



2019 ANNUAL REPORT

古兜控股有限公司 Gudou Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8308

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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.

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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
"China Aoyuan"	China Aoyuan Group Limited (中國奧園集團股份有限公司), a company incorporated under the laws of Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 3883)
"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
"Cooperation Agreement"	a cooperation and development agreement dated 16 July 2019 and entered into between Guangdong Gudou and GD Aoyuan in relation to the development of the Target Land
"Director(s)"	the director(s) of the Company
"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
"GD Aoyuan"	Guangdong Aoyuan Co., Ltd.* (奧園集團(廣東)有限公司), a company established under the laws of the PRC and an indirect wholly-owned subsidiary of China Aoyuan
"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

DEFINITIONS

"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
"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), a limited liability company established in the PRC and a wholly-owned subsidiary of Guangdong Gudou
"Guanshanyue Apartments"	Guanshanyue Apartments* (觀山悅公館), a tourism property project under the development in accordance with the Cooperation Agreement
"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
"Gudou Yishui Mingting Apartments"	Gudou Yishui Mingting Apartments* (古兜依水茗亭), a tourism property project under the development in accordance with the Cooperation Agreement
"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

DEFINITIONS

"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
"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 2019

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
"Target Land"	the five parcels of land of approximately 67,860.7 sq.m. in total located at the Gudou Hot Spring Resort and legally and beneficially owned by Guangdong Gudou
"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

DEFINITIONS

"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
"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
"Yuequan Huju Hotel"	Yuequan Huju Hotel* (月泉湖居酒店), a new themed hotel complex in the Gudou Hot Spring Resort which commenced operation in July 2019
"%"	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 facilities. As at 31 December 2019, the site of the Gudou Hot Spring Resort stretched across a total site area of approximately 650,000 sq.m., in which offered 62 public hot spring pools with six themed hotel complexes, namely Royal Spa Hotel, Hot Spring Villa Hotel, Mountain Seaview Hotel, Joyful Hotel, Gudou Lakeview Tulip Inn Hotel and Yuequan Huju Hotel. The Group also diversifies the streams of revenue by providing consultancy services to other leisure hotels and resorts.

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 hot spring 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 (resigned on 12 April 2019)
Mr. Ruan Yongxi (appointed on 12 April 2019)

Independent Non-Executive Directors

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

COMPANY SECRETARY

Ms. Chan Sin Ling (resigned on 10 December 2019)
Mr. Wan Shun Man, CPA (appointed on 10 December 2019)

COMPLIANCE OFFICER

Ms. Zhen Yaman, qualified attorney in the PRC

AUTHORISED REPRESENTATIVES

Mr. Hon Chi Ming
Ms. Chan Sin Ling (resigned on 10 December 2019)
Mr. Wan Shun Man (appointed on 10 December 2019)

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 (resigned on 10 December 2019)
Mr. Wan Shun Man (appointed on 10 December 2019)
Mr. Li Yanan

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants and Registered PIE Auditor
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

19th Floor
Tower One of Tern Centre
No. 237 Queen's Road Central
Hong Kong

HONG KONG LEGAL ADVISERS

Stevenson, Wong & Co.
39/F Gloucester Tower,
The Landmark,
15 Queen's 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 and transfer office

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS

iPR Ogilvy & Mather
40/F, China Online Centre
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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 2019.

BUSINESS OVERVIEW

During the Period, the Group recorded turnover of approximately RMB 238.2 million for the year ended 31 December 2019, representing a decrease of approximately 4.2% when compared to the previous year. The Group's net profit for the Period was approximately RMB24.6 million as compared to approximately RMB15.6 million in the previous year. We achieved basic earnings per share of approximately RMB2.51 cents as compared to approximately RMB1.59 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 2019 compared to 2018. The Group's turnover derived from hot spring resort and hotel operations increased by approximately 13.0% to approximately RMB161.3 million when compared to the corresponding period of previous year.

During the Period, the Group recorded an increase in revenue generated from room revenue and admission fees by approximately 20.7% and 10.8% respectively when compared to 2018. 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 Gansu Province and Sichuan Province. Revenue from consultancy services contributed revenue of approximately RMB19.0 million to the Group in the Period, representing an increase of approximately 10.6% when compared to 2018.

Tourism Property Development

During the Period, the Group recorded a decrease of approximately 27.4% in revenue generated from the tourism property development business amounting to approximately RMB76.9 million in 2019 as compared to approximately RMB106.0 million in 2018. Such decrease was mainly attributable to the decrease in GFA delivered and sold as most units of Heart of Spring Apartments were sold and delivered in 2018.

