson. Ms. Mai was promoted progressively over the years to the deputy general manager of Guangdong Gudou Hotel Management in October 2014 and is mainly in charge of the sales department and responsible for the marketing development and promotional matters for Gudou Hot Spring Resort. Ms. Mai completed a professional course on hospitality management provided by Beijing Modern Economic Management Cadre School*（北京現代經濟管理幹部學校）in December 1998. In June 2000, she graduated from an intermediate course in tourism and hospitality management provided by Jiangmen City Advanced Technical School*（江門市高級技工學校）. In May 2000, Ms. Mai completed an intermediate training course for restaurant wait staff provided by Jiangmen City Vocational Skills Assessment Testing Centre*（江門市職業技能核鑒定中心）. She then graduated from a professional course in tourism and hospitality provided by Xin Hui Ruan Hua Qiao Middle School*（新會社阮華僑中學）in July 2000.

Biographical Details of Directors and Senior Management

Mr. HE Yingquan

Mr. HE Yingquan（何英權）, aged 57, is the deputy general manager of Guangdong Gudou Hotel Management. Mr. He joined our Group in September 2010 as a director of operations. Mr. He was promoted progressively over the years to the deputy general manager of Guangdong Gudou Hotel Management in November 2013 and is mainly responsible for the operation and management of our hot spring resort and hotel operations. Prior to joining our Group, from 1979 to 2008, Mr. He worked as the general manager and deputy general manager of a PRC enterprise principally engaged in financing and asset, equity and investment management services. From 2008 to 2009, Mr. He worked as the deputy head of the general manager's office of a PRC enterprise principally engaged in tourism and recreational activities and the leasing and management of hotel property and was mainly responsible for the leasing operations and property management of the hotel. He graduated from Guangdong Radio and Television University（廣東廣播電視大學）(now known as the Open University of Guangdong（廣東開放大學）) with a diploma in English in 1991. He was certified as a first class guest room attendant*（一級客房服務員）by the Guangdong Province Jiangmen City Workers Cultural and Technical Assessment Committee*（廣東省江門市工人文化技術考核委員會）in September 1989.

Directors' Report

The Directors submit their report together with the audited financial statements for the Period.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the operation and management of Gudou Hot Spring Resort and the development and sale of tourism properties within Gudou Hot Spring Resort.

RESULTS OF THE GROUP

The Group's results for the Period and the state of affairs of the Company and the Group as at 31 December 2018 are set out in the financial statements on pages 74 to 151 of this report and a review in respect of the material factors underlying its results and financial position, as well as the Group's environmental policies, are set out in the section headed "Management Discussion and Analysis" of this report. A summary of the published results and the assets and liabilities of the Group for the years ended 31 December 2015, 2016, 2017 and 2018 is set out on page 154 of this report.

BUSINESS REVIEW

The Group is principally engaged in the operation and management of Gudou Hot Spring Resort and the development and sale of tourism properties within Gudou Hot Spring Resort.

During the Period, the Group recorded a turnover of approximately RMB248.7 million, representing a decrease of approximately 21.9% when compared to that of the previous year. Profit attributable to owners of the Company for the Period was approximately RMB15.6 million (profit attributable to owners of the Company for the corresponding period in 2017: RMB52.4 million), representing a decrease of approximately of 70.3% when compared to that of the previous year mainly due to the following factors:

(i) a decrease in revenue generated from the tourism properties development, mainly attributable to sale and delivery of most units of Mountain Seaview Vacation Residence in 2017, while only 62.8% of the saleable GFA of Heart of Spring Apartments were sold and delivered in 2018; and

(ii) a decrease in other income in relation to a gain on disposal of property, plant and equipment and prepaid land lease payments amounting to approximately RMB18.5 million in 2017.

The Company will continue to make good use of its financial resources obtained from its operations for operating the hot spring resort and hotels and expanding its tourism property development businesses.

Hot Spring Resort and Hotel Operations

The hot spring resort and hotel operations business has demonstrated a steady growth in the Period. The Group's turnover derived from hot spring resort and hotel operations increased by approximately 13.7% to approximately RMB142.7 million when compared to the previous year. The Group believes that the growth in revenue from the hot spring resort and hotel operations business reflected the Group's established business strategy to enhance the "Gudou" brand across the PRC.

During the Period, the Group recorded an increase in admission income by approximately 33.3% which was mainly attributable to an increase in admission ticket prices in the Gudou Hot Spring Resort.

The Room Revenue generated from the themed hotel complexes increased by approximately 7.3% in the Period compared to that for 2017, although the Occupancy Rate of the themed hotel complexes decreased by approximately 4.7% from approximately 39.4% in 2017 to approximately 34.7% in 2018. The increase in Room Revenue was mainly due to the increase in average room rate, partially offset by a decrease in the Occupancy Rate. Both the increase in average room rate and the decrease in the Occupancy Rate were mainly a result of our strategic reduction in price promotions of our hotel rooms. The average room rate increased from approximately RMB220.1 for the year ended 31 December 2017 to approximately RMB269.0 for the year ended 31 December 2018.

The Group also recorded increases in revenue generated from catering by approximately 6.1% and conference room services by 6.1%.

Furthermore, during the Period, on top of the existing consultancy service agreements, the Group entered into various new consultancy service agreements with third parties regarding provision of consultancy services in relation to strategic planning in the early stage of project development to various leisure hotels and resorts in Guangdong Province and Sichuan Province in 2018. Revenue from consultancy services contributed revenue of approximately RMB17.2 million to the Group in the Period, representing an increase of approximately 26.6%.

Tourism Property Development

The Group recorded a decrease in revenue of approximately 45.1% from the tourism property development business of approximately RMB106.0 million in 2018 as compared to approximately RMB193.0 million in 2017. Such decrease was mainly attributable to a decrease in GFA sold and delivered during the year.

In December 2017, Heart of Spring Apartments passed all the necessary development inspection and acceptance, and was granted pre-sale permit. The Group commenced pre-sale of Heart of Spring Apartments since December 2017. As at 31 December 2018, the Company sold and delivered 187 residential units and 44 commercial units and 88 car parks of Heart of Spring Apartments, representing 62.8% of the total saleable GFA of Heart of Spring Apartments. During the Period, the Company received proceeds from sales/presales and earnest money from Heart of Spring Apartments of approximately RMB70.6 million. The Company planned to sell and deliver further units of Heart of Spring Apartments in 2019.

Outlook

Looking ahead in 2019, the Company will substantiate its growth and create long-term Shareholder's value by focusing primarily on the PRC hot spring and hotel market and expanding the Group's tourism property development business through the implementation of its core business strategies. The Company will continue to operate Gudou Hot Spring Resort and provide quality services to the Group's customers with a belief in the importance of health regimen to human beings and well-being of body and mind. Further, the Company will leverage its "Gudou" brand and explore opportunities to provide management or consultancy services to other leisure hotels or resorts.

Tourism property development will continue to be the Company's focus in 2019. The Company expects the sale of Heart of Spring Apartments to continue in 2019 and will continue to explore and develop new tourism property development projects both within and outside Gudou Hot Spring Resort.

Besides, following the opening of the Hong Kong-Zhuhai-Macau Bridge in October 2018, which shortens the travel distance and time between Hong Kong and Gudou Hot Spring Resort by land, the Company believes the improving transportation network and infrastructure will make Gudou Hot Spring Resort more accessible and bring in more guests across the PRC.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The table below sets out the Directors' analysis by comparing the business objectives of the Group as set out in the Prospectus with the Group's achievement of these objectives up to 31 December 2018. These business objectives are in place with a view to generating long-term value to the Company and the Shareholders.

Business Objectives	Actual Business Progress up to 31 December 2018
1. Continue to enhance the Group's position in the hot spring and hotel industry	The Group's effort in respect of enhancing its position in the hot spring and hotel industry is still ongoing.
(i) Replicate the Group's business model to operate new hot spring resorts and hotels	(i) The Group will continue to select its potential target cities based on a number of factors, including, among others, local favourable governmental policy, local tourism development, infrastructure, locations or available land sites, regional economy, regional level of disposal income, cost of transportation and cost of energy supply.
(ii) Provide management services to other hot spring resort owners	(ii) The Group will continue to explore new business opportunities to provide management services to hot spring resorts owned by third party owners. The investment and development team will continue to identify and evaluate potential business opportunities. During the Period, the Group entered into consultancy agreements with various independent third parties regarding provision of consultancy services in relation to strategic planning in the early stage of project development to leisure hotels and resorts in Guangdong Province and Sichuan Province.
2. Plan to expand the tourism property development business of the Group	To prepare the Group for the expansion of the tourism property development business, the Group has adopted standardised development procedures so as to achieve a more efficient use of capital and other resources, and to complete new tourism property projects on a timely manner while maintaining an effective control over costs. During the Period, the Company sold/presold and delivered 187 residential units and 44 commercial units and 88 car parks of Heart of Spring Apartments and expects the sale to continue in 2019.

Business Objectives	Actual Business Progress up to 31 December 2018
3. Continue to enhance the Group's "Gudou" brand across the PRC by providing quality products and services to the customers	The Group has implemented strict quality control standards and closely monitored the product or service quality, and the workmanship of its contractors throughout the property development process in relation to the Group's tourism property development business. During the Period, the Group has also organised a number of promotional events to promote the Group's "Gudou" brand, such as: • Chinese new year celebrations in January to February 2018 • crab festival in April to June 2018 • carnival in May 2018 • water parties in May to July 2018 • mid-autumn festival in October 2018 • carrot festival in December 2018 • Christmas town in December 2018

Directors' Report

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and suppliers are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services and selling quality properties to its customers and enhancing cooperation with its suppliers. The Group strives to provide a safe workplace to its employees. It also provides competitive remuneration and benefits, as well as training programs so that staff can keep abreast with developments in the market.

The Group believes that service and property quality is the key to maintain a good customer relationship. The Group is committed to serving its customers to the best of its ability and continually elevating the level of service excellence. To achieve this goal, the Group's quality control team is responsible for overseeing the quality control of its hot spring resort and hotel operations. With respect to the Group's property development projects, the Group engages construction companies to undertake supervision and control in order to ensure quality conditions of the projects. The Group's technical team and property development team will also carry out onsite visit on a regular basis. The Group settles with its major customers in accordance with contract payment terms, combines judgement on recoverable amounts, and adopts provision for bad debts of receivables that are specifically classified by similar risk. The Group monitors and accesses the information of major customers on an on-going and timely basis, and boosts communication and relationship with major customers.

The Group is also dedicated to maintaining good relationship with suppliers as long-term business partners to ensure stability of the Group's business. In selecting suppliers to purchase from, the Group has been applying a standard of high quality and high integrity, and has established relevant systems to ensure that the purchase process remains open, fair and just. Aiming to improve purchase quality, critical assessment and guidelines are utilised by the Group to measure the sustainability of the suppliers in terms of labor, health and safety and environmental influences. Relevant departments of the Group conduct performance assessments to the suppliers on a regular basis in order to manage the suppliers in a more efficient manner and reduce potential risks in supplier, which boosts communication and relationship with the suppliers.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties in implementing the Group's business strategies include the following:

(i) the Group's reliance on existing spring water sources represents a material risk to the Group's business if the mineral content and quality of the hot spring from such sources are adversely affected due to changes in the surrounding geological environment;

(ii) the Group may not be able to obtain, extend or renew qualification certificates and relevant PRC government approvals for its tourism property development or other business activities;

(iii) the Group may not be able to identify attractive acquisition opportunities, or make acquisitions on attractive terms or obtain sufficient financing for completion of such acquisitions;

(iv) operations of the Group's hot spring resort involve risks of accidents, illnesses, environmental incidents which may negatively affect the perception of guests on the safety and hygiene of the Gudou Hot Spring Resort, which could in turn negatively impact the "Gudou" brand or the Group's reputation;

(v) if the Group is unable to obtain necessary capital resources or suitable sites for tourism property development in a timely manner and at a reasonable cost, its property portfolio and future profitability could be adversely affected; and

(vi) the Group may not be able to complete the development or construction of its current or future projects on time or within budget which may be subject to the actual circumstances during the construction period including supply of skilled labour and unforeseen environmental problems.

In addressing these risks, the Group has constantly monitored status of its spring water sources and engaged hot spring experts for conducting annual check on the quality and quantity of its spring water sources. The Group has also maintained an internal control system for checking the expiry date of qualification certificates and relevant PRC government approvals. This allows the Group to ensure that the Group has all requisite consent and licence to conduct its businesses lawfully. In addition, the Group will take a cautious approach when considering potential acquisition opportunities and will only do so if and when the Group has sufficient financing resources and if it is in the interest of the Group to do so.

The other risks and uncertainties incidental to the Group's business operations are detailed further in the Prospectus.

USE OF PROCEEDS FROM THE PLACING

Net proceeds in the amount of approximately HK$130.6 million were raised from the Placing. As at 31 December 2018, approximately HK$79.3 million from the net proceeds raised from the Placing had been applied towards the repayment of shareholders' loans. Further, the Group has applied (i) approximately HK$44.4 million from the net proceeds raised from the Placing towards the Group's construction and development for three property development projects; (ii) approximately HK$1.6 million towards enhancing Gudou Hot Spring Resort and its existing facilities; and (iii) approximately HK$5.3 million as the Group's working capital since Listing.

SHARE CAPITAL AND SECURITIES ISSUED DURING THE PERIOD

Details of the movements in share capital of the Company are set out in note 33 to the consolidated financial statements.

No member of the Group had issued any shares, debentures, convertible securities, options, warrants or similar rights during the Period.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As stated in the section headed "Business – Non-compliance" of the Prospectus, although the Group (i) obtained the sea area use right certificate, the water extraction permit and the Approval Concerning Gudou Hot Spring Resort's Development of the "Liquan Bay" Hot Spring Resort Highend Commercial Residential Area (Xin Fu Ban Fu [2004] No. 232)* (《關於古兜溫泉度假邨開發「荔泉灣」溫泉度假高尚商品住宅區問題的批覆》(新府辦覆 [2004]232 號)); and (ii) fully paid the mineral resources compensation upon receipt of the invoices issued by the authority for using the hot spring resources from time to time, the Group extracted seawater hot spring in the absence of a relevant and applicable mining license. As advised by the Group's PRC legal advisers, under current applicable PRC rules and regulations, the Group may rectify the non-compliance by obtaining such mining right which will be granted by competent land and resources bureau through the bidding, auction or quotation process. To the best of the Group's knowledge and understanding, such bidding, auction or quotation process for the mining right in respect of the Group's seawater hot spring resources is currently expected to take place in 2019. The Group's PRC Legal Advisers also advised that there is no legal impediment for obtaining the mining licence if we succeed in the bidding, auction or quotation process.

As far as the Board is aware and save as disclosed above and in the Prospectus, the Company has complied in material respects with the relevant laws and regulations that have significant impact on the business and operation of the Group, more details of which are set out in the "Environmental, Social and Governance Report" in this report.

DIVIDENDS

The Board does not recommend payment of any final dividend in respect of the Period. During the Period, no interim dividend was paid.

RESERVES

As at 31 December 2018, the total reserves available for distribution to Shareholders by the Company amounted to approximately RMB324.2 million (2017: RMB324.4 million). Movements in the reserves of the Group and of the Company during the Period are set out in the Consolidated Statement of Changes in Equity and note 37 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Period are set out in note 16 to the consolidated financial statements.

PROPERTIES HELD FOR SALE

The Group's properties held for sale, which are stated at cost, were valued at approximately RMB37.7 million as at 31 December 2018 (2017: RMB70.3 million) as disclosed in note 21 to the consolidated financial statements.

INVESTMENT PROPERTIES

Movements in the investment properties of the Group during the Period are set out in note 18 to the consolidated financial statements. All of the Group's investment properties were revalued by independent professional property valuer as at 31 December 2018 adopting sales comparison approach. Details of the investment properties of the Group as at 31 December 2018 are set out in the Particulars of Properties on pages 152 to 153 of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles and there is no restriction against such rights under the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 18 November 2016 which became unconditional upon Listing for a period of 10 years from 9 December 2016.

The Scheme is valid and effective for a period of 10 years from 9 December 2016 and its purpose is to reward eligible participants who have contributed or will contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group.

Eligible participants of the Scheme include (i) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of the Group; and (ii) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group, whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group.

The total number of Shares of the Company available for issue under the Scheme is 98,000,000 Shares, representing 10% of the total number of Shares in issue as at the date of this report. The total number of Shares of the Company to be issued upon exercise of the share options granted to each eligible participant under the Scheme in any 12-month period must not exceed 1% of the total Shares of the Company then in issue, unless approved by Shareholders of the Company in general meeting in the manner prescribed under the GEM Listing Rules. The number of Shares to be issued in respect of which options may be granted to a substantial shareholder or an independent non-executive Director of any of their respective close associates (within the meaning of the GEM Listing Rules) representing in aggregate over 0.1% of the total number of the Company's issued Shares on the date of such grant or with an aggregate value in excess of HK$5,000,000 must be approved by Shareholders in general meeting.

An offer of a grant of share options under the Scheme may be accepted within five business days from the date on which the offer is made with a cash consideration of HK$1.00 payable to the Company. The period for the exercise of a share option is determined by the Board in its sole discretion, but such period shall not be more than 10 years from the date of grant of the option.

Under the Scheme, the subscription price payable upon exercise of any options granted is determined by the Board but in any event it shall be at least the highest of: (i) the closing price of the Company's Shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a participant; (ii) the average of the closing prices of the Company's Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the option; and (iii) the nominal value of the Company's Shares.

On 5 April 2017, the Company granted options (the "Options") to 18 eligible persons under its share option scheme to subscribe for an aggregate of 51,940,000 Shares. Among the Options granted, Options exercisable into 29,890,000 Shares were granted to the Directors, chief executive and/ or substantial shareholder of the Company, details of which are as follows:

Grantees	**Date of grant**	**Exercise price per share HK$**	**Exercise period**	**Number of Options**				
Directors				**balance as at 1 January 2018**	**granted during the Period**	**exercised during the Period**	**cancelled/ lapsed during the Period**	**balance as at 31 December 2018**
Mr. Hon	5 April 2017	0.62	Subject to the vesting schedule below	4,900,000	—	—	—	4,900,000
Mr. Huang Zhanxiong	5 April 2017	0.62	Subject to the vesting schedule below	4,900,000	—	—	—	4,900,000
Ms. Zhen Yaman	5 April 2017	0.62	Subject to the vesting schedule below	2,450,000	—	—	—	2,450,000
Mr. Hon Ka Fung	5 April 2017	0.62	Subject to the vesting schedule below	2,450,000	—	—	—	2,450,000
Mr. Hui Chin Tong Godfrey	5 April 2017	0.62	Subject to the vesting schedule below	7,840,000	—	—	—	7,840,000
Mr. Wu Sai Him	5 April 2017	0.62	Subject to the vesting schedule below	2,450,000	—	—	—	2,450,000
Mr. Chiu Chi Wing	5 April 2017	0.62	Subject to the vesting schedule below	2,450,000	—	—	—	2,450,000
Prof. Wang Dawu	5 April 2017	0.62	Subject to the vesting schedule below	2,450,000	—	—	—	2,450,000
				29,890,000	**—**			**29,890,000**
Employees in aggregate	5 April 2017	0.62	Subject to the vesting schedule below	22,050,000	—	—	—	22,050,000
Total				**51,940,000**	**—**	**—**	**—**	**51,940,000**

The Options are subject to the vesting schedule below and are exercisable during each exercise period specified below:

Exercise Period	Number of underlying Shares subject to the Options:
5 April 2018 to 4 April 2025	25% of the total number of Shares fall to be issued on exercise of the Options
5 April 2019 to 4 April 2025	25% of the total number of Shares fall to be issued on exercise of the Options
5 April 2020 to 4 April 2025	25% of the total number of Shares fall to be issued on exercise of the Options
5 April 2021 to 4 April 2025	25% of the total number of Shares fall to be issued on exercise of the Options

Note:

1. The closing price per Share as quoted on the Stock Exchange on the day immediately before the date of grant was HK$0.60.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 16 to 20 of this report.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details required to be disclosed pursuant to Rule 17.50A of the GEM Listing Rules are set out below:

- Mr. Chiu Chi Wing ceased to be a school manager of Lingnan University Alumni Association (HK) Primary School from August 2018; and

- Ms. Zhen Yaman was appointed as an assistant general manager of the risk control and compliance centre of Aoyuan Finance Holdings Company, a subsidiary of Aoyuan, from February 2019.