During the Period, the Group sold and delivered 110 units of Heart of Spring Apartments, representing 36.1% of the total saleable GFA of Heart of Spring Apartments. The Group also sold and delivered 4 units of Mountain Seaview Vacation Residence, representing 1.0% of the total saleable GFA of Mountain Seaview Vacation Residence; and 3 units of Joyful Apartments, representing 1.4% of the total saleable GFA of Joyful Apartments.

The Group is pleased to announce that two tourism property projects, namely, Guanshanyue Apartments and Gudou Yishui Mingting Apartments under the development in accordance with the Cooperation Agreement, each of which passed all the necessary development inspection and acceptance and was granted pre-sale permit in the fourth quarter of 2019. 3 units of the Guanshanyue Apartments and 96 units of the Gudou Yishui Mingting Apartments were pre-sold as at 31 December 2019. The Company and GD Aoyuan planned to further sell the properties in 2020.

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

Entering into 2020, the outbreak of the novel coronavirus (Covid-19) has slowed down the economic activities in China and exerted pressure to the Group's hot spring resort and hotel operations businesses. In late January 2020, we have decided to temporarily suspended the operation of Gudou Hot Spring Resort, which was partially resumed in early March as the situation showed signs of recovery.

Notwithstanding such unfavourable factor, the Group's persistence in upholding our core values, in that our belief in the importance of health regimen to human beings and well-being of body and mind, will certainly create opportunities in the mid and long run. Particularly, we believe our health-oriented hot spring resort, which offers 62 public hot spring pools and six themed hotel complexes, to be a desirable vacation destination for increasingly health-conscious customers.

Looking forward, we remain cautiously optimistic towards the future of our businesses. The Group will remain focused on strengthen its "Gudou" brand by enhancing the ambiance and facilities of Gudou Hot Spring Resort. In addition, the Group will continue to explore new business opportunities in consultancy services and management services to leisure hotels and resorts and other hot spring resort operators. Further, the Group will embark on new tourism property development projects.

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, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

For the Period, the Group recorded turnover of approximately RMB238.2 million (2018: approximately RMB248.7 million), representing a decrease of approximately 4.2% when compared with that of the previous year. The decrease in turnover was primarily attributable to the decrease in revenue generated from the Group's tourism property development, partially offset by the increase in revenue generated from the Group's hot spring resort and hotel operations. The turnover from the Group's hot spring resort and hotel operations increased by approximately 13.0% from approximately RMB142.7 million in the previous year to approximately RMB161.3 million for the Period. Such increase was mainly driven by an increase in room revenue and admission income due to an increase in the number of visitors to the Gudou Hot Spring Valley and the commencement of operation of the Group's sixth themed hotel complex, Yuequan Huju Hotel in mid 2019. The Group's turnover attributable to tourism property development recorded a decline of approximately 27.4% from approximately RMB106.0 million for the year ended 31 December 2018 to approximately RMB76.9 million for the Period. The decrease was primarily attributable to the decrease in GFA delivered and sold as most units of Heart of Spring Apartments were sold and delivered in 2018, which was partially offset by the increase in properties renovation income.

Cost of Sales

The Group's cost of sales for the Period was approximately RMB132.4 million, representing a decrease of approximately 15.9% from approximately RMB157.4 million for the year ended 31 December 2018. Such decrease was primarily due to the decrease in cost of sales of the Group's tourism property developments, which was mainly resulted from a decrease in the GFA sold and delivered during the Period. The decrease was partially offset by the increase in the cost of renovation services. The cost of sales of the Group's hot spring resort and hotel operations decreased by approximately 13.4% for the Period which was mainly attributable to the decrease in staff costs and the decrease in the amortisation of prepayments for renovation during the Period as compared to that in the corresponding period of 2018.

Gross Profit and Gross Profit Margin

The Group's gross profit for the Period was approximately RMB105.8 million, representing an increase by approximately 15.9% when compared with its gross profit of approximately RMB91.3 million for the year ended 31 December 2018. The Group's gross profit margin increased from approximately 36.7% for the year ended 31 December 2018 to approximately 44.4% for the Period, which reflected the increase in gross profit margin for hot spring resort and hotel operations.

For the Period, the gross profit margin for hot spring resort and hotel operations was approximately 47.6% (2018: approximately 31.6%). The increase is primarily due to an increase in revenue of our hot spring resort, a decrease in staff costs and a decrease in the amortisation of prepayments for renovation. The gross profit margin for tourism property development for the Period was approximately 37.8% (2018: approximately 43.5%). Such decrease is mainly due to the lower average selling price of Heart of Spring Apartments which were sold and delivered for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2019 was approximately RMB30.5 million in value, representing a decrease of approximately 43.0% as compared to the gains of RMB53.5 million of previous year.

Selling Expenses

The Group's selling expenses for the Period were approximately RMB19.1 million, representing a decrease of approximately 28.6% over the selling expenses of approximately RMB26.8 million for the previous year. The decrease is primarily attributable to the decrease in promotional expenses incurred by the Group in connection with the sales of tourism properties.

Administrative Expenses

The Group's administrative expenses for the Period were approximately RMB49.3 million, representing an increase of approximately 2.9% over the administrative expenses of approximately RMB47.9 million for the year ended 31 December 2018.

Income Tax Expenses

The Group's income tax expenses for the Period were approximately RMB23.2 million, representing a decrease by approximately 41.1% from approximately RMB39.3 million for the year ended 31 December 2018, which has mainly due to a decreases in LAT and a decrease in deferred tax expenses, which were in line with the Group's decreased property sales and fair value gains on investment properties during the Period .

Net Profit and Net Profit Margin

The Group's net profit for the Period was approximately RMB24.6 million, representing an increase of 58.1% when compared to the net profit of the Group of approximately RMB15.6 million for the year ended 31 December 2018. Such increase in net profit was primarily attributable to an increase in revenue recognised for the Group's hot spring resort and hotel operations business as the new themed hotel complex, Yuequan Huju Hotel, commenced operations and attracted more visitors to the Gudou Hot Spring Resort.

The Group's net profit margin (which is calculated by dividing its net profits for the relevant period by the turnover for the same period) also increased from approximately 6.3% for 2018 to approximately 10.3% for the Period. Such increase was mainly due to (i) an increase in gross profit margin; (ii) a decrease in selling expenses; and (iii) a decrease in income tax expenses, partially offset by a decrease 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 2019, the Group had bank and cash balances of approximately RMB60.7 million which were denominated in RMB and Hong Kong dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's outstanding capital commitments as at 31 December 2019 amounted to approximately RMB8.6 million (2018: approximately RMB30.0 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 2019, the Group had an outstanding bank loan of RMB328.9 million which were denominated in RMB and Hong Kong dollars, among which approximately RMB136.3 million were fixed rate borrowings. The annual loan repayment amounted to approximately RMB97.6 million, which was 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 2019, there were no outstanding shareholders' loans.

The Group's gearing ratio as at 31 December 2018 and 2019, which was calculated by dividing its total borrowings by its total equity as at those dates, was approximately 0.73 and 0.69, respectively. The Group's gearing ratio as at 31 December 2019 was stable because the increase in the total borrowings was largely in line with that of the total equity.

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 2019, an amount of approximately RMB528.1 million (2018: approximately RMB462.5 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 2019, 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 Hong Kong 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As at 31 December 2019, the Group had a workforce of 583 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 2018 and 2019 amounted to approximately RMB54.0 million and RMB48.0 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. All qualified employees of the Group in Hong Kong are required to participate in the Mandatory Provident Fund Scheme of Hong Kong 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 its 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, the business demands and expansion plans of the Group. 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 payment 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 in the PRC. During the Period, the Group paid approximately RMB207,000 (2018: RMB240,000) as the annual fee for compliance with the applicable environmental laws and regulations in the PRC.

During the Period and to the best of the Directors' knowledge, the Group did not receive any 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 manufacturing activities. 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.

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 58, is the founder, chairman, chief executive officer and executive Director of the Group. He is also the president and the legal representative of Guangdong Gudou, and the director of various subsidiaries of the Group. 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 was the executive president of Guangdong Hot Spring Association (廣東溫泉行業協會) from November 2014 to November 2018 and he currently is its vice president. Mr. Hon was also granted the professional qualification as an assistant economist by the Jiangmen City Science and Technology Committee* (江門市科學技術委員會) in February 1990.

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 58, 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 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 Council of Jiangmen Wuyi Catering Industry Association* (江門市五邑餐飲行業協會理事會) since October 2013.