DIRECTORS' REPORT

LIST OF DIRECTORS

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

Executive Directors

Mr. Hon Chi Ming *(Chairman and Chief Executive Officer)*
Mr. Huang Zhanxiong
Ms. Zhen Yaman
Mr. Hon Ka Fung

Non-Executive Director

Mr. Hui Chin Tong Godfrey

Independent Non-Executive Directors

Mr. Wu Sai Him
Mr. Chiu Chi Wing
Prof. Wang Dawu

DIRECTORS' SERVICE CONTRACTS

There are no service contracts for any of the Directors who are nominated for re-election at the forthcoming annual general meeting of the Company to be held in 2019 which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Group's Directors are indemnified against actions, costs, charges, losses, damages and expenses incurred in discharge of their duties subject to the provisions of the Articles and other applicable legislation. The Company has taken out Directors' and officers' liabilities insurance for such purposes for the Period.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and the five highest paid individuals in the Group are set out in notes 12 and 13 to the consolidated financial statements.

EMOLUMENT POLICY

The Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses related to the performance of the Company. The Group also reimburse them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to its operations. The Group review and determine the remuneration and compensation package of the Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and senior management and the performance of the Company. The Directors and employees of the Group may also receive options which may be granted under the share option scheme adopted by the shareholders of the Company on 18 November 2016. On 5 April 2017, the Company granted options to the Directors and certain employees, the details of which are set out in the section headed "Share Option Scheme" from pages 29 to 31 of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2018, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as required, pursuant to the minimum standards of dealing by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares

Name	**Capacity/Nature of interest**	**Interests in ordinary shares** *(Note 1)*	**Number of underlying shares held under equity derivatives**	**Total**	**Percentage of the Company's issued share capital as at 31 December 2018** *(Note 2)*
Mr. Hon	Interest of a controlled corporation *(Note 3, 6)*	532,500,000 (L)	4,900,000	537,400,000	54.84%
	Beneficial owner *(Note 4)*				
Mr. Huang Zhanxiong	Beneficial owner *(Note 4)*	—	4,900,000	4,900,000	0.50%
Ms. Zhen Yaman	Beneficial owner *(Note 4)*	—	2,450,000	2,450,000	0.25%
Mr. Hon Ka Fung	Beneficial owner *(Note 4)*	—	2,450,000	2,450,000	0.25%
Mr. Hui Chin Tong Godfrey	Interest of a controlled corporation *(Note 5, 6)*	90,000,000 (L)	7,840,000	97,840,000	9.98%
	Beneficial owner *(Note 4)*				
Mr. Wu Sai Him	Beneficial owner *(Note 4)*	—	2,450,000	2,450,000	0.25%
Mr. Chiu Chi Wing	Beneficial owner *(Note 4)*	—	2,450,000	2,450,000	0.25%
Prof. Wang Dawu	Beneficial owner *(Note 4)*	—	2,450,000	2,450,000	0.25%

Notes:

1. The letter "L" denotes the person's long position in the Shares.

2. The percentage of the Company's issued share capital is based on the 980,000,000 Shares issued as at 31 December 2018.

3. Mr. Hon owns one share (with no par value) in Harvest Talent, representing 100% of its issued share capital. Harvest Talent is an associated corporation (within the meaning of Part XV of the SFO) of the Company and the registered owner of 532,500,000 Shares. By virtue of the SFO, Mr. Hon is deemed to be interested in all the Shares held by Harvest Talent.

4. These underlying shares of the Company held under equity derivatives represented the share options (being regarded for the time being as unlisted physically settled equity derivatives) granted by the Company under the Scheme. Particulars of these share options and their movements during the year ended 31 December 2018 are set out in the section headed "Share Option Scheme" of this report.

5. These 90,000,000 Shares are registered in the name of DF Tourism as the nominee of Dynasty Fortune. DF Tourism is wholly-owned by Dynasty Fortune. Mr. Hui Chin Tong Godfrey owns 100% of the issued share capital of Dynasty Fortune. By virtue of the SFO, Mr. Hui Chin Tong Godfrey is deemed to be interested in all the Shares owned by Dynasty Fortune.

6. On 20 January 2019, Harvest Talent and DF Tourism entered into sale and purchase agreements with a purchaser (the "Purchaser") and guarantor to the Purchaser, who are both independent third parties, pursuant to which Harvest Talent and DF Tourism have respectively conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, an aggregate of 286,000,000 Shares (the "Disposals"). After completion of the Disposals, which is expected to take place on or before 31 March 2019 if proceeded with, Harvest Talent will continue to hold 336,500,000 Shares, representing 34.34% of the total issued Shares, and DF Tourism will cease to hold any Shares. For further details of the Disposals, please refer to the Company's announcement dated 20 January 2019.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as is known to any Director or chief executive of the Company, as at 31 December 2018, the interests and short positions of substantial shareholders and other persons, other than the Directors or chief executives of the Company, in the Shares and the underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/Nature of interest	Interests in ordinary shares *(Note 1)*	Number of underlying shares held under equity derivatives	Total	Percentage of the Company's issued share capital as at 31 December 2018 *(Note 2)*
Harvest Talent	Beneficial owner *(Note 8)*	532,500,000 (L)	—	532,500,000	54.34%
Mrs. Hon	Interest of spouse *(Note 3, 8)*	532,500,000 (L)	4,900,000	537,400,000	54.84%
Dynasty Fortune	Beneficial owner *(Note 4, 8)*	90,000,000 (L)	—	90,000,000	9.18%
DF Tourism	Nominee for another person *(Note 4, 8)*	90,000,000 (L)	—	90,000,000	9.18%
Fu An	Beneficial owner *(Note 5)*	60,000,000 (L)	—	60,000,000	6.12%
Wealth Promise	Nominee for another person *(Note 5)*	60,000,000 (L)	—	60,000,000	6.12%
Mr. Li Chao Wang	Interest of a controlled corporation *(Note 6)*	97,500,000 (L)	—	97,500,000	9.95%
Ms. Song Min	Interest of spouse *(Note 7)*	97,500,000 (L)	—	97,500,000	9.95%

Notes:

1. The letter "L" denotes the person's long position in the Shares.

2. The percentage of the Company's issued share capital is based on the 980,000,000 Shares issued as at 31 December 2018.

3. By virtue of the SFO, Mrs. Hon, the spouse of Mr. Hon, is deemed to be interested in all the Shares in which Mr. Hon is interested.

4. These Shares are registered in the name of DF Tourism as the nominee of Dynasty Fortune. DF Tourism is wholly-owned by Dynasty Fortune.

   After completion of the Disposals, which will take place on or before 31 March 2019 if proceeded with, DF Tourism will cease to hold any Shares. For further details of the Disposals, please refer the Company's announcement dated 20 January 2019.

5. These Shares are registered in the name of Wealth Promise as the nominee of Fu An. Wealth Promise is wholly-owned by Fu An.

6. Fu An is beneficially owned as to 74.21% by Mr. Li Chao Wang. By virtue of the SFO, Mr. Li Chao Wang is deemed to be interested in all the Shares owned by Fu An. Mr. Li Chao Wang is also deemed to be interested in all the Shares beneficially owned by Grand Luck, namely 37,500,000 Shares, by virtue of the SFO, as he beneficially owns the entire issued share capital of Grand Luck. Accordingly, Mr. Li Chao Wang is deemed to be interested in a total of 97,500,000 Shares under the SFO.

7. By virtue of the SFO, Ms. Song Min, the spouse of Mr. Li Chao Wang, is deemed to be interested in all the Shares in which Mr. Li Chao Wang is interested.

8. Please refer to note 6 to the section headed "Directors' and chief executive's interests in securities" in this report.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTERESTS

None of the Directors or controlling shareholders of the Company and their respective close associates (within the meaning of the GEM Listing Rules) has any interest in a business which competed or might compete with the business of the Group or has any other conflict of interest with the Group during the Period. As disclosed in the Prospectus, the Company and its controlling shareholders of the Company (namely, Mr. Hon and Harvest Talent) had entered into a deed of non-competition, pursuant to which they have given certain non-competition undertakings in favour of the Group, including making an annual declaration as to compliance with the terms of the deed of non-competition. The Company has received from each of its controlling shareholders the annual confirmation that they and their respective close associates have complied with the terms of those non-competition undertakings during the Period and the independent non-executive Directors have reviewed the compliance by the controlling shareholders of the Company with the deed of non-competition for that period.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company (not being a contract of service with any Director of the Company or any person engaged in the full-time employment of the Company) was entered into or was subsisting during the Period.

CONTRACTS OF SIGNIFICANCE TO THE BUSINESS OF THE GROUP

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

No contracts of significance (including those in relation to provision of services) between members of the Group and the controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the Period or at any time during the Period.

ARRANGEMENT TO ACQUIRE SHARES AND DEBENTURES

At no time during the Period was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers collectively accounted for approximately 25.5% of its total turnover for the Period (2017: approximately 18.2%) and its largest customer accounted for approximately 11.3% of the Group's total turnover for the Period (2017: approximately 7.3%).

The Group's five largest suppliers accounted for approximately 53.7% of its total purchases for the Period (2017: approximately 56.2%) and its largest supplier accounted for approximately 24.6% of the Group's total purchases for the Period (2017: approximately 40.6%).

None of the Directors and their respective close associates (within the meaning of the GEM Listing Rules) or any holder of Shares who, to the knowledge of the Directors, owns more than 5% of the Company's issued Shares has any interest in any of its five largest customers or its five largest suppliers in respect of the Period.

RELATED PARTY TRANSACTIONS

Material related party transactions entered into by the Group during the Period are set out in note 36 to the Group's consolidated financial statement. These transactions do not fall under the definition of "connected transaction" or "continuing connected transactions" (as the case may be) under the GEM Listing Rules.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received from each independent non-executive Director the annual confirmation of his independence, and the Company considers them to be independent in light of the guidelines set out in Rule 5.09 of the GEM Listing Rules.

Directors' Report

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued Shares as required under the GEM Listing Rules.

CHARITABLE CONTRIBUTIONS

During the Period, the Group made charitable contribution of approximately HK$58,000 (2017: approximately HK$83,000).

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 6 to the section headed "Directors' and chief executive's interests in securities" in this report, there is no important event affecting the Company that has occurred since 31 December 2018 and up to the date of this report.

CHANGE OF COMPLIANCE ADVISER

As disclosed in the Company's announcement dated 31 May 2018, the compliance adviser agreement with Well Link International Capital Limited has been terminated with effect from 31 May 2018 due to its internal resources allocation arrangement. Zhongtai International Capital Limited ("Zhongtai International") has been appointed as the replacement compliance adviser to the Company as required pursuant to Rule 6A.27 of the GEM Listing Rules with effect from 31 May 2018.

INTEREST OF COMPLIANCE ADVISOR

Zhongtai International has confirmed to the Company that as at 31 December 2018, except for the compliance adviser agreement entered into between the Company and Zhongtai International dated 31 May 2018, Zhongtai International and its respective directors, employees and close associates did not have any interest in relation to the Company or any members of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers and have been reviewed by the audit committee of the Company.

A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board of
Gudou Holdings Limited

Hon Chi Ming
Chairman
Hong Kong, 26 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continued growth of the Group and for safeguarding and maximising Shareholders' interests.

During the Period, the Company has complied with the code provisions set out in the CG Code as may be applicable save for the deviations mentioned below.

1. Mr. Hon is currently performing the roles of chairman and chief executive officer of our Company. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should not be performed by the same individual. Taking into account Mr. Hon's strong expertise in the hot spring and hotel industry, our Board considered that the roles of chairman and chief executive officer being performed by Mr. Hon enables more effective and efficient overall business planning, decision making and implementation thereof by our Group. In order to maintain good corporate governance and fully comply with such code provision, our Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

2. Code provision A.6.7 of the CG Code stipulates that the independent non-executive Directors should attend general meetings to gain and develop a balanced understanding of the views of Shareholders. Prof. Wang Dawu was unable to attend the annual general meeting of the Company held on 18 May 2018 due to health reason.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Upon specific enquiry made with all the Directors, the Company was not aware of any non-compliance with the Model Code during the Period regarding securities transactions by Directors.

BOARD OF DIRECTORS

Board composition and responsibilities

Our Board consists of eight Directors, including four executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Mr. Hon Chi Ming *(Chairman and Chief Executive Officer)*
Mr. Huang Zhanxiong
Ms. Zhen Yaman
Mr. Hon Ka Fung

Non-Executive Director

Mr. Hui Chin Tong Godfrey

Independent Non-Executive Directors

Mr. Wu Sai Him
Mr. Chiu Chi Wing
Prof. Wang Dawu

Details of background and qualifications of all Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this report. Save that Mr. Hon and Mr. Hon Ka Fung are father and son, there is no relationship, including financial, business, family or other material/relevant relationship(s) between members of the Board.

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the executive Directors and senior management.

The Board has established an internal framework to ensure that the type of material transactions that require Board's approval is consistently applied throughout the Group. Significant matters of the Group that require Board's approval include:

(i) formulating corporate development planning and restructuring;

(ii) formulating the Company's operational and management strategies;

(iii) approving capital expenditures, investments or divestments exceeding certain material limits;

(iv) approving financial statements;

(v) approving notifiable transactions and connected transactions undertaken by any member of the Group as may be required under the GEM Listing Rules;

(vi) approving the internal control and risk management systems of the Group; and

(vii) distribution of any dividend.

Regular meetings of the Board will be held to deliberate the strategic policies of the Company including significant acquisitions and disposals, review and approve annual budgets, review the performance of the business and approve the public release of periodic financial results. Directors are also provided with access to independent professional advice in carrying out their obligations as Directors as and when required, at the expense of the Company.

Appointment and Re-election of Directors

Each executive Director has entered into a service contract with the Company for a term of three years and each non-executive Director (including the independent non-executive Directors) has entered into a letter of appointment for a term of three years. Each director is subject to retirement by rotation but is eligible for re-election at the annual general meeting in accordance with the Articles. None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract or letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. We have also taken out Directors' and officers' liabilities insurance for such purposes for the Period.

The Articles have specified that any Directors appointed during the year to fill a casual vacancy are subject to re-election by Shareholders at the first annual general meeting after appointments and any Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Each Director shall be subject to retirement by rotation at least once every three years pursuant to the Articles.

Directors' Training

During the Period, our Directors have participated in continuous professional development by attending a training session in respect of the roles and responsibilities of directors of a company listed on the GEM, as well as reading related materials. They also received from the Company from time to time updates on laws, rules and regulations which may be relevant to their roles, duties and functions as directors of a listed company. Particulars of participation by the Directors are set out as follows:

	Reading materials relevant to directors' duties, operations of the board and roles of the committees	Attending training session relevant to directors' duties, operations of the board and roles of the committees
Executive Directors		
Mr. Hon Chi Ming	✓	✓
Mr. Huang Zhanxiong	✓	✓
Ms. Zhen Yaman	✓	✓
Mr. Hon Ka Fung	✓	✓
Non-executive Director		
Mr. Hui Chin Tong Godfrey	✓	✓
Independent Non-executive Directors		
Mr. Wu Sai Him	✓	✓
Mr. Chiu Chi Wing	✓	✓
Prof. Wang Dawu	✓	✓

BOARD COMMITTEES

In order to assist the Board in discharging its duties in a more efficient manner, the Board has established, with written terms of reference, four Board committees, namely audit committee, nomination committee, remuneration committee and compliance committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference for each Board committee are in compliance with the GEM Listing Rules and they are posted on the websites of the Stock Exchange and the Company (except for that of the compliance committee which is not required to be posted).

Audit Committee

Our Company established an audit committee on 18 November 2016 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and code provision C.3.3 of the CG Code have been adopted. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment, reappointment and removal of external auditor, monitor the integrity of the financial statements, annual reports, half-yearly reports and quarterly reports, review significant financial reporting judgments contained in them, oversee financial reporting system, review risk management and internal control systems of our Company. The audit committee of our Company consists of three independent non-executive Directors, being Mr. Chiu Chi Wing, Mr. Wu Sai Him and Prof. Wang Dawu. Mr. Chiu Chi Wing is the chairman of the audit committee.

The audit committee held four meetings during the Period, at which all committee members were present. The summary of key work done by the committee during the Period is set out as follows:

- reviewed the annual, interim and quarterly results of the Group and recommended the same to the Board for approval; and

- reviewed and assessed the adequacy and effectiveness of the risk management and internal control systems.

There was no disagreement between the Board and the audit committee regarding the appointment of external auditor.

Nomination Committee

Our Company established a nomination committee on 18 November 2016. Written terms of reference in compliance with code provision A.5.2 of the CG Code have been adopted. The primary duties of the nomination committee are to review the structure, size, composition and diversity of the Board and make recommendations to the Board on the selection of individuals nominated for directorships, appointment or re-appointment of Directors and succession planning for Directors. The nomination committee of our Company consists of three independent non-executive Directors, being Mr. Chiu Chi Wing, Mr. Wu Sai Him and Prof. Wang Dawu. Mr. Wu Sai Him is the chairman of the nomination committee.

The Board recognises the importance of diversity in relation to its business, and adopted on 18 November 2016 a Board diversity policy (the "Diversity Policy"). As a summary of the Diversity Policy, selection of candidates has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision of Board appointment will be based on merit and contribution that the selected candidates may bring to the Board.

The Board has approved and adopted a nomination policy on 26 March 2019 (the "Nomination Policy"), a summary of which is set out below:

Objectives

The Nomination Policy aims to:

- set out the criteria and process in the nomination and appointment of Directors;
- ensure that the Board has a balance of skills, knowledge, experience and diversity of perspectives appropriate to the Company; and
- ensure the Board continuity and appropriate leadership at Board level.

Selection Criteria

The nomination committee shall examine the election criteria and procedures and the term of office of the Directors in accordance with relevant laws and regulations and the provisions of the Articles while taking into consideration of the actual circumstances of the Company.

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- character and integrity.
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Diversity Policy that are relevant to the Company's business and corporate strategy.
- any measurable objectives adopted for achieving and implementing the diversity policy of the Board.
- requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, knowledge, experience, independence and gender diversity.

- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.

- such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the nomination committee from time to time for nomination of directors and succession planning.

Nomination Process

The procedures for the election and appointment of directors are set out as follows:

- the nomination committee shall actively carry out exchanges with relevant departments of the Company in examining the Company's demand for directors and prepare written materials;

- the committee may search for candidates for directors on an extensive scale in the Company, its subsidiaries and the job market;

- the committee shall gather information of the preliminary candidates, including occupation, education, job title, detailed work experience and all part-time jobs, and prepare written materials;

- the committee shall seek the consent of the nominees on the nomination or otherwise such persons shall not be considered as candidates for directors;

- the committee shall convene a meeting to conduct a qualification check of the preliminary candidates based upon the appointment criteria for directors;

- the committee shall submit to the board of directors its recommendations on candidates for directors and relevant materials in fifteen days prior to the election of new directors; and

- the committee shall implement other follow-up work in accordance with the decisions and feedback of the board of directors.

Regular Review of the Nomination Policy

The nomination committee will conduct regular review on the structure, size and composition of the Board and the Nomination Policy.

During the Period, the nomination committee held one meeting, at which all committee members were present. The summary of key work done by the committee during the Period is set out as follows:

- reviewed and assessed the adequacy and effectiveness of the risk management and internal control systems.

- reviewed the structure and composition of the Board, as well as policy of nomination of Directors in light of, among other things, the diversity criteria set out in the Company's Board diversity policy.

Remuneration Committee

Our Company established a remuneration committee on 18 November 2016 in compliance with Rule 5.34 of the GEM Listing Rules. Written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and code provision B.1.2 of the CG Code have been adopted. The primary duties of the remuneration committee are mainly to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review remuneration proposals of the management with reference to the Board's corporate goals and objectives; and ensure none of our Directors or any of their associates is involved in deciding their own remuneration. The remuneration committee of our Company consists of three independent non-executive Directors, being Mr. Chiu Chi Wing, Mr. Wu Sai Him and Prof. Wang Dawu. Mr. Wu Sai Him is the chairman of the remuneration committee.

The remuneration committee is authorised by the Board to determine (subject to approval by the Board), the remuneration payable to executive Directors and members of senior management, the emolument policies and the basis for determining such emoluments. No Director or any of his associates was involved in deciding his own remuneration.

During the Period, the remuneration committee held one meeting, at which all committee members were present. The summary of key work done by the committee in respect of the Period is set out as follows:

- reviewed the policy for the remuneration and assessed performance of executive Directors; and

- reviewed the remuneration payable to Directors and senior management.

Compliance Committee

Our Company established a compliance committee on 18 November 2016 which comprises Ms. Zhen Yaman (our executive Director and compliance officer) as chairlady, Mr. Huang Zhanxiong (our executive Director), Ms. Chan Sin Ling (our chief financial officer and company secretary) and Mr. Li Yanan (our PRC legal consultant). Written terms of reference have been adopted. The primary duties of the compliance committee are mainly to monitor and oversee the compliance related matters of the Group. Ms. Zhen possesses professional legal qualification and has over 10 years of experience in legal, compliance and corporate governance matters. Ms. Chan is a certified public accountant and has knowledge and experience in compliance and internal control gained from her prior practice in accounting and her role as our Company's chief financial officer and company secretary. Mr. Li is a partner of Guangdong Guanhong Law Firm*（廣東貫虹律師事務所）, a PRC law firm. Mr. Li obtained his Legal Qualification Certificate*（律師資格證書）in September 1995 and has over 20 years of experience in legal and compliance matters.

The compliance committee will conduct on-going assessments in response to new legal and regulatory requirements, update compliance and internal control procedures and oversee their implementation from time to time. The compliance committee will collect monthly reports from different department heads of our Group regarding compliance matters, including status of any non-compliance issues, identify and assess our Group's risk exposure based on such reports, and propose improvement and remedial measures and oversee their implementation. It will report to our Board any deficiency in the overall compliance performance and corporate governance practices of our Company. The compliance committee will follow up on the relevant issues raised in the annual internal control review report prepared by the external internal control consultant. Members of the compliance committee shall attend training relevant to their work duties to enhance their knowledge regarding compliance matters annually. The compliance officer shall be the main person responsible for collaborating with respective staff and external consultants and monitoring whether there has been any recurrence of our Group's historical non-compliance incidents and reporting the status of compliance to the Board on a monthly basis.

During the Period, the compliance committee held 12 meetings, at which all committee members were present. The summary of key work done by the committee in respect of the Period is set out as follows:

- reviewed compliance and internal control procedures and implementation; and
- reviewed monthly reports from different department heads of our Group and the proposed improvement and remedial measures.

Corporate Governance Functions

The Board as a whole is responsible for performing the corporate governance functions set out in code provision D.3.1 of the CG Code, namely:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report in the Company's annual reports.

The Board reviewed the Company's policies and practices on corporate governance and legal and regulatory compliance, training and continuous professional development participations of the Directors, as well as the Company's compliance with the CG Code.

BOARD MEETINGS AND ATTENDANCE RECORD OF DIRECTORS

Code provision A.1.1 of the CG Code states that at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of Directors, either in person or through other electronic means of communication.

During the Period, the Board held four meetings and one Shareholders' meeting (being the annual general meeting of the Company) was held. The Directors' attendance records in respect of meetings held during the Period are shown as follows:

	Attendance Record of Meetings held during the Period						
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Compliance Committee	Corporate Governance Function	Annual General Meeting
Number of total meetings	4	4	1	1	12	4	1
Mr. Hon Chi Ming	4/4	—	—	—	—	4/4	1/1
Mr. Huang Zhanxiong	4/4	—	—	—	12/12	4/4	1/1
Ms. Zhen Yaman	4/4	—	—	—	12/12	4/4	1/1
Mr. Hon Ka Fung	4/4	—	—	—	—	4/4	1/1
Mr. Hui Chin Tong Godfrey	4/4	—	—	—	—	4/4	1/1
Mr. Wu Sai Him	4/4	4/4	1/1	1/1	—	4/4	1/1
Mr. Chiu Chi Wing	4/4	4/4	1/1	1/1	—	4/4	1/1
Prof. Wang Dawu	4/4	4/4	1/1	1/1	—	4/4	0/1

AUDITOR'S REMUNERATION

The fees in respect of audit and non-audit services provided by the external services providers, PricewaterhouseCoopers (for audit services) and RSM Consulting (Hong Kong) Limited (for non-audit services) to the Group for the year ended 31 December 2018 amounted to approximately HK$1.8 million and HK$0.4 million respectively. The non-audit service represented primarily service fees for RSM Consulting (Hong Kong) Limited acting as internal control consultant of the Group. Such non-audit services include reviewing the internal control procedures of the Group and recommending areas of improvement where appropriate.

COMPANY SECRETARY

Ms. Chan Sin Ling, the Company's company secretary, has undertaken no less than 15 hours of relevant professional training to update her skills and knowledge in respect of the Period.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR ACCOUNTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Company for the Period, which give a true and fair view of the financial position of the Group on a going concern basis.

Statements of Directors' responsibilities for preparing the consolidated financial statements of the Company and external auditor's reporting responsibilities are set out in the "Independent Auditor's Report" in this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group's internal control system has a key role in the identification and management of risks that are significant to the achievement of its business objectives. The process of business risk management has been integrated throughout the Group into business planning and monitoring processes. The Group's management continuously evaluates and monitors the significant risks, while the Board reviews the overall risk management system to ensure that the processes are adequate to control and manage the significant risks identified.

The Board has the responsibility to maintain an effective internal control system in order to safeguard the Group's assets and Shareholders' interests, and review and monitor the effectiveness of the Group's risk management and internal control systems at least annually covering material controls, including financial, operational and compliance controls and risk management functions, to ensure that the systems in place are adequate. The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following features:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

The risk management and internal control systems adopted by the Group are, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has conducted an annual review on whether there is a need for an internal audit department. Given the Group's relatively simple corporate and operation structure, as opposed to diverting resources to establish a separate internal audit department, the Board, supported by the audit committee, is directly responsible for risk management and internal control systems of the Group and for reviewing its effectiveness. The Company engaged RSM Consulting (Hong Kong) Limited, an external independent consultant, to conduct a review of the internal controls system of the Group in order to maintain high standards of corporate governance during the Period.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of the relevant obligations under the SFO and the GEM Listing Rules. The Group also adopts and implements an inside information policy and procedures in order to protect inside information from unauthorised disclosure. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality covenants will be in place when the Group enters into significant negotiations.

In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, is likely to be in possession of inside information in relation to the Company, are required to comply with the securities transaction rules adopted by the Company which are on terms no less exacting than those required under the GEM Listing Rules.

The Board and its audit committee had reviewed the adequacy and effectiveness of the Group's risk management and internal control systems semi-annually. Several areas have been considered during such reviews, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems. The Board and its audit committee were not aware of any material internal control defects, and considered such systems effective and adequate throughout the Period.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide a forum for the Shareholders to exchange views directly with the Board. Subject to provisions of the applicable laws in the Cayman Islands and rules and regulations of the Stock Exchange, an annual general meeting of the Company is held each year and at the venue as determined by the Board. Each general meeting, other than an annual general meeting, is called an extraordinary general meeting ("EGM").

Right to Convene EGMs and Procedures

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an EGM. Any one or more holder of Shares holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. The requisition must be deposited at the registered office of the Company.

If within 21 days of such deposit, the Board fails to proceed duly to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Right to Put Enquiries to the Board

Shareholders may direct enquiries about their shareholdings to the Company's share registrars. To the extent the requisite information of the Company is publicly available, Shareholders and the investing community may at any time make enquiry in respect of the Company in writing at our office in Hong Kong by post, facsimile or email via the numbers and email addresses provided on the Company's website at www.gudouholdings.com.

Right to Put Forward Proposals at General Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Companies Law (as revised) of the Cayman Islands. Subject to provisions of the Articles, eligible Shareholders who wish to move a resolution may by means of requisition convene an extraordinary general meeting following the procedures set out above.

DIVIDEND POLICY

The Board has approved and adopted a dividend policy on 26 March 2019 (the "Dividend Policy"), a summary of which is set out below:

It is the policy of the Board that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends by the Company to its shareholders or by its subsidiaries to the Company;
- taxation consideration; and

- any other factors that the Board may consider relevant.

The declaration and distribution of any dividends are also subject to compliance with applicable laws, regulations and the Articles. The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update them with the latest business development and financial performance including the publication of quarterly, interim and annual reports, the publish and posting of notices, announcements and circulars on the GEM website and the Company's website in order to maintain a high level of transparency.

CONSTITUTIONAL DOCUMENTS

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published its memorandum of association and the Articles on the respective websites of the Stock Exchange and the Company. No amendments were made to the constitutional documents of the Company during the Period.

Environmental, Social and Governance Report

GENERAL

This report covers certain environmental and social responsibility aspects underlying the Group's business operations in the PRC during the Period and is prepared with reference to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 20 of the GEM Listing Rules. In preparing this report, the Group has complied with the applicable "comply or explain" provisions set out in the ESG Reporting Guide.

For details of the Group's financial performance and corporate governance matters, please refer to other sections in the annual report of the Company of which this report forms part.

Sustainability Overview and Management Objectives

The Group believes its success is founded upon the principles of sustainability through providing quality services to guests at Gudou Hot Spring Resort consistently, developing quality properties within Gudou Hot Spring Resort, whilst at the same time striving to preserve the surrounding environment and support the communities through its social responsibility practices.

The Group has established a set of management policies and adopted various measures on environmental protection and natural resources reservation to help ensure the sustainable development and operation of the business. The Group actively manages its business in an environmentally and socially responsible manner consistent with the policies adopted and the below sections present a brief summary of these policies and their implementation during the Period.

During the Period, Guangdong Gudou was recognised as a "Green Mine" by the Department of Natural Resources of Guangdong Province for its adoption of measures to control the disturbance to the surrounding environment to maintain sustainable development of mineral resources.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION

As Gudou Hot Spring Resort and the Group's operations are based in the PRC, its business operations are principally subject to the PRC environmental laws and regulations. With a view to complying with the relevant environmental laws and regulations and minimising the impact on the environment as well as to report on the environmental and social aspects of the Group's business operations, the Group has developed an environmental management program ("EMP") for the purpose of identifying aspects of the Group's operations ("Aspects") that may have significant impact on the environment in light of applicable laws and otherwise.

Under the EMP, representatives from each operational department within the Group will meet yearly with the Group's environmental management representative ("EMR") to review its key processes and identify possible Aspects underlying the operation of such department. The Group's senior management team will then discuss with the EMR regarding any significant Aspects identified, and design measures aimed at reducing the environmental impacts arising from such Aspects. These measures will be documented and the related staff will be provided with suitable training, with EMR supervision and reporting to senior management from time to time to ensure effective implementation.

Emissions and Waste Generation

The principal types of emissions and wastes generated from the Group's business operations, i.e. (i) the operation and management of the hot spring resort and hotel facilities of Gudou Hot Spring Resort and (ii) the development and sale of tourism properties located at Gudou Hot Spring Resort, are listed as follows and the Group believes these emissions do not have a significant adverse impact on the environment:

- Domestic waste: Paper, household wastes, food wastes from the Group's hot spring resort and hotel operation business and other incidental wastes

  As part of the Group's hot spring resort and hotel operation business, it generates non-hazardous domestic wastes from guest room amenities packaging such as paper, plastic bags and plastic bottles. It also generates household wastes from guests and food wastes from the catering and restaurant business in Gudou Hot Spring Resort.

  The following table sets out the domestic waste the Group generated in 2018:

	Amount of Waste Produced (tonnes)
Domestic Waste	681.0

  Domestic wastes discharged by Gudou Hot Spring Resort in ordinary means are in compliance with the Law of the PRC on the Prevention and Control of Environment Pollution by Solid Wastes(《中華人民共和國固體廢物污染環境防治法》)

  The Group's waste management strategy focuses on legal disposal, reduction and reuse of wastes. All the waste disposal and processing must be carried out by government-certified service providers according to PRC laws and regulations. Recyclable wastes are sorted and collected according to classifications and are delivered to a recycling vendor in the Xinhui District where appropriate.

- Greenhouse gas (GHG) emission which include carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O)

  These greenhouse gases are principally emitted from the use of electricity and fuels derived from fossil fuels within Gudou Hot Spring Resort. Catering and restaurant business of our Gudou Hot Spring Resort also generates smokes and fumes. Greenhouse gases are also derived from vehicles of guests who visit our Gudou Hot Spring Resort. The Group also owns 58 motor vehicles which are used for transportation of personnel and other business uses. The Group has adopted the use of electrical carts for the transportation within Gudou Hot Spring Resort by our guests in order to reduce the direct emission of GHG. Therefore, emissions of GHG from vehicles in Gudou Hot Spring Resort is not considered material.

  The below table sets out the key statistics relating to GHG emissions.

	2017	**2018**
Total GHG emissions[2] (approximate tonnes)	9,638.9	**8,994.6**
— Direct emissions[3] (approximate tonnes)	680.8	**866.4**
— Energy indirect emissions (approximate tonnes)	8,958.1	**8,128.2**
Total GHG emissions per Occupied Room Night (tonnes/room night)[4]	0.05	**0.04**

Notes:

1. GHG emission data is presented in carbon dioxide equivalent and the calculation of GHG emissions during the Period was estimated based on the amount of electricity and fuels consumed and the relevant emission factors.

2. Due to its business nature, the Directors consider that the significant air emissions of the Group are the GHG emissions, arising mainly from the use of electricity and fuels derived from fossil fuels within our Gudou Hot Spring Resort.

3. Direct emissions of GHG during the Period mainly arose from the catering and restaurant business of our Gudou Hot Spring Resort.

4. The total GHG emissions per Occupied Room Night is for illustrative purpose and is calculated by dividing total GHG emissions by the Total Occupied Room Night during the Period.

5. As certain emission factor data in the calculation of GHG emissions above may not be available in the PRC, relevant emission factor data in Hong Kong has been applied.

The emission of smoke and fumes from the catering and restaurant business of our Gudou Hot Spring Resort is in compliance with the standards required under the Emission Standard of Cooking Fume（《飲食業油煙排放限值》） and Boiler Air Pollutant Emission Standard（《鍋爐大氣污染物排放標準》）.

In addition to the direct emissions from the combustion of fuels, the use of electricity by the Group is also indirectly attributable to production of GHG, from the electricity generation process. With reference to the kilowatt-hour power generation to carbon dioxide emission ratio respectively published by the PRC provincial government, during the Period, approximately 8,128.2 tonnes (2017: 8,958.1 tonnes) of carbon dioxide were attributable to the Group's electricity usage in the operation of Gudou Hot Spring Resort.

In respect of the tourism property development business, wastes generated during the development include demolition wastes, broken bricks, sand, concrete, waste packaging materials as well as domestic garbage. The Group outsources its construction work to independent construction contractors. Pursuant to the respective construction agreements entered into between the construction contractors and the Group, the construction contractors and any subcontractors are required to comply with the environmental impact assessment requirement and the applicable environmental laws and regulations, including management of waste generated during the construction. As a result, data in respect of wastes generated from tourism property development business during the Period is not available to the Group.

After the Environmental Protection Tax Law of the PRC（《中華人民共和國環境保護稅法》）came into effect on 1 January 2018, the Group is required to pay environmental pollution tax for pollutants directly discharged to the environment, such as air pollutants and water pollutants. During the Period, the Group complied with the Environmental Protection Law of the PRC（《中華人民共和國環境保護法》）, Atmospheric Pollution Prevention and Control Law of the PRC（《中華人民共和國大氣污染防治法》）, Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes（《中華人民共和國固體廢物污染環境防治法》）, Water Pollution Prevention and Control Law of the PRC（《中華人民共和國水污染防治法》）, the Prevention and Control of Noise Pollution Law of the PRC（《中華人民共和國噪聲污染防治法》）and other relevant environmental laws and regulations in all material respects and did not receive any notification regarding emission, noise, waste disposal and sewage discharge violation. The Group believes that the emission, disposed waste and discharged sewage does not pose material impact on the surrounding environment which is different from local domestic emissions, waste disposals or sewage discharges.

Measures undertaken to reduce emissions and wastes

With a view to minimising the environmental impact brought by these emissions and wastes, the Group has adopted the following measures during the Period to supplement its EMP:

1. Utilising electric vehicles within Gudou Hot Spring Resort as opposed to fossil fuel-powered vehicles so as to reduce emissions from sources.

2. Understanding better the Group's suppliers and subcontractors and taking into account their environmental and social responsibility practices in the recruitment process. Please refer to the sub-section headed "Social Responsibility Operational Practices – Supply Chain Management" below in this report for further details.

3. Periodically arranging environmental compliance inspections to ensure the Group's compliance with the applicable PRC environmental laws relating to the Group's operations.

For policies and measures undertaken by the Group to reduce the use of electricity, please refer to the paragraph headed "Resources consumption – Electricity" below.

Resources Consumption

The Group recognises the importance of efficient resources consumption and continuously aims at streamlining its operations with a view to developing an energy-efficient culture. The principal types of resources utilised by the Group in the operation and management of Gudou Hot Spring Resort during the Period, and the measures undertaken by the Group to promote efficient usage are discussed below:

- Water

  The operation of Gudou Hot Spring Resort involves high water consumption as it needs to serve 62 public pools and 134 private pools in themed hotel complexes. According to the water extract permits issued by the Xinhui District Water Bureau of Jiangmen City, the Group is allowed to extract a maximum of 662,500 cubic metres of freshwater (for freshwater hot spring) and 730,000 cubic metres of geothermal water (for seawater hot spring) per annum respectively. Freshwater hot spring resources can be replenished naturally by rain water that flows underground and other underground water and seawater hot spring resources can be replenished naturally by sea water that flows underground and the other underground water.