Ms. ZHEN Yaman

Ms. ZHEN Yaman (甄雅曼), aged 40, 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 twelve 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 (中山大學) 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. Since January 2018, Ms. Zhen has worked as a risk control manager, and was subsequently promoted to an assistant general manager of the risk control and compliance centre in 2019, of Aoyuan Capital Investment Group Limited (奧園資本投資集團有限公司) (formerly known as Guangdong Aoyuan Jinkong Company Limited (廣東奧園金控有限公司)), which is also a subsidiary of China Aoyuan.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. HON Ka Fung

Mr. HON Ka Fung (韓家峰), aged 30, 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. RUAN Yongxi

Mr. RUAN Yongxi (阮永曦), aged 40, is our non-executive Director. Mr. Ruan joined our Group in April 2019. He is currently an assistant to the president of China Aoyuan and a director of the Strategic Investment Center of China Aoyuan. He joined China Aoyuan in March 2018 and is responsible for strategic planning of the China Aoyuan group. Mr. Ruan worked as the general manager of the Finance Center of Fantasia Holdings Group from 2014 to 2015. He was an assistant chief financial officer of Evergrande Real Estate Group Limited (now known as China Evergrande Group) (stock code: 3333) from 2008 to 2014 and audit manager of the Guangzhou Branch of Deloitte Touche Tohmatsu CPA Ltd. from 2002 to 2008. Mr. Ruan graduated from Guangdong University of Foreign Studies in June 2002, majoring in accounting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WU Sai Him

Mr. WU Sai Him (胡世謙), aged 71, 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 56, is our independent non-executive Director. Mr. Chiu joined our Group on 18 November 2016.

Mr. Chiu has over 30 years of experience in accounting, auditing and taxation. He is a co-founder and is currently a director of Lixin C.P.A. Limited which was founded in May 2002, mainly responsible for reviewing and providing technical advice and providing training to staff for audit, taxation, accounting and company secretarial matters. From November 1990 and March 1991, he worked as the internal auditor of The Po Leung Kuk, mainly responsible for carrying out internal audit works. From August 1986 to October 1990, Mr. Chiu worked in KPMG, mainly responsible for audit works.

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 member of the Society of Chinese Accountants and Auditors since July 1993 and a fellow member of the Chartered Association of Certified Accountants from October 1994 to December 2018. Mr. Chiu was appointed as a member of the Court of Lingnan University from October 2001 to November 2005 and a member of the Council of Lingnan University from August 2006 to August 2009.

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 73, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY AND OTHER SENIOR MANAGEMENT

Mr. WAN Shun Man

Mr. WAN Shun Man (溫迅敏) CPA, aged 32, joined our Group in December 2019 as chief financial officer and the company secretary. He is primarily responsible for the financial management and corporate governance of our Group. Mr. Wan obtained a bachelor's degree in business administration in business economics from the City University of Hong Kong in July 2010 and was admitted as a member of the Hong Kong Institute of Certified Public Accountants since January 2014. Mr. Wan has over 9 years of experience and knowledge in the areas of accounting and internal audit. Prior to joining the Group, he worked in the audit and assurance department of PricewaterhouseCoopers Hong Kong between September 2010 and July 2014. He later served the internal audit department of a multinational conglomerate for over four years. From April 2019 until joining the group, he served as the financial controller and company secretary of a personal care and beauty products company headquartered in Hong Kong.

Mr. WANG Jun

Mr. WANG Jun (王俊), aged 43, 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 47, 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 is also a director of Jiangmen City Quanxin Gongyu Management Company Limited. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. MAI Cuilan

Ms. MAI Cuilan (麥翠蘭), aged 39, is the deputy general manager of Jiangmen Gudou 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 Jiangmen Gudou 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.

Mr. HE Yingquan

Mr. HE Yingquan (何英權), aged 58, 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 have pleasure in presenting 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 2019 are set out in the audited financial statements on pages 75 to 161 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 sections headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" 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, 2018 and 2019 is set out on page 164 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 RMB238.2 million, representing a decrease of approximately 4.2% when compared to that of the previous year. Profit attributable to owners of the Company for the Period was approximately RMB24.6 million (profit attributable to owners of the Company for the corresponding period in 2018: RMB15.6 million), representing an increase of approximately 58.1% when compared to that of the previous year mainly due to the following factors:

- (i) an increase in revenue generated from hot spring resort and hotel operations, partially contributed by the revenue from the new themed hotel complex, Yuequan Huju Hotel, which commenced its operations in July 2019; and
- (ii) the provision of renovation services to the tourism property customers contributed approximately RMB28.3 million to the revenue in the Period.

Due to the impact of the outbreak of Coronavirus on the global tourism, the Company expects that the financial performance of the Group will likely have a negative impact in the first quarter of 2020 as compared to that in the fourth quarter of 2019.

Notwithstanding these challenging times, the Company will continue to be proactive in managing its financial resources obtained from its operations for allocating on the operations of the hot spring resort and hotels and expansion of its tourism property development businesses.

DIRECTORS' REPORT

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% to approximately RMB161.3 million when compared to that in the previous year. The Group believes that the growth in revenue from the hot spring resort and hotel operations business reflected the achievement of the Group's business strategy to enhance the "Gudou" brand across the PRC.

During the Period, the Group recorded an increase in admission income by approximately 10.8% which was mainly attributable to an increase in the number of visitors to the Gudou Hot Spring Resort.

The Room Revenue generated from the themed hotel complexes increased by approximately 20.7% in the Period compared to that in 2018. The Occupancy Rate of the themed hotel complexes increased by approximately 1.9% from approximately 34.7% in 2018 to approximately 36.6% in 2019. The increase in Room Revenue was mainly due to the increase in average room rate and a slight increase in the Occupancy Rate. The increase in both the average room rate and the Occupancy Rate was mainly a result of the newly-opened Yuequan Huju Hotel in July 2019. The average room rate increased from approximately RMB269.05 for the year ended 31 December 2018 to approximately RMB334.04 for the year ended 31 December 2019.

Consultancy services contributed approximately RMB19.0 million to the revenue of the Group in the Period, representing an increase of approximately 10.6% as compared to that in the previous year.

Tourism Property Development

The Group recorded a decrease in revenue of approximately 27.4% from the tourism property development business of approximately RMB76.9 million in 2019 as compared to approximately RMB106.0 million in 2018. Such decrease was mainly attributable to a decrease in GFA sold and delivery of Heart of Spring Apartments during the year.

During the Period, the Group sold and delivered 110 units of Heart of Spring Apartments, representing approximately 36.1% of the total saleable GFA of Heart of Spring Apartments which contributed approximately RMB46.2 million to the revenue of the Group and sold and delivered 4 units of Mountain Seaview Vacation Residence, representing approximately 1.0% of the total saleable GFA of Mountain Seaview Vacation Residence which contributed approximately RMB1.9 million to the revenue of the Group; and the Group also sold and delivered 3 units of Joyful Apartments, representing approximately 1.4% of the total saleable GFA of Joyful Apartments which contributed approximately RMB0.6 million to the revenue of the Group.

The provision of renovation services to the tourism property customers contributed approximately RMB28.3 million to the revenue in 2019.

In the fourth quarter of 2019, the two tourism property projects, namely, Guanshanyue Apartments and Gudou Yishui Mingting Apartments under the development in accordance with the Cooperation Agreement, each of which passed all the necessary development inspection and acceptance and were granted pre-sale permit. 96 units of the Gudou Yishui Mingting Apartments and 3 units of the Guanshanyue Apartments were pre-sold as at 31 December 2019. The Group and GD Aoyuan planned to further sell the properties in 2020.

DIRECTORS' REPORT

Outlook

Looking ahead in 2020, 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 business will continue to be focused by the Company in 2020. Since most of the units of Heart of Spring Apartments were delivered in 2019, the Group's revenue and profits (if any) will likely drop significantly in the first quarter of 2020 as compared to the fourth quarter of 2019. The Company expects major pre-sale of Gudou Yishui Mingting Apartments and Guanshanyue Apartments to be continued in 2020 and properties to be delivered to its customers from 2020 onwards. According to the revenue recognition policy, the Group will recognise revenue from property sales when the construction is completed and properties are delivered to its customers. If the development and sale of properties proceed as scheduled without major hindrance, the Company expects the delivery of properties will have a positive financial impact on the full-year results of the Group for 2020.

The hot spring resort and hotel operations business will also be focused by the Company despite the outbreak of the novel coronavirus (Covid-19), which has severely affected its operation. The Company will continue to monitor the evolving situation and deploy cost savings strategies significantly to minimise the negative impact on the Group even though the Directors expect the first quarter performance to lag behind that of 2019.

In spite of facing the uncertainties in the coming year, with our solid foundation in the hot spring and hotel industry, the Directors remain cautiously optimistic towards the long term of the Group's business.

DIRECTORS' REPORT

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 2019. 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 2019
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 policies, local tourism development, infrastructure, locations or available land sites, regionaleconomy, 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 Gansu 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 Directors 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 Group sold and delivered 110 units of Heart of Spring Apartments. The Directors expect the major pre-sale of the jointly developing property projects, Gudou Yishui Mingting Apartments and Guanshanyue Apartments, to continue in 2020 and properties to be delivered to its customers from 2020 onwards.

DIRECTORS' REPORT

Business Objectives

3. Continue to enhance the Group's "Gudou" brand across the PRC by providing quality products and services to the customers

Actual Business Progress up to 31 December 2019

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 had also organised a number of promotional events to promote the Group's "Gudou" brand, such as:

- Chinese new year celebrations in January to February 2019
- crab festival in April 2019
- carnival in May 2019
- water parties in July 2019
- Yuequan Huju Hotel opening ceremony in July 2019
- mid-autumn festival in September 2019
- carnival in October 2019
- carrot festival in December 2019
- New Year Eve celebration in December 2019

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 of the development in the market.