  The Group's office and tourism property development business utilised insignificant amount of water resources as compared to domestic water usage at Gudou Hot Spring Resort. During the Period, the aggregate volume of hot spring water and domestic water consumed at Gudou Hot Spring Resort amounted to approximately 1,487.5 thousand tonnes.

	Total consumption (Thousand Tonnes)		Average water usage per Occupied Room Night (Approximate Tonnes/ room night)	
	2017	**2018**	2017	**2018**
Domestic water	948.8	**970.2**	4.2	**4.9**
Hot Spring water	426.4	**517.4**	1.9	**2.6**

Note:

1. The average water usage per Occupied Room Night is for illustration purpose only and is calculated by dividing total consumption by Total Occupied Room Night during the Period.

In order to ensure efficient and sustainable use of water resources, the Group has closely monitored the usage of water resources to ensure the volume of water actually extracted by Gudou Hot Spring Resort is below the maximum extraction volume. The Group has also adopted internal guidelines and provides staff education to promote water conservation, as well as routinely inspects and upkeeps water supply facilities. To further ensure quality of water supplied for use at Gudou Hot Spring Resort, the Group has also adopted clear guidelines regarding sanitisation and filtration in water supply and storage facilities. The management also constantly monitors status of our spring water sources and engages hot spring experts for conducting annual check on the quality and quantity of our spring water sources.

The hot spring water is discharged continuously into Huangmao Sea (黃茅海) after use, which complies with the relevant PRC laws and regulations. In addition, the operation of the hotel and other ancillary facilities within Gudou Hot Spring Resort also generates sewage (e.g. water used by guests for personal care and by hotel staff for cleaning and domestic use). In order to minimise the impact of the Group's water discharges on the surrounding environment, the Group has two separate drainage systems with capability to process 2,700 tonnes of water per day. Both systems are utilised during peak seasons and are utilised alternatively during low seasons on a daily basis. A large-scale water purification system has also been set up in Gudou Hot Spring Resort which involves numerous procedures including anaerobic oxidation and sterilisation to purify the sewage generated and ensure that sewage discharged is filtered of residue before discharge. During the Period, 8,990 tonnes of sewage were purified (2017: 19,537 tonnes). The purified sewage is in compliance with the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant（《城鎮污水處理廠污染物排放標準》）. In developing and exploiting mineral resources by its operation of the Gudou Hot Spring Resort, the Group must also comply with the Water Law of the PRC（《中華人民共和國水法》）, Mineral Resources Law of the PRC（《中華人民共和國礦產資源法》）and other relevant regulations.

During the Period, the Group was not aware of any issue in sourcing water that is fit for purpose.

- Electricity

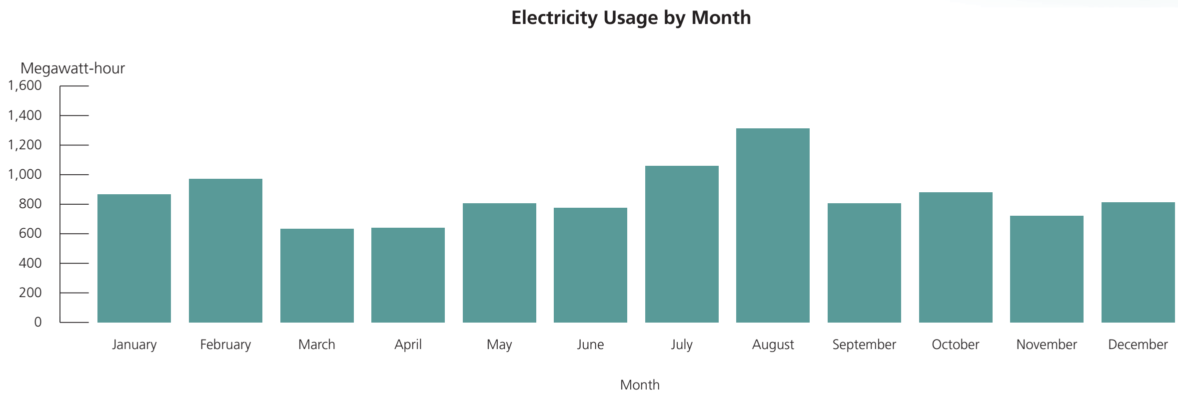
Electricity is necessary for the operation of hotel and other ancillary facilities within Gudou Hot Spring Resort and the tourism property development and is the main source of energy used. During the Period, the Group's electricity utilisation data during the Period is as follows:

Year	Total consumption (megawatt-hour)	Average electricity usage per Occupied Room Night (kilowatt-hour/ room night)
2017	11,339.4	50.0
2018	**10,288.9**	**51.6**

Note:

Average electricity usage per Occupied Room Night is for illustrative purpose only and is calculated by dividing total consumption by Total Occupied Room Nights during the Period.

The Group has adopted an internal policy during the Period to promote conservative energy uses. Under the policy, the usage of electricity in Gudou Hot Spring Resort is continuously monitored and there are clear guidelines on the operating hours/ energy-saving measures in respect of electrical appliances such as office equipment and lighting and air conditioning facilities in the public area of Gudou Hot Spring Resort. For example, during summer time, lightings in office may only be switched on from 7pm to midnight while during winter time, lightings in office may be switched one hour earlier. Data of electricity usage is collected and analysed in the monthly meeting in respect of electricity usage.



Since 2015, Gudou Hot Spring Resort is illuminated with fluorescent lamps or other energy efficient lights (which generally utilise 1,500 kWh) as opposed to traditional lights (which generally utilise 2,600 kWh). In addition, energy consumption efficiency of electrical appliances will also be taken into account when purchases are being considered.

- Paper and Packaging Materials

The Group's operation does not involve high level of paper and packaging materials. The Group mainly adopts paper and packaging materials for guest room amenities in the hotel facilities within Gudou Hot Spring Resort.

To facilitate efficient paper usage, the Group has introduced the concept of "Green Hotel" in Gudou Hot Spring Resort whereby guest room amenities are not refilled on a daily basis unless otherwise requested by guests. A paperless room check-in and check-out system has been implemented whereby room reservation information can be viewed on computer screens instead of paper. The Group has also put in place internal guidelines regarding paper conservation. Pursuant to these guidelines, the use of paper by different departments of the Group will be accounted for and monitored, and paper-saving measures such as double-sided printing, using smaller sheets for sundry uses, and paperless internal correspondences, etc. are also adopted.

Reducing the amount of wastes being sent to the landfill forms an important part of the Group's environmental policies. The Group promotes the "3R" Program which aims at minimising, to the extent practicable, the amount of wastes produced during the course of the Group's business operations. The term "3R" represents:

(a) Reduction – Gudou Hot Spring Resort has been implementing waste minimisation initiatives including wet amenities, soap, paper and glass bottles. The guest room amenities will only be replenished upon request by guests.

(b) Reuse – reusing wastes generated and returning unused materials such as plastic containers and festive decoration.

(c) Recycling – converting waste materials into usable materials or extracting useful substances from them, such as recycling paper and plastic.

During the Period, to the best of the Directors' knowledge, the Group did not receive any material complaint from its customers or any other parties in respect of any environmental protection issues, and had not experienced any material environmental incidents arising from its operations. During the Period, no material administrative sanctions or penalties were imposed upon the Group for the violation of environmental laws or regulations which had an adverse impact on its operations.

GROUP POLICIES RELATING TO CORPORATE SOCIAL RESPONSIBILITY PRACTICES

Employees are the foundation of the Group's success and development. The Group is committed to ensuring the health, safety and general welfare of its employees at work. In addition, the Group provides various job-related seminars, workshops and training courses for the employees' continuous professional development. Further, the Group has also adopted a number of social responsibility practices for the support of the community and upholding the Group's business integrity.

Employment and Labour Practices

Health and Safety

The Group is committed to providing a safe working environment to its employees. The Group has a safety management team comprising 12 personnel and is responsible for overseeing the safety of our employees during the overall project development process. To maintain a safe working environment and minimise workplace injuries, the Group has established internal policies on safety management whereby different team is assigned different safety compliance responsibilities.

The Group is in strict compliance with the Labour Law of the PRC（《中華人民共和國勞動法》）, the Labour Contract Law of PRC（《中華人民共和國勞動合同法》）and the Hong Kong Employment Ordinance and Occupational Safety and Health Ordinance in relation to the health and safety of its employees. The below sets out a few examples of the practices adopted by the Group in compliance with the applicable local laws and regulations in relation to workplace safety:

- Ensuring the Group's construction contractors maintain accident insurance for the workers
- Engaging independent construction supervision company to monitor safety measures throughout the construction process who will submit inspection reports to the Group regularly
- Employing certified contractors for regular inspection of fire safety equipment in Gudou Hot Spring Resort and office premises
- Providing health checks to staff members as appropriate prior to commencement of employment
- Providing safety equipment such as fire extinguishers at the workplace
- Installing surveillance cameras at the main entrances, reception halls and front desks of various sections of Gudou Hot Spring Resort, as well as certain spots of the public area within Gudou Hot Spring Resort
- Employing security guards guarding at various entrances and carrying out 24-hour patrol
- Prohibiting smoking at the workplace
- Providing safety training to staff members and practising from time to time emergency responses in the case of fire or other hazards
- Regular cleaning of the water supply filters and daily garbage removal

During the Period, no material workplace injury has been recorded at Gudou Hot Spring Resort.

Vocational Training and Development

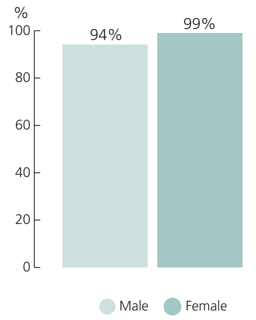
Considering its employees to be indispensable to the Group's business achievements, apart from safety-related training as mentioned above, the Group also provides both internal and external training programs to its employees regularly with a view to upholding our "Gudou" brand image and enhancing their work quality and personal development. All new hotel staff are required to attend a three-day hospitality pre-job training to equip them with necessary knowledge about the brand "Gudou" and prerequisite skills in serving guests. Internal training programs are held on a monthly basis to refresh memories and skills of its staff.

During the Period, the Group has provided/procured approximately 378 hours of job-related training on the above topics to its staff.

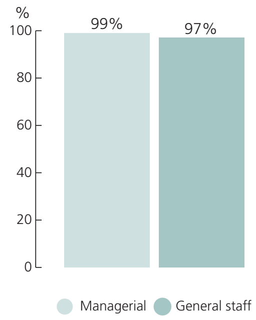
Average Hours per Employee

By Gender	
Male	7.6
Female	11.4
By professional category	
Managerial	8.7
General staff	10.1

Staff trained by gender



Staff trained by grade



The Group also introduces a mentorship program whereby senior staff members will supervise new employees, and provide on-job training and orientation to them to facilitate smooth integration into the Group's operation process.

Employment and Labour standards

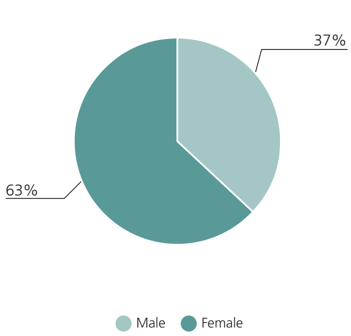
The Company strives to be a responsible employer and the Group is committed to implementing good employment practices, and advocates ethics and human rights at the workplace. The Group is in compliance in all material respects with the Labour Law of the PRC（《中華人民共和國勞動法》）and Labor Contract Law of the PRC（《中華人民共和國勞動合同法》）and the Hong Kong Employment Ordinance in the following aspects.

(a) *Practices on recruitment process and dismissal*

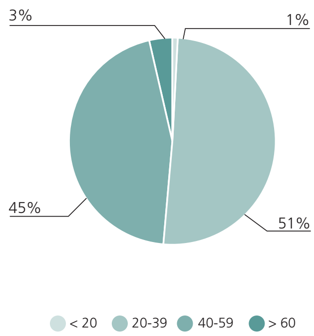
The Group is an equal opportunity employer and recruits employees from the open market. Its employment policy is based on individual merits, suitability to the relevant job requirements, and fairness. The Group prohibits discrimination against potential candidates in the recruitment process on the account of their race, colour, religion, sex and gender identity/ sexual orientation, age, marital and parental status, and/or pregnancy or medical conditions.

The Group only hires legitimate employees. The Group does not hire any persons who do not meet the minimum working age as specified under applicable laws and regulations such as the Labour Law of the PRC（《中華人民共和國勞動法》）and the Hong Kong Employment of Children Regulations. During the recruitment process, candidates must submit photocopies of identity cards and present originals for verification purposes. During the Period, all employees of the Group are aged 18 or above. As at 31 December 2018, the Group has 666 employees. The following diagrams illustrate the Group's staff composition as at 31 December 2018:

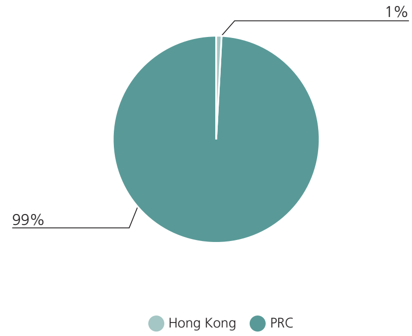
Percentage of Staff by Gender



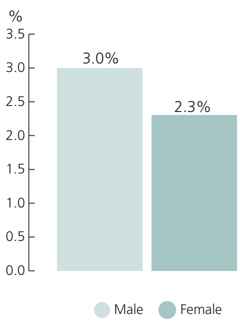
Percentage of Staff by Age



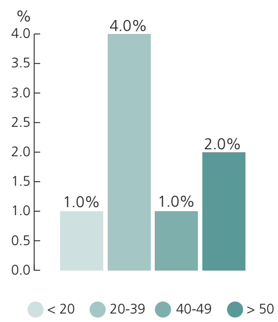
Percentage of Staff by Geographical Region



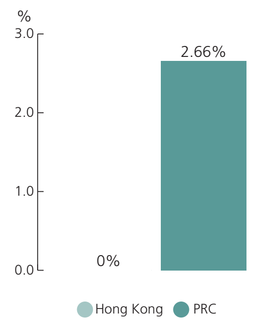
Turnover Rate by Gender



Turnover Rate by Age



Turnover Rate by Geographical Region



The Company has in place an internal policy and employee handbook which clearly set out the process of resignation and dismissal of employees in order to safeguard the Company's and employees' rights.

(b) *Practices on remuneration and promotion*

The Group offers competitive salary in order to attract talents. The remuneration of each employee will be determined with reference to a number of factors including educational background, job duties, professional skills, technical capabilities and experience, as well as salary level for similar job positions in the industry. The Company has also adopted a share option scheme under which employees of the Group are, based on management's evaluation of their individual performance, eligible to be granted share options as incentives. The Group adopts an open-door communication policy and carries out annual review with its employees on their performance during the Period, during which process each employee is given equal opportunity for promotion. The Group's employees are provided with a clear career path with opportunities for additional responsibilities and promotions.

(c) *Practices on working hours and general welfare*

The resting time of the Group's employees is well respected and the employees are also entitled to paid holidays pursuant to statutory requirements or otherwise under their respective employment contracts. There is a computerised attendance registration system in place to continuously monitor the working hours of the employees. During working hours, the employees' personal movements are not restricted in any way. By reviewing the working hours of the employees, the Group strives to ensure that no forced labour is being used in the Group's business operations. The Group also adopts a no-violence policy towards sexual harassment at the workplace to protect its employees from unsolicited sexual advances.

Besides, the Group also makes statutory pension scheme contributions for the benefit of employees in accordance with the relevant legal requirements in Hong Kong and the PRC, including the mandatory provident fund contributions in Hong Kong and social insurance payments in the PRC.

To enhance overall morale of its employees, the Group also organises company events such as New Year Party, Christmas Party, Birthday Parties, Sports Days, etc. to allow the staff members to gather outside of work for bonding and team-building.

The Group believes, to the best of the Directors' knowledge and belief, that during the Period, it is generally in compliance with local labour law regarding compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, vacation, minimum wage requirements, and safe working environment. In addition, it has not received any complaint or notification from governmental authorities for contravention of any of the employment practices referred to above.

Social Responsibility Operational Practices

Supply Chain Management

The major suppliers of the Group mainly consist of construction companies and suppliers for our F&B services and other daily utilities. For our tourism property development projects, the Group engages construction companies as our contractors to carry out the construction work and procure the necessary construction materials. We purchase the food ingredients for our F&B outlets on an "as-needed" basis. All our suppliers are located in the PRC.

To maintain and ensure the quality of the Group's services, its supply chain management policy is to use strict review criteria for selection of suppliers. The suppliers must hold all necessary licences and qualifications. The Group selects only those suppliers on an approved list who have met the Group's quality requirements and have a satisfactory record of quality and on-time delivery. As at 31 December 2018, there were 88 suppliers under such approved list.

The Group also practises ethical procurement and targets to source raw materials from socially responsible suppliers. To achieve this, all personnel with supply chain management responsibilities are trained to ensure, to the extent practicable, that selected suppliers are legally compliant in respect of services and products provided to the Group, especially with respect to compliance with laws against slavery and human trafficking, and other employment— and environment-related laws. Conformity by suppliers with the relevant industrial standards and ethical business norms in their supply of services and products to the Group is one of the supplier selection criteria that the Group takes into account. Suppliers' fulfilment of the environment, health and safety requirements of the Group are relevant factors which will be taken into account by the Group in its supplier selection process.

The Group also reviews suppliers' environmental and social responsibility-related practices annually through, for example, site inspections and interviews. The Group's management will review the procurement process and may source materials/products from alternative suppliers when a supplier has been identified by the Group to have deficient environmental and social responsibility practices and has not made any improvement upon request.

Product Responsibility

The Group places high priority on providing guests with quality services at Gudou Hot Spring Resort and quality tourism properties. The Group has established a quality control team which comprises 12 personnel and is led by Mr. He Yingquan, the deputy general manager of our hot spring resort and hotel operations. The Group follows a set of stringent quality control measures and procedures to prevent risks in relation to our hygiene and services within the amenities of our Gudou Hot Spring Resort. During the Period, the Group strictly abided by the Food Safety Law of the PRC (《中華人民共和國食品安全法》), Tourism Law of the PRC (《中華人民共和國旅遊法》) and Regulations for the Administration of Sanitation of the Public Assembly Venue (《公共場所衛生管理條例》.

With respect to our property development projects, the Group engages construction companies to undertake supervision and control in order to ensure quality conditions of the projects. The Group's technical team and property development team will also carry out onsite visit on a regular basis.

The Group has also devised a hotel management manual and a property development manual which sets out the stringent policies, procedures and systems in operating the business. For example, the hotel management manual covers customer registration and clientele management, prepaid VIP service management and complaints handling procedures whereas the property management manual covers property development and sales procedures. The Group requires employees and contractors to strictly adhere to these manuals when providing services or constructing tourism properties so that the quality of the Group's services and products is consistently maintained. In the event that the Group receives complaints from guests, these will be handled by the hotel staff pursuant to the procedures set out in the hotel management manual as and when needed. Complaints of material importance will be discussed in the weekly meeting of hotel management personnel. The Group is regulated by the Law of the PRC on Protection of the Rights and Interests of Consumers（《中華人民共和國消費者權益保護法》）, Product Quality Law of the PRC（《中華人民共和國產品質量法》）, and the Tort Law of the PRC（《中華人民共和國侵權責任法》）. During the Period, no complaints of material importance has been received in respect of the services and products provided by the Group.