The Group believes that service and property quality is the key to maintaining 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 judgment 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, 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 suppliers, 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;

DIRECTORS' REPORT

- (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.

SHARE CAPITAL AND SECURITIES ISSUED DURING THE PERIOD

Details of the movements in share capital of the Company are set out in note 35 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 2020. 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.

DIRECTORS' 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 2019, the total reserves available for distribution to the Shareholders by the Company amounted to approximately RMB320.4 million (2018: RMB324.2 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 39 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 RMB109.8 million as at 31 December 2019 (2018: RMB37.7 million) as disclosed in note 24 to the consolidated financial statements.

INVESTMENT PROPERTIES

Movements in the investment properties of the Group during the Period are set out in note 19 to the consolidated financial statements. All of the Group's investment properties were revalued by independent professional property valuer as at 31 December 2019 adopting sales comparison approach. Details of the investment properties of the Group as at 31 December 2019 are set out in the Particulars of Properties on pages 162 to 163 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 its 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 the Scheme on 18 November 2016 which became unconditional upon the 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.

DIRECTORS' REPORT

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 available for issue under the Scheme is 93,100,000 Shares, representing 9.5% of the total number of Shares in issue as at the date of this report. The total number of Shares 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 then in issue, unless approved by Shareholders 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 or 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.

DIRECTORS' REPORT

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. Details of which are as follows:

Grantees	Date of grant	Exercise price per share HK\$	Exercise period	Number of Options				
				balance as at 1 January 2019	granted during the Period	exercised during the Period	cancelled/ lapsed/ forfeited during the Period	balance as at 31 December 2019
Directors								
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. 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
Consultant				22,050,000	—			22,050,000
Mr. Hui Chin Tong Godfrey (note 2)	5 April 2017	0.62	Subject to the vesting schedule below	7,840,000	—	—	—	7,840,000
Employees in aggregate	5 April 2017	0.62	Subject to the vesting schedule below	22,050,000	—	—	4,900,000	17,150,000
Total				51,940,000	—	—	4,900,000	47,040,000

DIRECTORS' REPORT

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

Notes:

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.
2. Mr. Hui Chin Tong Godfrey resigned as a non-executive Director on 12 April 2019. Notwithstanding that, the Options granted to him under the Share Option Scheme remains effective as he was appointed as a consultant of the Company with effect from 12 April 2019.

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 fellow member of the Chartered Association of Certified Accountants since January 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 Directors

Mr. Hui Chin Tong Godfrey (*resigned on 12 April 2019*)

Mr. Ruan Yongxi (*appointed on 12 April 2019*)

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 2020 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 28 to 31 of this report.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2019, 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 2019 (Note 2)
Mr. Hon	Interest of a controlled corporation (Note 3) Beneficial owner (Note 4)	336,500,000 (L)	4,900,000	341,400,000	34.84%
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. 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%

DIRECTORS' REPORT

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 2019.
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 336,500,000 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 2019 are set out in the section headed "Share Option Scheme" of this report.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as is known to any Director or chief executive of the Company, as at 31 December 2019, 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 2019 (Note 2)
Harvest Talent	Beneficial owner	336,500,000 (L)	—	336,500,000	34.34%
Mrs. Hon	Interest of spouse (Note 3)	336,500,000 (L)	4,900,000	341,400,000	34.84%
Phoenix Virtue Limited	Beneficial owner (Note 4)	286,000,000 (L)	—	286,000,000	29.18%
Add Hero Holdings Limited	Interest of a controlled corporation (Note 4)	286,000,000 (L)	—	286,000,000	29.18%
China Aoyuan (Note 4)	Interest of a controlled corporation	286,000,000 (L)	—	286,000,000	29.18%
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%

DIRECTORS' REPORT

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 2019.
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. Phoenix Virtue Limited ("Phoenix Virtue") is wholly-owned by Add Hero Holdings Limited, which in turn is wholly-owned by China Aoyuan. China Aoyuan is owned as to 51.86% by Ace Rise Profits Limited and 55.22% by Joy Pacific Group Limited (including interests held by Ace Rise Profits Limited). Ace Rise Profits Limited is owned as to 90% by Joy Pacific Group Limited, which in turn is wholly-owned by Sturgeon Limited. Sturgeon Limited is wholly-owned by Asia Square Holdings Ltd., as nominee and trustee for J. Safra Sarasin Trust Company (Singapore) Ltd. as the trustee holding such interests on trust for the beneficiaries of The Golden Jade Trust. The Golden Jade Trust is a discretionary family trust established under the laws and regulations of Singapore. Mr. Guo Ziwen and Ms. Jiang Miner are the settlors of The Golden Jade Trust.
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.