Our brand "Gudou" is well known by the public. Given the importance of this brand to the business, the Group has already registered the trademark of our principal brand name "Gudou" in the PRC and in Hong Kong. In addition, the Group has four trademarks registered in the PRC, one trademark registered in Hong Kong, and two domain names which are material to the business, namely gudouhotspring.com and gudouholdings.com for which the Group is the registered proprietor.

The Group considers sales and marketing to be a significant component in our business operations. Its marketing efforts included advertising through website, mobile applications, media, printed materials and outdoor signage. Some of these marketing activities are collaborated with travel agencies. In order to enhance our attractiveness, the Group has also launched various marketing events in our Gudou Hot Spring Resort and participated in different exhibitions in the PRC and Macau Special Administrative Region of the PRC.

To ensure that personal information can be effectively protected, the Group has developed a policy which requires employees to comply with confidentiality provisions, ensure that personal data of customers are only handled by employees on a "as needed" basis and take due care to protect customers' personal data against unauthorised or accidental access. Employees in violation of such policy will be reprimanded.

The Group believes, to the best of the Directors' knowledge and belief, that during the Period, it is generally in compliance with relevant laws and regulations that have a significant impact on the Company relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

Anti-corruption Practices

To ensure integrity and fair competition in our operations and to uphold our core value of anti-corruption, the Group has adopted and circulated internal guidelines which strictly prohibits bribery, extortion, fraud, money laundering and other acts such as gambling and personal loans with persons having business relationships with the Group, misappropriation of the Group's assets, inappropriate charitable donation or sponsorship, unlawful solicitation of business or favourable treatment, provision or acceptance of "kickbacks" or unreasonable gifts, entertainments or other improper benefits etc. The Group's employees also need to declare their respective interest in the Group's business partners, suppliers, contractors and advisers that may conflict with the Group's business interests. In addition, the Group has established an internal reporting system and channels for whistleblowing under which employees are encouraged to report potential fraud, illegal, inappropriate or suspicious issue promptly upon them being aware of it to the management with a view to preventing non-compliance incidents. These internal guidelines and procedures will be provided to employees when they join the Group and will be covered in the training provided to new joiners.

Employees are also required to comply strictly with applicable laws (including the Prevention of Bribery Ordinance in Hong Kong, the PRC Anti-Unfair Competition Law（《中華人民共和國反不正當競爭法》）and the PRC Criminal Law（《中華人民共和國刑法》）) relating to the above acts. It is also a term under the Group's standard employment contract that legal non-compliance will constitute a ground of termination of employment. The Group also expects its suppliers and business partners to similarly abide by the relevant local anti-corruption laws.

During the Period, the Group has not received any complaint or notification from governmental authorities regarding non-compliance of the Group or its employees with anti-corruption laws referred to above.

Community Participation

As a responsible corporate citizen, the Group believes that community support is important to the Group's long term success and strives to engage the community to understand the needs of the communities surrounding Gudou Hot Spring Resort.

In respect of tourism property development business, the Group takes into the surrounding cultural relic and plantation in its operation. Before any construction work commences, the Group will conduct inspection and formulate plans to ensure that afforestation ratio as requested by the relevant government authorities at the time of grant of the use land right can be achieved. Various kinds of measures are adopted to prevent soil erosion and restore native ecosystems such as plantation of trees and utilisation of wire mesh slope stabilisation.

The Group commits to connecting Gudou Hot Spring Resort with the community. Through an established and comprehensive feedback system, guests of Gudou Hot Spring Resort are able to communicate with the Group in numerous ways including hotline, social media page or feedback form. The Group has specifically assigned personnel to follow up each case and has taken appropriate action in accordance with established policies and procedures.

The Group also offers financial support to registered charitable organisations and encourages employees in volunteering to help the underprivileged and deserving members in its community. During the Period, the Group donated approximately HK$58,000 (2017: approximately HK$83,000) in total to a number of registered charitable organisations.

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF GUDOU HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Gudou Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 74 to 151, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance ("HKCO").

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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TO THE SHAREHOLDERS OF GUDOU HOLDINGS LIMITED *(continued)*

(incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Going concern assumption
- Valuation for investment properties

Key Audit Matter	How our audit addressed the Key Audit Matter
Going concern assumption Refer to Note 2.1.1 to the consolidated financial statements. The Group recorded a profit of RMB15,570,000 for the year ended 31 December 2018. In addition, the Group had net current liabilities of RMB87,354,000 as at 31 December 2018. The Group is dependent on its existing cash resources, available facilities from bank, the ability to renew its existing bank loans and obtain new bank facilities as and when needed, and cash flows to be generated from operations to finance the future operations of the Group. The forecast of its cash flows generated from operations involved key assumptions including revenue growth in the hotel and resort operation and the expected progress of sale of properties in the property development operation. Management of the Group has performed a working capital forecast and concluded that there will be sufficient funds to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2018 to support the going concern basis of preparation of the consolidated financial statements. We focused on this assessment as it involved consideration of future events and application of significant judgements and estimates and accordingly, this was an area of our audit focus.	In assessing the appropriateness of management's going concern assumption in preparing the consolidated financial statements, the following audit procedures have been performed by us: • Confirming the cash resources and available facilities as at year end by circularisation of bank confirmations and assessing the probability of facilities renewal during the forecast period by examining historical records of renewal pattern; • Evaluating management's assessment on compliance of bank covenants during the forecast period by examining relevant terms set out in the bank loan agreements and management's plan for compliance with covenants during the forecast period; • Assessing the appropriateness of key assumptions used in the working capital forecast by comparing projected sales amount to historical sales amount for the hotel and resort operation and sales pattern for property development operation. We also checked these key assumptions against actual results in the period subsequent to the year end; and • Evaluating the sensitivity of the Group's working capital forecast by considering downside scenarios against reasonable possible changes to the above key assumptions. Based on the procedures described, we found that the judgements and estimates made by management in preparing the working capital forecast for the purposes of going concern assessment were supportable by available evidence.

TO THE SHAREHOLDERS OF GUDOU HOLDINGS LIMITED *(continued)*

(incorporated in the Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation for investment properties Refer to note 2.7, 3(d) and 18 to the consolidated financial statements. The Group owns investment properties in the People's Republic of China (the "PRC"). The carrying amount of investment properties was RMB661,620,000 as at 31 December 2018. For the year ended 31 December 2018, a revaluation gain of RMB53,500,000 relating to the investment properties was recognised in the consolidated statement of comprehensive income. Management engaged an independent professional qualified valuer to perform valuations of the investment properties. The valuation approach adopted by the valuer was the sales comparison approach, with reference to the selling prices per square meter of comparable properties and adjusted for differences in key attributes such as location and size. The significance of the amount and the judgements involved in the valuation exercise warrant specific audit focus in this area.	In assessing valuation for investment properties, the following audit procedures have been performed by us: We obtained the valuation report prepared by the independent professional qualified valuer and assessed the competence, capabilities and objectivity of the valuer by verifying their qualification and discussing the scope of their work. We involved our internal valuation expert to assess the appropriateness of the valuation methodology adopted by the valuer. We also involved our internal valuation expert to assess the reasonableness of the key assumptions and inputs used by the valuer in the valuation by performing market research on comparable market transactions. We considered that the assumptions used in the valuations were supportable in light of available evidence.

TO THE SHAREHOLDERS OF GUDOU HOLDINGS LIMITED *(continued)*

(incorporated in the Cayman Islands with limited liability)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

TO THE SHAREHOLDERS OF GUDOU HOLDINGS LIMITED *(continued)*

(incorporated in the Cayman Islands with limited liability)

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

TO THE SHAREHOLDERS OF GUDOU HOLDINGS LIMITED *(continued)*

(incorporated in the Cayman Islands with limited liability)

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

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

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

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

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Chow Shiu Hay, Antonio.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 *RMB'000*	2017 *RMB'000*
Revenue	*6*	**248,729**	318,529
Cost of sales	*11*	**(157,441)**	(199,026)
Gross profit		**91,288**	119,503
Other income	*7*	**428**	19,845
Fair value gains on investment properties	*18*	**53,500**	49,840
Selling expenses	*11*	**(26,755)**	(22,592)
Administrative expenses	*11*	**(47,947)**	(47,072)
Net impairment loss on financial assets	*4(b)*	**(1,767)**	—
Profit from operations		**68,747**	119,524
Finance costs	*9*	**(13,849)**	(14,682)
Profit before tax		**54,898**	104,842
Income tax expenses	*10*	**(39,328)**	(52,420)
Profit for the year		**15,570**	52,422
Other comprehensive (loss)/income for the year, net of tax			
Item that may be reclassified to profit or loss:			
Currency translation differences		**(832)**	758
Item that will not be reclassified to profit or loss:			
Fair value loss on financial assets at fair value through other comprehensive income	*20*	**(2,124)**	—
Total comprehensive income for the year		**12,614**	53,180

Earnings per share

		2018 *RMB cents*	2017 *RMB cents*
Basic earnings per share	*15*	**1.59**	5.35
Diluted earnings per share	*15*	**1.54**	5.25

The notes on pages 81 to 151 are an integral part of theses consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	16	**249,356**	235,932
Prepaid land lease payments	17	**7,020**	7,346
Investment properties	18	**661,620**	608,120
Financial assets at fair value through other comprehensive income	20	**1,877**	—
Deferred tax assets	31	**1,297**	1,216
		921,170	852,614
Current assets			
Properties held for sale	21	**37,732**	70,276
Inventories	22	**3,622**	3,405
Accounts receivable	23	**60,700**	53,188
Prepaid land lease payments	17	**326**	326
Prepayments, deposits and other receivables	24	**44,199**	55,193
Restricted bank deposits	25	**—**	13,010
Bank and cash balances	26	**41,492**	24,970
		188,071	220,368
TOTAL ASSETS		**1,109,241**	1,072,982
Current liabilities			
Accounts payable	27	**79,856**	86,401
Proceeds received from pre-sale of properties	28	**—**	250
Accruals and other payables	29	**45,405**	52,842
Borrowings	30	**58,172**	80,348
Current tax liabilities		**60,044**	46,434
Contract liabilities	29	**31,948**	—
		275,425	266,275

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 *RMB'000*	2017 *RMB'000*
Non-current liabilities			
Borrowings	*30*	**233,339**	230,512
Deferred tax liabilities	*31*	**169,541**	159,738
Deferred income	*32*	**8,500**	9,000
		411,380	399,250
TOTAL LIABILITIES		**686,805**	665,525
Capital and reserves			
Share capital	*33*	**8,669**	8,669
Reserves		**413,767**	398,788
TOTAL EQUITY		**422,436**	407,457
TOTAL LIABILITIES AND EQUITY		**1,109,241**	1,072,982

The notes on pages 81 to 151 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 74 to 151 were approved by the Board of Directors on 26 March 2019 and were signed on its behalf.

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Hon Chi Ming

Director

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Huang Zhanxiong

Director

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2018

	Share capital	Share Premium	Foreign currency translation reserve	Share-based payment reserve	Capital reserve	Other reserve	Retained profits	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	8,669	99,249	(4,657)	—	(277)	69,528	176,761	349,273
Comprehensive loss								
Profit for the year	—	—	—	—	—	—	52,422	52,422
Other comprehensive loss								
Currency translation differences	—	—	758	—	—	—	—	758
Total comprehensive income for the year	—	—	758	—	—	—	52,422	53,180
Transactions with owners in their capacity as owners								
Share-based payment *(Note 14)*	—	—	—	5,004	—	—	—	5,004
Total transactions with owners in their capacity as owners	—	—	—	5,004	—	—	—	5,004
As at 31 December 2017	8,669	99,249	(3,899)	5,004	(277)	69,528	229,183	407,457

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2018

	Share capital *RMB'000*	Share Premium *RMB'000*	Fair value reserve *RMB'000*	Foreign currency translation reserve *RMB'000*	Share-based payment reserve *RMB'000*	Capital reserve *RMB'000*	Other reserve *RMB'000*	Retained profits *RMB'000*	Total equity *RMB'000*
Balance at 31 December 2017 as originally presented	8,669	99,249	—	(3,899)	5,004	(277)	69,528	229,183	407,457
Change in accounting policy *(Note 2.1.3)*	—	—	—	—	—	—	—	(1,980)	(1,980)
Restated total equity at 1 January 2018	8,669	99,249	—	(3,899)	5,004	(277)	69,528	227,203	405,477
Comprehensive income/(loss)									
Profit for the year	—	—	—	—	—	—	—	15,570	15,570
Other comprehensive loss									
Currency translation differences	—	—	—	(832)	—	—	—	—	(832)
Fair value loss on financial assets at fair value through other comprehensive income	—	—	(2,124)	—	—	—	—	—	(2,124)
Total comprehensive (loss)/income for the year	—	—	(2,124)	(832)	—	—	—	15,570	12,614
Transactions with owners in their capacity as owners									
Share-based payment *(Note 14)*	—	—	—	—	4,345	—	—	—	4,345
Total transactions with owners in their capacity as owners	—	—	—	—	4,345	—	—	—	4,345
As at 31 December 2018	8,669	99,249	(2,124)	(4,731)	9,349	(277)	69,528	242,773	422,436

The notes on pages 81 to 151 are an integral part of theses consolidated financial statements.

Consolidated Statement Of Cash Flows

For the year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit before tax	**54,898**	104,842
Adjustments for:		
Interest income	**(343)**	(1,098)
Fair value gains on investment properties	**(53,500)**	(49,840)
Amortisation of prepaid land lease payments	**326**	326
Amortisation on prepayment for renovation for properties	**13,404**	13,404
Depreciation on property, plant and equipment	**23,446**	24,179
Share-based payment	**4,345**	5,004
Finance costs	**18,087**	14,682
Gain on disposal of property, plant and equipment	**—**	(18,513)
Operating profit before working capital changes	**60,663**	92,986
Properties held for sale	**32,544**	9,766
Inventories	**(217)**	(73)
Accounts receivable	**(9,492)**	(26,944)
Prepayments, deposits and other receivables	**(21,483)**	(26,723)
Accounts payable	**(6,545)**	31,525
Proceeds received from pre-sale of properties	**—**	(43,179)
Contract liabilities	**31,948**	—
Accruals and other payables	**(8,187)**	(5,039)
Cash generated from operations	**79,231**	32,319
Interest paid in respect of amount capitalised in properties held for sale	**(3,404)**	(7,510)
Income taxes paid	**(15,996)**	(6,383)
Net cash generated from operating activities	**59,831**	18,426
Cash flows from investing activities		
Change in restricted bank deposits	**13,010**	78,836
Interest received	**342**	1,098
Interest paid in respect of amount capitalised in property, plant and equipment	**(834)**	(697)
Purchase of property, plant and equipment	**(17,792)**	(12,582)
Capital injection on financial assets at fair value through other comprehensive income	**(4,001)**	—
Disposal of property, plant and equipment and prepaid land lease payments	**—**	32,734
Net cash (used in)/generated from investing activities	**(9,275)**	99,389

Consolidated Statement Of Cash Flows

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Interest paid		**(13,848)**	(6,475)
Inception on borrowings		**74,500**	68,624
Repayment of borrowings		**(92,994)**	(222,221)
Net cash used in financing activities		**(32,342)**	(160,072)
Net increase/(decrease) in cash and cash equivalents		**18,214**	(42,257)
Effect of foreign exchange rate changes		**(837)**	(554)
Cash and cash equivalents at beginning of year, net of bank overdraft		**24,115**	66,926
Cash and cash equivalents at end of year, net of bank overdraft	26	**41,492**	24,115
Analysis of cash and cash equivalents			
Cash and cash equivalents	26	**41,492**	24,115

NET DEBT RECONCILIATION

This section sets out an analysis and the movement in net debt.

	Note	As at 31 December 2017 RMB'000	Cash inflows/ (outflows) RMB'000	Foreign exchange adjustment RMB'000	As at 31 December 2018 RMB'000
Cash and cash equivalents (including bank overdraft)	26	24,115	18,214	(837)	41,492
Bank borrowings	30	310,005	(18,494)	—	291,511

	Note	As at 31 December 2016 RMB'000	Cash outflows RMB'000	Foreign exchange adjustment RMB'000	As at 31 December 2017 RMB'000
Cash and cash equivalents (including bank overdraft)	26	66,926	(42,257)	(554)	24,115
Bank borrowings	30	464,971	(154,452)	(514)	310,005

The notes on pages 81 to 151 are an integral part of theses consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

The Company was incorporated on 10 January 2014 in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Gudou Hot Spring Resort Complex, Yamen Town, Xinhui, Jiangmen, Guangdong Province, the People's Republic of China ("the PRC")（中國廣東省江門市新會區崖門鎮古兜溫泉綜合度假村）. The Company's shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2016.

The Company is an investment holding company. The principal activities of its subsidiaries are hot spring resort and hotel operations and tourism property development.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Gudou Holdings Limited and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and requirements of the Hong Kong Companies Ordinance Cap.622.

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and financial assets at fair value through other comprehensive income.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB87,354,000 (2017:RMB45,907,000) which is mainly attributable to current bank borrowings of RMB291,511,000 (2017:RMB310,860,000). The Group's current liabilities also consisted of contract liabilities of RMB31,948,000 (2017:RMB13,176,000) arising from deposits received from customers which will be recognised as revenue upon fulfilment of the obligation in delivering the properties and/or delivering services to the customer.

In preparing the Group's consolidated financial statements for the year ended 31 December 2018, the directors have taken into account all information that could reasonably be expected to be available. In particular, the management of the Company have prepared a cash flow projection of the Group covering a period of not less than twelve months from 31 December 2018 taking into account the following plans and measures into consideration:

(i) The Group will continue to generate cash inflow from its hotels and resort operation;

(ii) The Group will continue to receive proceeds from sale of properties in the expected timeframe; and

(iii) The Group had available committed facilities of RMB63,500,000 as at 31 December 2018 and obtained an additional committed bank facility of RMB100,000,000 subsequent to the year end. The directors believe that the bank borrowings will be repaid in accordance with the scheduled dates as set out in the relevant loan agreements. Given the good track records and relationships the Group has with the banks, the directors are of the opinion that the banking facilities with the banks will be renewed when their current terms expire and the Group is able to secure new bank borrowings as and when needed.

Notwithstanding the above, whether management is able to achieve its plans and measures as described above, which incorporate assumptions about future events and conditions are subject to inherent uncertainties. In particular, whether the Group will be able to continue as a going concern would depend upon the timely generation of net cash flow from its hotel and resort operation, the successful and timely sales of the properties held for sale and successfully and timely negotiating of existing banking facilities upon expiry. The Directors have, after due consideration of the basis of management's plans and measures as well as the reasonable possible downside changes to the cash flow assumptions, are confident that the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due in the coming twelve months from 31 December 2018. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.2 (a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

Standards	Subject of amendment
Amendments to HKFRS 1 and HKAS 28	Annual Improvements 2014-2016 Cycle
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Apart from the impact of the adoption of HKFRS 9, "Financial Instruments" and HKFRS 15, "Revenue from Contracts with Customers" are disclosed in Note 2.1.3, the adoption of other new and amended standards does not have any significant impact to the results and financial position of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.2 (b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Annual Improvements Project	Annual improvements 2015-2017 Cycle	1 January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC)23	Uncertainty over income tax treatments	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Note

Note: To be announced by HKICPA

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.2 (b) *New standards and interpretations not yet adopted* *(continued)*

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB21,972,000. The Group estimates those relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss are insignificant.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date/Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.3 Changes in accounting policy and disclosures

The following explains the impact of the adoption of HKFRS 9 and HKFRS 15 on the Group's consolidated financial statements.