Save as disclosed above, as at 31 December 2019, 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.

DIRECTORS' REPORT

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 27.5% of its total turnover for the Period (2018: approximately 25.5%) and its largest customer accounted for approximately 13.9% of the Group's total turnover for the Period (2018: approximately 11.3%).

The Group's five largest suppliers accounted for approximately 38.8% of its total purchases for the Period (2018: approximately 53.7%) and its largest supplier accounted for approximately 14.4% of the Group's total purchases for the Period (2018: approximately 24.6%).

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.

CONNECTED TRANSACTION

At an extraordinary general meeting of the Company held on 17 September 2019, the independent shareholders of the Company approved the Cooperation Agreement dated 16 July 2019 and entered into between Guangdong Gudou and GD Aoyuan, pursuant to which Guangdong Gudou and GD Aoyuan agreed to cooperate with each other for the planning, development and operation of the Target Land.

As part of the cooperation and joint arrangement: (a) Guangdong Gudou would contribute the Target Land to the joint arrangement, which was valued at approximately RMB146,826,000 as at 31 March 2019 by an independent valuer; and (b) GD Aoyuan would be responsible for funding the development, construction and management of the Target Land and the buildings and structures to be erected thereon with a maximum investment amount of RMB342,594,000. By parties' mutual agreement, it is estimated that approximately RMB6,300 per sq.m. will be utilised as construction costs for erecting the tourism property, facilities and other infrastructures incidental to the erection of tourism property on the Target Land.

DIRECTORS' REPORT

Guangdong Gudou and GD Aoyuan are entitled to 30% and 70% of the income derived from the Target Land, respectively, which is determined with reference to their respective investments in the development project on the Target Land.

The Board considers that having GD Aoyuan to join the development project in respect of the Target Land could (i) ensure sufficient investment funds would be in place to support and further the Group's strategic planning and development and sale of tourism property within Gudou Hot Spring Resort; and (ii) benefit the development project in respect of the Target Land by leveraging China Aoyuan's expertise in property development and cultural tourism to create synergy through their established networks and resources in the Guangdong — Hong Kong — Macao Greater Bay Area. Having considered the above, the Board is of the view that the terms of the Cooperation Agreement and the transactions contemplated therein are fair and reasonable and in the interests of the shareholders as a whole.

GD Aoyuan is an indirect wholly-owned subsidiary of China Aoyuan, which is a substantial Shareholder holding 29.18% interest in the Company and thus a connected person of the Company. Accordingly, GD Aoyuan is a connected person of the Company by virtue of being an associate of China Aoyuan. As the total consideration exceeds HK\$10 million, the transactions contemplated under the Cooperation Agreement are subject to the reporting and announcement and independent shareholders' approval requirements under Chapter 20 of GEM Listing Rules.

Details of the above have been disclosed in the circular dated 2 September 2019, the announcements dated 16 July 2019 and 17 September 2019. Details of the transactions were mainly set out in note 21 to the consolidated financial statements. The Directors (including the independent non-executive directors) considered that the Cooperation Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Group, and have been negotiated on an arm's length basis between the parties on normal commercial terms, and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

RELATED PARTY TRANSACTIONS

Material related party transactions entered into by the Group during the Period are set out in note 38 to the Group's consolidated financial statement. Save as disclosed in the section headed "Connected Transaction" in this report which has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules, 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.

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.

DIRECTORS' REPORT

CHARITABLE CONTRIBUTIONS

During the Period, the Group made charitable contribution of approximately HK\$35,850 (2018: approximately HK\$58,000).

EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of Coronavirus Disease 2019 ("the COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in offices, etc.

In response to the precautionary policies and measures implemented by the Guangdong provincial government to deter the spread of the COVID-19 outbreak, the operation of Gudou Hot Spring Resort was temporarily suspended from 28 January to 5 March 2020. The operation was partially resumed for certain hotels, facilities and restaurants at Gudou Hot Spring Resort on 6 March 2020. The COVID-19 outbreak in the short term has led to the decrease in visitors and occupancy rates, the temporary suspension of certain operations of the resort and hot spring facilities, thus reducing the revenue in the first quarter of 2020. On the other hand, for the property development project in the PRC which was originally expected to be completed and delivered in the second half of 2020, the management considered that the COVID-19 outbreak currently has minimal impact on the development progress. However, it may have impact on the completion timeline if the COVID-19 outbreak continues.