The Group elected to adopt the modified retrospective approach on the adoption of HKFRS 9 and HKFRS 15 without restating comparatives. The reclassifications and the adjustments are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

The following tables show the adjustments recognised in the consolidated statement of financial position on 1 January 2018:

Consolidated statement of financial position (extract)	31 December 2017 As originally presented	Effect of adoption of HKFRS 9	Effect of adoption of HKFRS 15	1 January 2018 Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Accounts receivable	53,188	(1,980)	—	51,208
Current liabilities				
Proceeds received from pre-sale of properties	250	—	(250)	—
Accruals and other payables	52,842	—	(12,926)	39,916
Contract liabilities	—	—	13,176	13,176
Equity				
Retained profits	229,183	(1,980)	—	227,203

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.3 Changes in accounting policy and disclosures *(continued)*

(a) HKFRS 9 Financial Instruments

The Group has adopted HKFRS 9 which replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets. Details of the change of accounting policy describes in Note 2.9.

The total impact on the Group's retained profits is stated as above.

	Note	Retained profits RMB'000
Closing balance at 31 December 2017 — HKAS 39		229,183
Increase in provision for impairment of accounts receivable	i	(1,980)
Opening balance at 1 January 2018 — HKFRS 9		227,203

i) Impairment of financial instruments

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

- Accounts receivable, and
- Other receivables

The Group revised its impairment methodology under HKFRS 9 for each of these classes of assets.

While other receivables, bank and cash balances and restricted bank deposits are also subject to the impairment requirement of HKFRS 9, the identified impairment loss was immaterial.

Accounts receivable

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable.

This resulted in an increase of loss allowance on 1 January 2018 by RMB1,980,000 for accounts receivable and the loss allowance increased by a further RMB1,767,000 to RMB3,747,000 for accounts receivable during the current reporting period. Details are described in Note 4(b)(i).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.3 Changes in accounting policy and disclosures (continued)

(b) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces HKAS 18 which resulted in changes accounting policies that relate to timing of revenue recognition and presentation of contract liabilities.

The impact of reclassification on the consolidated statement of financial position as at 1 January 2018 is as follows:

	Proceeds received from pre-sale of properties	Accruals and other payables	Contract liabilities
	RMB'000	*RMB'000*	*RMB'000*
Closing balance at 31 December 2017 – HKAS 18	250	52,842	—
Reclassification (i)	(250)	(12,926)	13,176
Opening balance at 1 January 2018 – HKFRS 15	—	39,916	13,176

i) Presentation of contract liabilities related to contracts with customers

Contract liabilities were previously presented as proceeds received from pre-sale of properties and receipts in advance from customers in relation to hotel operation and consultancy services with a total sales contract amount of RMB25,581,000.

ii) Revenue recognition

a) Hotel and resort operations

Revenue is recognised when the service is rendered to customers which is consistent under HKAS 18 and HKFRS 15.

b) Properties development

Revenue is recognised as at a point of time after the control of properties transferred to the customers as the Group has no enforceable right to payment for performance completed to date.

c) Accounting for financing component

The Group applies the practical expedient and considers the financing component in between the payment received from customer and transfer of the promised properties or service is not significant as the period is generally within one year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.3 Changes in accounting policy and disclosures (continued)

(b) HKFRS 15 Revenue from Contracts with Customers (continued)

d) Accounting for costs to obtain a contract

The Group considers the costs such as stamp duties and sales commission incurred directly attributable for obtaining sales contracts is not significant.

Details of the accounting policy describes in Note 2.26.

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

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

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

(ii) Equity Accounting

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

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Separate financial statements

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Foreign currency translation *(continued)*

(iii) Group companies

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

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

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

— all resulting currency translation differences are recognised in other comprehensive income.

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

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

2.6 Property, plant and equipment

Buildings comprise mainly hotels and offices. Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	5%
Furniture, fixtures and equipment	20%
Leasehold improvements	5% — 20%
Motor vehicles	20%

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

Construction in progress represents buildings under construction, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Construction in progress represents factory buildings, office premises and workers' dormitories and related infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.7 Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. These include land held for a currently undetermined use and property that is being constructed or developed for future use as investment properties. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Leases

The Group as lessee

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

The Group as lessor

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessor

(ii) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of properties and leasing of the same asset back for hotel operation. Sale and leaseback arrangements that result in substantially all of the risks and rewards of ownership of assets being transferred to the lessor are accounted for as operating leases. Any excess of sales proceeds over the carrying amount is recognised in profit or loss as gain on disposal, if the sales prices and lease back arrangements for these transactions are determined based on the prevailing market prices. Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease periods.

If the sale price is below fair value then the gain or loss is recognised immediately. However, if a loss is compensated for by future rentals at a below-market price or nil price, then the loss is deferred and amortised over the period that the property is expected to be used.

If the payments made under the operating lease are given up by the lessor in turn for the renovation for the properties, the deemed rental cost is included in prepayments and amortised over the period that the property is expected to be used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets

(a) Accounting policies applied from 1 January 2018

(i) Classification

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

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

Financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other losses, net, together with foreign exchange gains and losses. Impairment losses are presented in separate line item in the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(a) Accounting policies applied from 1 January 2018 (continued)

(iii) Measurement (continued)

Equity instruments

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

(iv) Impairment

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

For accounts receivable, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See Note 4(b) and Note 23 for further details.

(b) Accounting policies applied until 31 December 2017

(i) Classification

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of accounts and other receivables and cash and cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(b) ***Accounting policies applied until 31 December 2017*** *(continued)*

(ii) *Reclassification*

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) *Measurement*

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above Note 4(b)(i).

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iv) *Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investments and other financial assets *(continued)*

(b) Accounting policies applied until 31 December 2017 *(continued)*

(iv) Impairment (continued)

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in consolidated income statement.

2.10 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Properties held for sale under development

Properties held for sale under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition. On completion, the properties are reclassified to completed properties held for sale at the then carrying amount.

Properties held for sale under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.13 Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Costs of properties include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.15 Accounts and other receivables

Accounts receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Accounts and other receivables are non-derivative financial asset with priced or determinable payments that are not quoted in active market. If collection of accounts and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the accounts receivable with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 23 for further information about the Group's accounting for accounts receivable and Note 4(b) for a description of the Group's impairment policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Accounts and other payables

These amounts represent liabilities for goods or services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.21 Government grants

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Current and deferred income tax *(continued)*

(ii) Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Current and deferred income tax *(continued)*

(iii) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.23 PRC land appreciation tax ("LAT")

LAT is levied at progressive rates on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. LAT is recognised as an income tax expense. LAT paid is a deductible expense for PRC enterprise income tax ("PRC EIT") purposes.

2.24 Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Employee benefits *(continued)*

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.25 Share-based payments

Share-based compensation benefits are provided to employees via the Gudou Holdings Limited share option scheme. Information relating to these schemes is set out in Note 14.

Employee options

The fair value of options granted under the Gudou Holdings Limited share option scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price)

- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is shown net of value-added tax, returns and discount. Revenue is recognised as follows:

(i) Properties sales

Accounting policies applied from 1 January 2018

Under HKFRS 15, revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Revenue is recognised at a point in time when the customer obtains control of the promised properties when the above criteria are not met. Deposits and instalment received on properties sold prior to the date of revenue recognition are included the consolidated statement of financial position under 'Contract liabilities'.

Costs such as stamp duty and sales commission incurred directly attributable for obtaining a pre-sale property contract, if recoverable, are capitalised.

Accounting policies applied until 31 December 2017

Revenue from the sales of properties is recognised when significant risk and rewards of ownership has been transferred to the customers, which is when the construction of relevant properties has been completed and the properties have been delivered to the customers. Deposits and instalment received on properties sold prior to the date of revenue recognition are included the consolidated statement of financial position under 'Proceeds received from pre-sale of properties'.

(ii) Room revenue

Room revenue received from room rental and other ancillary services is recognised when the services are rendered. For non-refundable hotel and facilities package arrangements, any unutilised room is recognised as revenue when it is expired.

(iii) Admission income

Revenue from resort admission is recognised when admission tickets are sold and redeemed by the customers. For non-refundable hotel and facilities package arrangements, any unutilised admission ticket is recognised as revenue when it is expired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.26 Revenue recognition *(continued)*

(iv) Catering income

Catering income received from food and beverage sales is recognised when the services are rendered.

(v) Rental income

Rental income is recognised on a straight-line basis over the lease term.

(vi) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(vii) Massage service income

Massage service income is recognised when the massage services are rendered.

(viii) Consultancy service income

Consultancy income received from customers is recognised when the services are rendered.

(ix) Accounting for significant financing component

For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects or a financing component, if significant.

(x) Accounting for contract liabilities

The contract liabilities arising from deposits received from customers which may be recognised upon fulfilment of the performance obligation in delivering the promised properties and/or delivering services to the customer.

2.27 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.28 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

2.29 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the reporting period that are not adjusting events are disclosed in the Note 38.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Useful lives of property, plant and equipment

The annual depreciation charges are sensitive to the estimated economic useful lives the Group allocates to each type of property, plant and equipment. Management performs annual reviews to assess the appropriateness of their estimated economic useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned. The useful lives are estimated at the time the purchases are made after considering the future, business developments and the Group's strategies. Should there be unexpected adverse changes in the circumstances or events, the Group assesses the need to shorten the useful lives and/or make impairment provisions. Indications of these unexpected adverse changes include declines in projected operating results, negative industry or economic trends and rapid advancement in technology.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs of disposal. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing (i) whether any events including changes in government policies has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of the operations.

(c) Current and deferred income tax (including LAT)

The Group is subject to income taxes mainly in the PRC. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimates are changed.

The subsidiaries of the Group engaging in property development business in the PRC are subject to land appreciation taxes, which have been included in the income tax expenses. However, the Group has not finalised its land appreciation tax returns with the tax authority for certain projects. Accordingly, judgement is required in determining the amount of land appreciation and its related taxes payable. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax expenses and provisions of land appreciation taxes in the period in which such determination is made.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Fair values of investment properties

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Where the actual result is different from the original estimate, such difference will impact the carrying value of the investment properties and fair value gains on investment properties in the year in which such estimate has been changed.

(e) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in note 4(b).

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

Foreign currency risk arises on financial instruments of the relevant group companies in currencies other than their own functional currencies. The primary economic environment in which the Group operates is in the PRC and the functional currency of those group companies is RMB. Certain cash and cash equivalents, and borrowings are denominated in Hong Kong Dollars ("HK$") and held by the group companies, of which the functional currency is HK$. Therefore, the management are of the opinion that the foreign currency risk exposure of the Group is insignificant.

4. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk

The Group is exposed to credit risk in related to its accounts and other receivables and bank deposits.

The carrying amounts of accounts receivable, deposits and other receivables, cash at banks and restricted bank deposits, represent the Group's maximum exposure to credit risk in relation to financial assets which are stated as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Accounts receivable *(Note 23)*	**60,700**	53,188
Deposits and other receivables *(Note 24)*	**42,995**	39,056
Cash at banks *(Note 26)*	**40,441**	23,691
Restricted bank deposits *(Note 25)*	**—**	13,010
Maximum exposure to credit risk	**144,136**	128,945

As at 31 December 2017 and 2018, all the bank balances and deposits were placed at reputable banks in Hong Kong and the PRC. The credit quality of cash and cash equivalents has been assessed by reference to external credit ratings or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

(i) Impairment of financial assets

The Group has several type of financial assets that are subject to the expected credit loss model. The management considers the impact is insignificant except for accounts receivable from for sales of properties and from the provision of hotel and other ancillary services.

In respect of accounts receivable, for travel agencies, the Group has policies in place to ensure that sales are made to agencies with an appropriate credit history. In order to minimise credit risk, the directors and management persons of sales department are responsible for the determination of credit limits, credit approvals and other monitoring procedures. For properties purchasers, the Groups has policies in place to ensure that sales are made to buyers/customers with an appropriate financial strength and appropriate percentage of down payment. As at 31 December 2018, the five largest accounts receivable represents approximately 66% (2017: 51%) of the total accounts receivable.

The management has regularly assess the recoverability of accounts receivable from individual customer and developed a comprehensive expected credit loss model to ensure adequate provision is made upon the adoption of HKFRS 9.

The expected loss rates of accounts receivable are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

4. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

(i) ***Impairment of financial assets*** *(continued)*

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows for both accounts receivable:

		31 December 2018					
		Travel agencies		Property purchasers		Total	
	Expected loss rate	Gross carrying amount - accounts receivable	Loss allowance	Gross carrying amount – accounts receivable	Loss allowance	Gross carrying amount – accounts receivable	Loss allowance
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current to 30 days	0% — 0.8%	5,140	8	49,932	291	55,072	299
31 to 60 days	0.5% — 0.8%	840	3	—	—	840	3
61 to 90 days	0.5% — 3.2%	130	1	—	—	130	1
Over 90 days	0.5% — 100%	1,016	984	7,389	2,460	8,405	3,444
		7,126	996	57,321	2,751	64,447	3,747

		1 January 2018					
		Travel agencies		Property purchasers		Total	
	Expected loss rate	Gross carrying amount - accounts receivable	Loss allowance	Gross carrying amount – accounts receivable	Loss allowance	Gross carrying amount – accounts receivable	Loss allowance
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current to 30 days	0% — 0.8%	6,715	2	33,643	75	40,358	77
31 to 60 days	0.5% — 0.8%	226	2	3,019	—	3,245	2
61 to 90 days	0.5% — 3.2%	16	—	3,594	—	3,610	—
Over 90 days	0.5% — 100%	612	606	5,363	1,295	5,975	1,901
		7,569	610	45,619	1,370	53,188	1,980

4. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

(i) ***Impairment of financial assets*** *(continued)*

The closing loss allowances for accounts receivable as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Loss allowance for accounts receivable 2018 *RMB'000*
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	**(1,980)**
Increase in loan loss allowance recognised in profit or loss during the year	**(1,767)**
At 31 December	**(3,747)**

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's financial liabilities is as follows:

	Less than 1 year *RMB'000*	**Between 1 and 2 years** *RMB'000*	**Between 2 and 5 years** *RMB'000*	**Over 5 years** *RMB'000*
As at 31 December 2017				
Accounts payable	86,401	—	—	—
Other payables and deposits	13,530	—	—	—
Borrowings and interest payments	94,248	67,125	120,793	80,070
As at 31 December 2018				
Accounts payable	**79,856**	**—**	**—**	**—**
Other payables and deposits	**15,406**	**—**	**—**	**—**
Borrowings and interest payments	**73,265**	**110,320**	**103,861**	**46,879**

4. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

As at 31 December 2018, if interest rates at that date had been 10 basis points higher with all other variables held constant, consolidated profit after tax for the year would have been RMB1,366,000 lower (2017: RMB2,067,000 lower), arising mainly as a result of increase in interest expense on borrowings. If interest rates had been 10 basis points lower, with all other variables held constant, consolidated profit after tax for the year would have been RMB1,366,000 higher (2017: RMB2,067,000 higher), arising mainly as a result of decrease in interest expense on borrowings.

(e) Capital risk management

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

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position). Total capital is calculated as 'equity' as shown in the consolidated statement of financial position.

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total debt		
Interest-bearing bank loans	**291,511**	310,860
Total capital	**422,436**	407,457
Gearing ratio	**0.69**	0.76

4. FINANCIAL RISK MANAGEMENT *(continued)*

(f) Categories of financial instruments

The Group holds the following financial instruments:

Financial assets	**2018** **RMB'000**	2017 *RMB'000*
Accounts receivable	**60,700**	53,188
Deposit and receivables	**42,995**	39,056
Restricted bank deposit	**—**	13,010
Bank and cash balances	**41,492**	24,970
Financial assets at fair value through other comprehensive income	**1,877**	—
	147,064	130,224

Financial liabilities	**2018** **RMB'000**	2017 *RMB'000*
Accounts payable	**79,856**	86,401
Other payables	**15,406**	13,530
Borrowings	**291,511**	310,860
	386,773	410,791

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

5. FAIR VALUE MEASUREMENT

5.1 Financial Instruments

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

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

The following table presents the Group's financial assets that are measured at fair value at 31 December 2018 and 2017. Refer to Note 18 for disclosures of the investment properties that are measured at fair value.

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Assets				
Financial assets at fair value through other comprehensive income	**877**	**—**	**1,000**	**1,877**

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Level 1, Level 2 and level 3 fair value hierarchy classifications and no significant changes in valuation techniques during the period.

5. FAIR VALUE MEASUREMENT *(continued)*

5.1 Financial Instruments *(continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2018:

	Financial assets at fair value through other comprehensive income
	RMB'000
Opening balance	—
Addition for the year	1,000
Fair value loss	—
Closing balance	1,000

6. REVENUE

The Group's revenue derived from its major products and services during the year is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Property sales	**105,997**	193,047
Room revenue	**53,605**	49,961
Admission income	**34,518**	25,891
Catering income	**27,559**	25,985
Rental income	**1,279**	1,219
Massage service income	**2,173**	2,647
Conference fee income	**2,937**	2,769
Consultancy service income	**17,150**	13,542
Other service income	**3,511**	3,468
	248,729	318,529

7. OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest income	**343**	1,098
Forfeited property sale deposits	**50**	135
Gain on disposal of property, plant and equipment and prepaid land lease payments, net	**—**	18,513
Others	**35**	99
	428	19,845

8. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors of the Company, which reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors of the Company consider the business from service perspectives and assess the performance of the Group which are organised into two main businesses:

Property development	—	Develop and sales of properties in the PRC
Hotel and resort operation	—	Operation of hotels and resort in the PRC

The executive directors of the Company assesses the performance of the operating segments based on their segment profit before income tax expense. Segment profits or losses do not include fair value gains on investment properties for undetermined use, finance costs, corporate income and expenses.

Based on the business nature, the executive directors of the Company consider the development of the five-star hotel and health regimen facilities either through self-use or lease, include under the hotel and resort operation segment.

8. SEGMENT INFORMATION *(continued)*

(i) Information about reportable segment profit or loss, assets and liabilities

	Hotels and resort operation *RMB'000*	Property development *RMB'000*	Total *RMB'000*
For the year ended 31 December 2017			
REVENUE			
Revenue from external customers	125,482	193,047	318,529
RESULTS			
Segment profit	29,122	91,676	120,798
Fair value gains on investment properties for undetermined use			29,540
Finance costs			(14,682)
Unallocated corporate expenses			(30,814)
Profit before tax			104,842
Income tax expenses			(52,420)
Profit for the year			52,422

	Hotels and resort operation *RMB'000*	Property development *RMB'000*	Total *RMB'000*
As at 31 December 2017			
ASSETS			
Segment assets	490,022	170,153	660,175
Property, plant and equipment for general administrative use			6,952
Investment properties for undetermined use			366,070
Prepayments, deposits and other receivables for general administrative use			589
Deferred tax assets			1,216
Bank and cash balances			24,970
Restricted bank deposits			13,010
Consolidated total assets			1,072,982

8. SEGMENT INFORMATION *(continued)*

(i) Information about reportable segment profit or loss, assets and liabilities *(continued)*

	Hotels and resort operation *RMB'000*	Property development *RMB'000*	Total *RMB'000*
As at 31 December 2017			
LIABILITIES			
Segment liabilities	49,049	99,444	148,493
Borrowings			310,860
Current tax liabilities			46,434
Deferred tax liabilities			159,738
Consolidated total liabilities			665,525
OTHER INFORMATION			
Interest income	1,012	86	1,098
Depreciation and amortisation	36,718	231	36,949
Additions to segment non-current assets	10,723	—	10,723

	Hotels and resort operation ***RMB'000***	**Property development** ***RMB'000***	**Total** ***RMB'000***
For the year ended 31 December 2018			
REVENUE			
Revenue from external customers	**142,732**	**105,997**	**248,729**
RESULTS			
Segment profit	**35,641**	**29,621**	**65,262**
Fair value gains on investment properties for undetermined use			**31,650**
Finance costs			**(13,849)**
Unallocated corporate expenses			**(28,165)**
Profit before tax			**54,898**
Income tax expenses			**(39,328)**
Profit for the year			**(15,570)**

8. SEGMENT INFORMATION *(continued)*

(i) Information about reportable segment profit or loss, assets and liabilities *(continued)*

	Hotels and resort operation *RMB'000*	Property development *RMB'000*	Total *RMB'000*
As at 31 December 2018			
ASSETS			
Segment assets	**514,015**	**136,096**	**650,111**
Property, plant and equipment for general administrative use			**16,136**
Investment properties for undetermined use			**397,720**
Financial investments at fair value through other comprehensive income			**1,877**
Prepayments, deposits and other receivables for general administrative use			**608**
Deferred tax assets			**1,297**
Bank and cash balances			**41,492**
Consolidated total assets			**1,109,241**

Investments in financial assets that are managed by the treasury department are not considered to be segment assets. These are equity investments that are classified as at fair value through other comprehensive income.

8. SEGMENT INFORMATION *(continued)*

(i) Information about reportable segment profit or loss, assets and liabilities *(continued)*

	Hotels and resort operation *RMB'000*	Property development *RMB'000*	Total *RMB'000*
As at 31 December 2018			
LIABILITIES			
Segment liabilities	55,469	110,240	165,709
Borrowings			291,511
Current tax liabilities			60,044
Deferred tax liabilities			169,541
Consolidated total liabilities			686,805
OTHER INFORMATION			
Interest income	293	50	343
Depreciation and amortisation	35,617	236	35,853
Additions to segment non-current assets	28,181	—	28,181

(ii) Geographical information:

All the revenue and non-current assets are based in the PRC for the year ended 31 December 2018 (2017: Same).

(iii) Revenue from major customers:

Revenue of RMB28,074,000 (2017: RMB24,365,000) is derived from a single external customer attributed to property development segment.

9. FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance costs:		
— Bank borrowings interest expenses	**18,087**	22,889
Amounts capitalised to properties held for sale	**(3,404)**	(7,510)
Amounts capitalised to construction in progress and property, plant and equipment	**(834)**	(697)
Total finance costs	**13,849**	14,682

Borrowing costs on funds borrowed generally for construction in progress are capitalised at a rate of 4.91% (2017: 5.30%) per annum for the year ended 31 December 2018.

10. INCOME TAX EXPENSES

For the year ended 31 December 2018, no provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong (2017: Nil). The Group's subsidiaries in the PRC are subject to the PRC enterprise income tax at a rate of 25% (2017: 25%) on estimated assessable profits.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**12,444**	14,471
Land appreciation tax	**17,162**	21,389
	29,606	35,860
Deferred tax *(Note 31)*	**9,722**	16,560
	39,328	52,420

10. INCOME TAX EXPENSES *(continued)*

The revenue from property as described in Note 6 include sales of apartments. Under the applicable tax regulations, LAT is charged at progressive rate from 30% to 60% on the appreciation of land value which is calculated based on the proceeds of sales of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure. The basis of calculating the LAT on the sale of apartments has not yet determined by the local tax bureau. Management adopted the progressive rate from 30% to 60% according to their best estimation. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**54,898**	104,842
Tax at the domestic income tax rate of 25%	**13,725**	26,211
Tax effect on LAT deductible for calculation of income tax purpose	**(4,290)**	(5,347)
Income not taxable	**(998)**	(335)
Expenses not deductible for tax purposes	**12,275**	11,976
Previously unrecognised tax losses used to reduce deferred tax expenses	**—**	(3,946)
Tax losses not recognised as deferred tax	**1,454**	2,472
LAT	**17,162**	21,389
	39,328	52,420

11. COST OF SALES, SELLING EXPENSES AND ADMINISTRATIVE EXPENSES

The Group's cost of sales, selling expenses and administrative expenses are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Auditors' remuneration	**1,672**	1,427
Amortisation of prepaid land lease payments	**326**	326
Cost of properties sold	**59,845**	103,314
Cost of goods sold	**11,653**	10,883
Sales commission	**5,150**	4,507
Amortisation on prepayment for renovation for properties	**13,404**	13,404
Depreciation on property, plant and equipment	**23,446**	24,179
Employee benefit expenses (including directors' emoluments) *(Note 12)*	**54,011**	55,812
Legal and professional fees	**3,993**	3,806
Operating lease rental in respect of land and buildings	**7,919**	7,273
Utilities expenses	**9,231**	9,653
Advertising and promotion expenses	**14,165**	10,481
Miscellaneous tax	**4,621**	4,087
Repair and maintenance	**3,543**	3,206
Cleaning expenses	**3,994**	4,202
Entertainment and travelling expenses	**1,905**	1,741
Others	**13,265**	10,389
Total cost of sales, selling expenses and administrative expenses	**232,143**	268,690

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, bonus and allowances	**44,079**	45,128
Pension costs — defined contribution plans	**5,587**	5,680
Share-based payment *(Note 14)*	**4,345**	5,004
	54,011	55,812

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(a) Pension costs — defined contribution plans

The Group has arranged for its Hong Kong employees to join certain Mandatory Provident Fund Schemes (the "MPF Schemes"), defined contribution schemes managed by independent trustees. Under the MPF Schemes, each of the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employee are subject to a cap of HK$1,500 from 1 June 2014 onwards, and thereafter contributions are voluntary. The Group has no further obligations for post-retirement benefits beyond the contributions.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of those subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The Group has no material obligation for post-retirement benefits beyond contributions to the above schemes.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include three directors (2017: three) whose emoluments are reflected in the analysis presented in Note 13. The emoluments payable to the remaining two (2017: two) individuals during the year ended 31 December 2018 are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, bonus and allowances	**1,119**	1,079
Pension costs — defined contribution plans	**34**	20
Share-based payment	**820**	944
	1,973	2,043

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(b) Five highest paid individuals *(continued)*

The emoluments of the remaining individuals fell within the following bands:

	Year ended 31 December	
	2018	2017
Emolument band (in HK dollar)		
Nil to HK$1,000,000		
(equivalent to Nil to RMB856,340)	**1**	1
HK$1,000,001 to HK$1,500,000		
(equivalent to RMB856,341 to RMB1,284,510)	**1**	1
	2	2

13. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

Name	Salary	Discretionary bonus	Employer's contribution to pension scheme	Share-based payment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018					
Executive director					
Mr. Hon Chi Ming	**1,623**	**—**	**46**	**410**	**2,079**
Mr. Huang Zhanxiong	**404**	**—**	**26**	**410**	**840**
Ms. Zhen Yaman	**236**	**—**	**—**	**205**	**441**
Mr. Hon Ka Fung	**289**	**—**	**8**	**205**	**502**
Non-executive director					
Mr. Hui Chin Tong, Godfrey	**154**	**—**	**—**	**656**	**810**
Independent non-executive directors					
Mr. Wu Sai Him	**216**	**—**	**—**	**205**	**421**
Mr. Chiu Chi Wing	**185**	**—**	**—**	**205**	**390**
Prof. Wang Dawu	**154**	**—**	**—**	**205**	**359**
	3,261	**—**	**80**	**2,501**	**5,842**

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(a) Directors' and chief executive's emoluments *(continued)*

The remuneration of every director and the chief executive is set out below *(continued)*:

Name	Salary	Discretionary bonus	Employer's contribution to pension scheme	Share-based payment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017					
Executive director					
Mr. Hon Chi Ming	1,635	16	20	472	2,143
Mr. Huang Zhanxiong	390	—	4	472	866
Ms. Zhen Yaman	239	—	—	236	475
Mr. Hon Ka Fung	290	6	4	236	536
Non-executive director					
Mr. Hui Chin Tong, Godfrey	156	—	—	755	911
Independent non-executive directors					
Mr. Wu Sai Him	218	—	—	236	454
Mr. Chiu Chi Wing	187	—	—	236	423
Prof. Wang Dawu	156	—	—	236	392
	3,271	22	28	2,879	6,200

No emoluments were paid by the Company or the subsidiaries to the directors as an inducement to join the Company, or as compensation for loss of office during the year ended 31 December 2018 (2017: None).

No directors waived any emoluments during the year ended 31 December 2018 (2017: None).

(b) Directors' retirement benefits and termination benefits

No retirement benefits and termination benefits paid to these directors during the year ended 31 December 2018 (2017: None).

(c) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services during the year ended 31 December 2018 (2017: None).

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and controlled entities with such directors

No loans, quasiloans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors as at 31 December 2018 (2017: None).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the financial year (2017: None).

14. SHARE-BASED PAYMENTS

The Company adopted a share option scheme (the "Scheme"). The purposes of the Scheme are to attract, retain and motivate the grantees to strive for future developments and expansion of the Group.

Share option scheme

The Scheme was approved and adopted on 18 November 2016, pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group. Share options were granted to directors, and selected employees of the Company.

The Scheme is valid and effective for a period of ten years commencing on the adoption date of the scheme. Details of share options granted under the Scheme are as follows:

	Share options by grant date 5 April 2017
Number of ordinary shares issued upon exercise:	
— Directors	29,890,000
— Senior management	18,130,000
— Employees	3,920,000
Exercise price	HK$0.62 (equivalent to RMB0.54)
Contractual option term	Eight years
Expiry date	4 April 2025

For the share options granted, the vesting period of the share options ranges from one to four years. All the options are conditional in which one-fourth is vested and exercisable on every anniversary since the grant date of the share options.

The Group does not have a legal or constructive obligation to repurchase or settle the options in cash.

14. SHARE-BASED PAYMENTS *(continued)*

Share option scheme *(continued)*

The fair values of services received in return for share options granted are measured by reference to the fair value of share options granted. The range of fair value of options granted determined by using the Binomial model and significant inputs into the model were as follows:

	Share options by grant date 5 April 2017
Range of fair value of options granted	HK$0.29 — HK$0.30 (equivalent to RMB0.25 — 0.26)
Weighted average share price at the grant date	HK$0.62 (equivalent to RMB0.54)
Expected volatility *(Note)*	45.00%
Expected option lifes	Eight years
Annual risk-free interest rate	1.43%

Note:

Expected volatility is assumed to be based on historical volatility of the comparable companies.

The variables and assumptions used in estimating the fair value of the share options were the directors' best estimates. Change in subjective input assumptions can materially affect the fair value.

The number of share options outstanding is 51,940,000 (2017: same) with weighted average share price of HK$0.62 (equivalent to RMB0.54) and 12,985,000 out of them is exercisable as at 31 December 2018 (2017: Nil).

During the year ended 31 December 2018, share-based payment expense of RMB4,345,000 for the Share Option Scheme was recognised in the consolidated statement of comprehensive income (2017: RMB5,004,000) (Note 12).

15. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**15,570**	52,422
Weighted average number of ordinary shares in issue ('000)	**980,000**	980,000
Basic earnings per share (RMB cents)	**1.59**	5.35

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options (Note 14). The calculation for share options is determined by the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**15,570**	52,422
Weighted average number of ordinary shares in issue ('000)	**980,000**	980,000
Adjustments for:		
Share options (number of shares) ('000)	**31,194**	17,913
Weighted average number of ordinary shares for diluted earnings per share ('000)	**1,011,194**	997,913
Diluted earnings per share (RMB cents)	**1.54**	5.25

For the year ended 31 December 2018, the conversion of potential ordinary shares in relation to the share options have a dilutive effect to the basic earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Leasehold improvements *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
As at 1 January 2017	212,788	32,972	106,137	7,235	45,571	404,703
Additions	—	543	3,133	1,860	7,046	12,582
Reclassification	—	257	9,613	—	(9,870)	—
Disposals	—	—	—	(30)	(14,088)	(14,118)
Exchange differences	—	(6)	(42)	(122)	—	(170)
As at 31 December 2017 and 1 January 2018	212,788	33,766	118,841	8,943	28,659	402,997
Additions	—	270	—	—	36,595	36,865
Reclassification	—	—	20,421	—	(20,421)	—
Exchange differences	—	2	30	81	—	113
As at 31 December 2018	**212,788**	**34,038**	**139,292**	**9,024**	**44,833**	**439,975**
Accumulated depreciation						
As at 1 January 2017	79,329	25,060	32,786	5,854	—	143,029
Charge for the year	10,851	2,363	10,157	808	—	24,179
Disposals	—	—	—	(7)	—	(7)
Exchange differences	—	(1)	(31)	(104)	—	(136)
As at 31 December 2017 and 1 January 2018	90,180	27,422	42,912	6,551	—	167,065
Charge for the year	10,851	2,175	9,587	833	—	23,446
Exchange differences	—	2	26	80	—	108
As at 31 December 2018	**101,031**	**29,599**	**52,525**	**7,464**	**—**	**190,619**
Net book value						
As at 31 December 2018	**111,757**	**4,439**	**86,767**	**1,560**	**44,833**	**249,356**
As at 31 December 2017	122,608	6,344	75,929	2,392	28,659	235,932

The Group's buildings are located in the PRC under long and medium term leases.

The carrying amount of Group's buildings amounting to RMB52,292,000 (2017: RMB53,727,000) were pledged as securities for the Group's borrowings at 31 December 2018 (Note 30).

Depreciation expense of RMB19,025,000 (2017: RMB20,127,000) for the year ended 31 December 2018 has been included in cost of sales. Depreciation expense of RMB4,421,000 (2017: RMB4,052,000) for the year ended 31 December 2018 has been included in administrative expenses.

17. PREPAID LAND LEASE PAYMENTS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**7,672**	8,131
Amortisation	**(326)**	(326)
Disposal	**—**	(133)
At end of year	**7,346**	7,672
Less: Current portion	**(326)**	(326)
Non-current portion	**7,020**	7,346

The Group's prepaid land lease payments are analysed as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
In the PRC:		
Long leases	**2,357**	2,357
Medium-term leases	**4,989**	5,315
	7,346	7,672

The carrying amount of prepaid land lease payments amounting to RMB6,625,000 (2017: RMB6,811,000) were pledged as securities for the Group's borrowings at 31 December 2018 (Note 30).

18. INVESTMENT PROPERTIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**608,120**	558,280
Fair value gains	**53,500**	49,840
At end of year	**661,620**	608,120

18. INVESTMENT PROPERTIES *(continued)*

The Group's investment properties as their fair value are analysed as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
In the PRC:		
Medium-term leases	**661,620**	608,120

(a) The Group's investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties through use. The Group has measured the deferred tax relating to the temporary differences of these investment properties using the tax rates and the tax bases that are consistent with the expected manner of recovery of these investment properties (Note 31).

(b) The fair value of the Group's investment properties at 31 December 2018 were based on valuations carried out by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer not connected with the Group (2017: Same). The revaluation gains or losses are included in "Fair value gains on investment properties". The following table analyses the investment properties carried at fair value, by valuation method.

(c) The fair value of the Group's investment properties amounting to RMB397,110,000 (2017: RMB337,520,000) were pledged as security for the Group's borrowings at 31 December 2018 (Note 30).

Fair value measurements using significant unobservable inputs (Level 3):

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Recurring fair value measurements		
— Land held for undetermined use	**397,720**	366,070
— Land held for development of investment properties	**263,900**	242,050
	661,620	608,120

18. INVESTMENT PROPERTIES *(continued)*

There were no transfers between Levels 1, 2 and 3 during the year.

	Land held for undetermined use	Land held for development of investment properties	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2017	336,530	221,750	558,280
Fair value gains	29,540	20,300	49,840
As at 31 December 2017	366,070	242,050	608,120
Total gains for the year included in profit or loss for assets held at the end of the year, under "Fair value gains on investment properties"	29,540	20,300	49,840
As at 1 January 2018	**366,070**	**242,050**	**608,120**
Fair value gains	**31,650**	**21,850**	**53,500**
As at 31 December 2018	**397,720**	**263,900**	**661,620**
Total gains for the year included in profit or loss for assets held at the end of the year, under "Fair value gains on investment properties"	**31,650**	**21,850**	**53,500**

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2018 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued (2017: Same). For all investment properties, their current use equates to the highest and best use.

The Group's finance department review the valuations performed by the independent valuers for financial reporting purposes. These valuation results are then reported to the Group's management for discussions and review in relation to the valuation processes and the reasonableness of valuation results. As at 31 December 2018, the fair values of the properties have been determined by LCH (Asia-Pacific) Surveyors Limited (2017: Same).

18. INVESTMENT PROPERTIES *(continued)*

Valuation techniques

For land held for undetermined use and land held for development of investment properties, the valuation was determined using the sale comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

Information about fair value measurements using significant unobservable inputs (Level 3)

As at 31 December 2018

Description	Fair value RMB'000	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability-weighted average) RMB	Relationship of unobservable inputs to fair value
Land held for undetermined use	2018: 397,720 (2017: 366,070)	Sales comparison approach	Price per sq.m.	2018: 3,190 per sq.m (2017:2,870 per sq.m)	The higher the price per sq.m. the higher the fair value
Land held for development of investment properties	2018: 263,900 (2017: 242,050)	Sales comparison approach	Price per sq.m.	2018: 3,190 per sq.m (2017:2,870 per sq.m)	The higher the price per sq.m. the higher the fair value

19. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2018:

Name of subsidiary	Place of incorporation and kind of legal entity	Particular of issued share capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Principal activities and place of operation
Gudou Wonderland Limited	BVI	HK$1	100%	100%	Investment holding in Hong Kong
Gudou Spring Bay Investment Limited	BVI	HK$1	100%	100%	Investment holding in Hong Kong
Gudou Vast Bay Investment Limited	BVI	HK$1	100%	100%	Investment holding in Hong Kong
View Top Holding Limited 景騰集團有限公司	Hong Kong	HK$10,000	—	100%	Investment holding in Hong Kong
Gudou Hotspring Management Company Ltd 古兜溫泉管理有限公司	Hong Kong	HK$1	—	100%	Investment holding in Hong Kong
Gudou Spring Bay Development Limited 古兜泉灣發展有限公司	Hong Kong	HK$1	—	100%	Investment holding in Hong Kong
Gudou Vast Bay Development Limited 古兜廣灣發展有限公司	Hong Kong	HK$1	—	100%	Investment holding in Hong Kong
Guangdong Gudou Travel Group Company Limited 廣東古兜旅游集團有限公司	The PRC	United States Dollars ("US$")12,437,431	—	100%	Development and operation of a resort and the development and sales of properties at the resort in the PRC
Guangdong Gudou Hotel Management Company Limited (formerly known as "Jiangmen City Gudou Travel and Hotel Management Company Limited") 廣東古兜酒店管理有限公司 (formerly known as "江門市古兜旅游酒店管理有限公司")	The PRC limited liability company	RMB15,000,000	—	100%	Development of tourism projects in the PRC
Jiangmen City Gudou Travel and Development Company Limited 江門市古兜旅游開發有限公司	The PRC limited liability company	RMB10,000,000	—	100%	Development of tourism projects in the PRC
Jiangmen City Weisheng Business Service Company Limited (formerly known as "Jiangmen City Weisheng Investment Company Limited") 江門市偉盛商務服務有限公司 (formerly know as "江門市偉盛投資有限公司")	The PRC limited liability company	RMB15,000,000	—	100%	Property management in the PRC

19. SUBSIDIARIES *(continued)*

The following is a list of the principal subsidiaries at 31 December 2018 *(continued)*:

Name of subsidiary	Place of incorporation and kind of legal entity	Particular of issued share capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Principal activities and place of operation
Jiangmen City Yueguangqu Culture and Travel Development Company Limited (formerly known as "Jiangmen City Xinhui Yueguangqu Entertainment Company Limited") 江門市月光曲文化旅游發展有限公司 (formerly known as "江門市新會區月光曲娛樂有限公司")	The PRC limited liability company	RMB500,000	—	100%	Operation of entertainment business in a resort in the PRC

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Listed securities		
Equity Security — the PRC	**877**	—
Unlisted securities		
Equity investment — the PRC	**1,000**	—
	1,877	—

The movements of the equity investments are as follows:

	Year ended 31 December 2018
	RMB'000
At the beginning of the year	**—**
Addition	**4,001**
Fair value loss in other comprehensive income	**(2,214)**
At the end of the year	**1,877**

21. PROPERTIES HELD FOR SALE

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Completed properties held for sale		
— Leasehold land	**6,287**	18
— Construction costs and capitalised expenditures	**28,990**	1,711
— Interest capitalised	**2,455**	133
	37,732	1,862
Properties held for sale under development		
— Leasehold land	**—**	17,066
— Construction costs and capitalised expenditures	**—**	49,449
— Interest capitalised	**—**	1,899
	—	68,414
	37,732	70,276

(a) The analysis of carrying value of prepaid land lease payments in completed properties held for sale and properties held for sale under development is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
In the PRC		
— Medium-term leases	**6,287**	17,084

22. INVENTORIES

Inventories comprised merchandise goods as at 31 December 2018 (2017: Same) and are stated at lower of cost or net realisable value. The cost of good sold charged in "cost of sales" amounted to RMB11,653,000 (2017: RMB10,883,000).

23. ACCOUNTS RECEIVABLE

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Accounts receivable	**64,447**	53,188
Less: allowance for impairment	**(3,747)**	—
Accounts receivable-net	**60,700**	53,188

The Group allows an average credit period ranging from 30 to 90 days (2017: 30 days to 90 days) to travel agencies and corporate customers in hotels and resort operation segment. For new travel agencies and corporate customers, payment in advance is normally required. Purchasers of properties units were granted with repayment periods primarily from 15 days to 180 days (2017: 15 days to 180 days) according to the agreements signed. Credit evaluations are performed on all purchasers requiring credit on the transactions. The Group generally would not release the property ownership certificates to the purchasers before the purchasers finally settled the purchase consideration. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of gross accounts receivable, based on the invoice date for travel agencies and corporate customers, or scheduled repayment dates for property unit purchasers is as follows:

	As at 31 December					
	2018			2017		
	Travel agencies	**Property purchasers**	**Total**	Travel agencies	Property purchasers	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Up to 30 days	**5,140**	**49,932**	**55,072**	4,935	33,643	38,578
31 to 60 days	**840**	**—**	**840**	1,120	—	1,120
61 to 90 days	**130**	**—**	**130**	379	—	379
Over 90 days	**1,016**	**7,389**	**8,405**	1,135	11,976	13,111
	7,126	**57,321**	**64,447**	7,569	45,619	53,188

The Group's credit risk control and the analysis of concentration of credit risk are disclosed in Note 4(b).

23. ACCOUNTS RECEIVABLE *(continued)*

Movements on the provision for impairment of accounts receivable are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**—**	—
Amounts additionally provided through opening retained profits on adoption of HKFRS 9 *(Note 4(b))*	**(1,980)**	—
Net impairment losses on financial assets	**(1,767)**	—
At the end of the year	**(3,747)**	—

The above impairment losses have been separately disclosed as "net impairment losses on financial assets" in the consolidated statement of comprehensive income.

All accounts receivable are denominated in RMB.

As of 31 December 2018 accounts receivable of RMB6,475,000 (2017: RMB5,420,000) were pledged to secure a bank loan as set out in Note 30.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Prepayments		
— Renovation for properties *(Note i)*	**181**	14,650
— Prepaid rental for sales and leaseback transactions	**352**	675
— Others	**671**	812
	1,204	16,137
Other receivables	**2,543**	3,078
Deposits	**40,452**	35,978
	42,995	39,056
	44,199	55,193

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Note:

i) Included in prepayments were deemed rental cost that would otherwise be payable by the Group but had been given up by the property owners in turn for the renovation for the Mountain Seaview Vacation Apartments. The deemed rental cost is amortised over the terms of the lease agreement.

ii) All other receivables and deposits are denominated in RMB.

25. RESTRICTED BANK DEPOSITS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Pledged bank deposits	—	13,010

Restricted bank deposits of RMB13,010,000 were pledged to secure bank loans as set out in Note 30 as at 31 December 2017.

26. BANK AND CASH BALANCES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash at banks	**40,441**	23,691
Cash on hand	**1,051**	1,279
Bank and cash balances	**41,492**	24,970

Bank and cash balances and bank overdraft include the following for the purpose of the consolidated statement of cash flows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Bank and cash balances	**41,492**	24,970
Bank overdraft *(Note 30)*	—	(855)
Cash and cash equivalents	**41,492**	24,115

26. BANK AND CASH BALANCES *(continued)*

The carrying amount of the Group's bank and cash balances approximate their fair values and are denominated approximate their fair values in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**41,327**	24,904
HK$	**165**	66
	41,492	24,970

27. ACCOUNTS PAYABLE

The aging analysis of the Group's accounts payable, based on invoice date, is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 90 days	**24,734**	65,390
91 to 180 days	**6,305**	4,311
181 to 365 days	**5,980**	4,305
Over 1 year	**42,837**	12,395
	79,856	86,401

The carrying amount of the Group's accounts payable are denominated in RMB and approximate their fair values.

28. PROCEEDS RECEIVED FROM PRE-SALE OF PROPERTIES

Proceeds received from purchasers of pre-sales of properties units represented deposits received from purchasers in connection with the pre-sales that have not yet been recognised as revenue of the Group in accordance with the Group's revenue recognition policy. All proceeds are expected to be recognised as revenue within one year. The balance was reclassified to "contract liabilities" as at 1 January 2018 upon the adoption of HKFRS 15 (Note 2.1.3).

29 ACCRUALS AND OTHER PAYABLES AND CONTRACT LIABILITIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contract liabilities		
Contract liabilities *(Note a)*	**31,948**	—
Accruals and other payables		
Receipt in advance *(Note b)*	**—**	12,926
Advances from PRC government *(Note c)*	**8,000**	8,000
Staff cost	**3,641**	5,403
Other tax payables	**16,651**	13,863
Deposit	**2,332**	—
Others	**14,781**	12,650
	45,405	52,842

Note:

(a) Contract liabilities primarily represent the proceeds received from pre-sale of properties and receipt in advance from customer in relation to hotel operation and consultancy services with a sales contract amount of RMB34,050,000.

(b) Receipt in advance from customers was reclassified to contract liabilities upon the adoption of HKFRS 15 as at 1 January 2018 and RMB12,926,000 was recognised as revenue during the year ended as 31 December 2018.

(c) The amounts represent the subsidies from the PRC government provided to the Group to enhance and upgrade the facilities. The related facilities were still under construction as at 31 December 2018. The amounts are to be recognised in the profit or loss when the Group complies with all attached conditions (2017: Same).

29. ACCRUALS AND OTHER PAYABLES AND CONTRACT LIABILITIES *(continued)*

Note: (continued)

(d) The carrying amounts of the group's accruals and other payables and contract liabilities are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**73,975**	51,836
HK$	**3,378**	1,006
	77,353	52,842

30. BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Bank overdraft	**—**	855
Bank loans *(Note a)*	**291,511**	310,005
	291,511	310,860

The borrowings are repayable as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within one year	**58,172**	80,348
Between one and two years	**99,792**	56,172
Between two and five years	**88,688**	99,776
Over five years	**44,859**	74,564
	291,511	310,860
Less: Current portion	**(58,172)**	(80,348)
Non-current portion	**233,339**	230,512

30. BORROWINGS *(continued)*

Note:

(a) The Group's bank borrowings were secured by guarantees issued by a subsidiary and the pledges of the Group's assets with carrying values at year ended 31 December 2018 as follows:

	Note	As at 31 December **2018** ***RMB'000***	2017 *RMB'000*
Property, plant and equipment	*16*	**52,292**	53,727
Prepaid land lease payments	*17*	**6,625**	6,811
Investment properties	*18*	**397,110**	337,520
Pledged bank deposits	*25*	**—**	13,010
Accounts receivable	*23*	**6,475**	5,420

The Group has undrawn borrowing facilities amounting to RMB63,500,000 (2017: RMB52,694,000) as at 31 December 2018.

(b) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	HK$ *RMB'000*	**RMB** *RMB'000*	**Total** *RMB'000*
31 December 2017			
Bank loans	12,791	298,069	310,860
31 December 2018			
Bank loans	**—**	**291,511**	**291,511**

Details of interest rates per annum are set at below:

	As at 31 December **2018** ***RMB'000***	2017 *RMB'000*
Short-term bank loans (floating rate)	**3.24%**	5.78%
Short-term bank loans (fixed rate)	**4.35%**	4.58%
Long-term bank loans (floating rate)	**5.52%**	5.49%
Long-term bank loans (fixed rate)	**6.58%**	6.90%

(c) The carrying amounts of the Group's borrowings approximate their fair values.

(d) The Group's effective interest rate of the borrowings was 4.91% (2017: 5.30%) per annum for the year ended 31 December 2018.

(e) The Group obtained an additional committed bank facility of RMB100,000,000 from a bank subsequent to year end.

31. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group.

Deferred tax liabilities

	Revaluation of Investment properties	Accelerated tax depreciation	Others	Total deferred tax liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	142,943	4,285	1,315	148,543
Charged/(credited) to profit or loss for the year *(Note 10)*	12,460	(667)	(598)	11,195
As at 31 December 2017	155,403	3,618	717	159,738
As at 1 January 2018	**155,403**	**3,618**	**717**	**159,738**
Charged/(credited) to profit or loss for the year *(Note 10)*	**10,892**	**(491)**	**(598)**	**9,803**
As at 31 December 2018	**166,295**	**3,127**	**119**	**169,541**

Deferred tax assets

	Excess of amortisation of prepaid land lease over tax allowances	Tax losses	Total deferred tax assets
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2017	(1,096)	(5,485)	(6,581)
(Credited)/charged to profit or loss for the year *(Note 10)*	(120)	5,485	5,365
As at 31 December 2017	(1,216)	—	(1,216)
As at 1 January 2018	**(1,216)**	**—**	**(1,216)**
Credited to profit or loss for the year *(Note 10)*	**(81)**	**—**	**(81)**
As at 31 December 2018	**(1,297)**	**—**	**(1,297)**

31. DEFERRED TAX *(continued)*

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB14,392,000 (2017: RMB12,938,000) as at 31 December 2018, in respect of losses amounting to RMB57,568,000 (2017: RMB51,752,000) as at 31 December 2018 respectively that can be carried forward against future taxable income and losses are subject to expiry period of five years.

32. DEFERRED INCOME

Deferred income represented the subsidies from the PRC government provided to the Group to enhance and upgrade the hotel and resort facilities which were completed during the year ended 31 December 2018. The amount recognised in the profit or loss on a systematic basis over the periods in which the Group recognises depreciation expense for the related costs of enhancement and upgrade of the facilities.

33. SHARE CAPITAL

	Number of shares *(thousands)*	**Share capital** *RMB'000*
As at 1 January 2017 and 2018	980,000	8,669
As at 31 December 2017 and 2018	980,000	8,669

34. CAPITAL COMMITMENTS

The Group had the following capital commitments contracted but not provided for:

	As at 31 December	
	2018 *RMB'000*	2017 *RMB'000*
Construction in progress	**29,989**	2,499

35. LEASE COMMITMENTS

Operating lease commitments — lessee

The Group's total future minimum lease payments under non-cancelable operating leases are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within one year	**7,983**	6,554
In the second to fifth years inclusive	**8,751**	11,657
After five years	**5,238**	5,640
	21,972	23,851

Operating lease payables represent rental payable for certain of its buildings. Leases are negotiated for an average term of 2 to 20 years and rental are fixed over the lease terms and do not include contingent rentals.

Operating lease commitments — lessor

The Group's total future minimum lease receivables under non-cancelable operating leases are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within one year	**828**	832
In the second to fifth years inclusive	**1,095**	120
After five years	**91**	—
	2,014	952

Operating lease receivables represent stall rental receivable. Leases are negotiated for an average term of 2 to 5 years and rental are fixed over the lease terms and do not include contingent rentals.

36. MATERIAL RELATED PARTIES TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The ultimate holding company of the Group is Harvest Talent Investments Limited ("Harvest Talent"), incorporated in British Virgin Islands, which is fully controlled by Mr. Hon Chi Ming.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year ended 31 December 2018.

(a) Transactions with related parties

The following transactions were carried out with related parties at terms mutually agreed by both parties:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salary of Mrs. Hon (Spouse of an executive director)	**132**	138

(b) Compensation of key management personnel of the Group:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, bonus and allowances	**3,986**	3,977
Pension costs		
— defined contribution plans	**162**	62
Share-based payment	**2,541**	2,927
	6,689	6,966

37. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

		As at 31 December	
		2018	2017
		RMB'000	*RMB'000*
Non-current asset			
Investment in subsidiaries		**212,528**	210,637
Current assets			
Prepayments		**434**	430
Bank and cash balances		**1**	—
Amount due from a subsidiary		**122,965**	122,814
		123,400	123,244
TOTAL ASSETS		**335,928**	333,881
Current liabilities			
Accruals		**3,098**	711
Borrowings		**—**	79
TOTAL LIABILITIES		**3,098**	790
Capital and reserves			
Share capital		**8,669**	8,669
Reserves	*Note (a)*	**324,161**	324,422
TOTAL EQUITY		**332,830**	333,091
TOTAL LIABILITIES AND EQUITY		**335,928**	333,881

The statement of financial position of the Company was approved by the Board of Directors on 26 March 2019 and was signed on its behalf:

....

Hon Chi Ming — *Director*

Huang Zhanxiong — *Director*

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

(a) Reserve movement of the Company

	Share premium	Foreign Currency Translation reserve	Share-based Payment reserve	Capital reserve	Other reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	99,249	(9,444)	—	208,587	69,528	(29,322)	338,598
Total comprehensive loss for the year	—	(9,210)	—	—	—	(9,970)	(19,180)
Share-based payment *(Note 14)*	—	—	5,004	—	—	—	5,004
As at 31 December 2017	99,249	(18,654)	5,004	208,587	69,528	(39,292)	324,422
As at 1 January 2018	**99,249**	**(18,654)**	**5,004**	**208,587**	**69,528**	**(39,292)**	**324,422**
Total comprehensive loss for the year	**—**	**6,187**	**—**	**—**	**—**	**(10,793)**	**(4,606)**
Share-based payment *(Note 14)*	**—**	**—**	**4,345**	**—**	**—**	**—**	**4,345**
As at 31 December 2018	**99,249**	**(12,467)**	**9,349**	**208,587**	**69,528**	**(50,085)**	**324,161**

Note:

(i) Foreign currency translation reserve

Currency translation differences represent the difference arising from the translation of the financial statements of the Company, of which the functional currency is HK$, into the financial statements of the Company presented in RMB.

(ii) Capital reserve

The capital reserve represents differences between the nominal value of the shares of the Company and the capital of View Top Holding Limited acquired on 11 September 2014.

(iii) Other reserve

The other reserve results from issue and lapse of puttable options.

38 EVENTS AFTER REPORTING PERIOD

On 20 January 2019, the shareholders of the Company, Harvest Talent and Dynasty Fortune Tourism Property Investments Limited which are controlled by Mr. Hon Chi Ming (the chairman and executive director of the Company) and Mr. Hui Chin Tong, Godfrey (a non-executive director of the Company) respectively, have entered into sale and purchase agreements with a third party to conditionally sell an aggregate of 286,000,000 ordinary shares of the Company.

Particulars of Properties

PROPERTIES HELD FOR SALE:

(A) Completed properties held for sale

Property name	Location	Use	Estimated approximate gross floor area	Attributable interest of the Group
Joyful Apartments	A total of 3 various apartment units in Joyful Apartments located at Gudou Hot Spring Resort Gudou Village Yamen Town Xinhui District Jiangmen City Guangdong Province The PRC 529149	Residential/Hotel Rooms	99.6	100%
Mountain Seaview Vacation Residence	A total of 6 various apartment units, in Mountain Seaview Vacation Residence and located at Gudou Hot Spring Resort Gudou Village Yamen Town Xinhui District Jiangmen City Guangdong Province The PRC 529149	Residential, commercial and car parks	427.4	100%
Heart of Spring Apartments	A total of 95 various apartment units and 19 various commercial units in Heart of Spring Apartments located at Gudou Hot Spring Resort Gudou Village Yamen Town Xinhui District Jiangmen City Guangdong Province The PRC 529149	Residential and commercial and car parks	7,102.8	100%

Particulars of Properties

PROPERTIES HELD FOR INVESTMENT:

Location	Use	Tenure	Attributable interest of the Group
Seven various parcels of land known as Lot Nos. 0928000495, 0928000327 (portion), 0928000290, 0928000505, 0928000311, 0928000496 and 0928000308 and located at Gudou Hot Spring Resort Gudou Village Yamen Town Xinhui District Jiangmen City Guangdong Province The PRC 529149	To be developed	Until 12 July 2042 to 6 January 2052	100%
Fourteen various parcels of land known as Lot Nos. 0928000297 (portion), 0928000293 (with a building erected thereon), 0928000492 (portion), 0928000301, 0928000309, 0928000310, 0928000318, 0928000497, 0928000494, 0928000316, 0928000314, 0928000299, 0928000291 and 440705008005GB00288 and located at Gudou Hot Spring Resort Gudou Village Yamen Town Xinhui District Jiangmen City Guangdong Province The PRC 529149	To be developed	Until 12 July 2042 to 19 June 2043	100%

Financial Summary of the Group

	2015	2016	2017	**2018**
	RMB'000	*RMB'000*	*RMB'000*	***RMB' 000***
Results				
Turnover	202,153	182,052	318,529	**248,729**
Profit/(loss) before tax	(299)	(34,148)	104,482	**54,898**
Total comprehensive income/(loss) for the year attributable to owners of the Company	(24,643)	(61,395)	53,180	**12,614**
Assets and Liabilities				
Total assets	1,008,945	1,144,930	1,072,982	**1,109,241**
Total liabilities	834,081	795,657	665,525	**686,805**
Net assets/Total equity	174,864	349,273	407,457	**422,436**

Note:

The financial results of the Group for the years ended 31 December 2015 and its financial position as at 31 December 2015 are extracted from the Prospectus.