The Group will also continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Pending development of such subsequent non-adjustment event, the Group's financial results may be affected, to extend of which could not be estimated as at the date of this financial statements.

INTEREST OF COMPLIANCE ADVISER

Except for the compliance adviser agreement entered into between the Company and Zhongtai International Capital Limited ("Zhongtai International") dated 31 May 2018 which ended during the Period, 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 2019 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, 27 March 2020

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 had complied with the code provisions set out in the CG Code as may be applicable save for the deviation mentioned below.

Mr. Hon is currently performing the roles of chairman and chief executive officer of the 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, the 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 the Group. In order to maintain good corporate governance and fully comply with such code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

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. Ruan Yongxi

Independent Non-Executive Directors

Mr. Wu Sai Him

Mr. Chiu Chi Wing

Prof. Wang Dawu

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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 Directors		
Mr. Hui Chin Tong Godfrey (Note 1)	Note 1	Note 1
Mr. Ruan Yongxi (Note 2)	✓	✓
Independent Non-executive Directors		
Mr. Wu Sai Him	✓	✓
Mr. Chiu Chi Wing	✓	✓
Prof. Wang Dawu	✓	✓

Notes:

1. Mr. Hui Chin Tong Godfrey resigned as a non-executive Director on 12 April 2019.
2. Mr. Ruan Yongxi was appointed as a non-executive Director on 12 April 2019.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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 GEM Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules.
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, knowledge, experience, independence and gender diversity.

CORPORATE GOVERNANCE REPORT

- 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 two meetings, 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 and approved the appointment of a non-executive director.

CORPORATE GOVERNANCE REPORT

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 two 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 the policy for the remuneration and assessed performance of executive Directors; and
- reviewed the remuneration payable to Directors and senior management including the remuneration of the newly-appointed director.

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), Mr. Wan Shun Man (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. Mr. Wan is a certified public accountant and has knowledge and experience in compliance and internal control gained from his prior practice in accounting and his 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.

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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 prepare and submit a summary report quarterly to our Board on 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.

CORPORATE GOVERNANCE REPORT

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 5 meetings and two Shareholders' meetings (being the annual general meeting and one extraordinary 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 Functions	Extraordinary General Meeting	Annual General Meeting
Number of total meetings	5	4	2	2	12	4	1	1
Mr. Hon Chi Ming	5/5	—	—	—	—	4	1	1
Mr. Huang Zhanxiong	5/5	—	—	—	12/12	4	1	1
Ms. Zhen Yaman	4/5	—	—	—	12/12	4	1	1
Mr. Hon Ka Fung	5/5	—	—	—	—	4	1	1
Mr. Hui Chin Tong Godfrey (Note 1)	1/5	—	—	—	—	1	—	—
Mr. Ruan Yongxi (Note 2)	3/5	—	—	—	—	3	—	1
Mr. Wu Sai Him	5/5	4/4	2/2	2/2	—	4	1	1
Mr. Chiu Chi Wing	5/5	4/4	2/2	2/2	—	4	1	1
Prof. Wang Dawu	5/5	4/4	2/2	2/2	—	4	—	1

Notes:

1. Mr. Hui Chin Tong Godfrey resigned as a non-executive Director on 12 April 2019.
2. Mr. Ruan Yongxi was appointed as a non-executive Director on 12 April 2019.

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 2019 amounted to approximately HK\$2.9 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.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Wan Shun Man, the Company's company secretary, has confirmed that he has undertaken no less than 15 hours of relevant professional training to update his 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.

CORPORATE GOVERNANCE REPORT

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 control 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.

CORPORATE GOVERNANCE REPORT

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 27 March 2020 (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.

CORPORATE GOVERNANCE REPORT

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.

This report forms part of the annual report of the Company for the year ended of 31 December 2019, for details of the Group's financial performance and corporate governance matters, please refer to other sections in the annual report.

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.

Guangdong Gudou was recognised as a "Green Mine" by the Department of Natural Resources of Guangdong Province in 2018 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 and wastes 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 2019:

	Amount of Waste Produced (tonnes)
Domestic Waste	682.2

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 Environmental 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Greenhouse gas (GHG) emission which includes carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O)

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 57 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 motor vehicles in Gudou Hot Spring Resort are not considered material.

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

	2018	2019
Total GHG emissions ² (approximate tonnes)	8,994.6	9,187.6
— Direct emissions ³ (approximate tonnes)	866.4	732.7
— Energy indirect emissions (approximate tonnes)	8,128.2	8,454.9
Total GHG emissions per Occupied Room Night (tonnes/room night) ⁴	0.04	0.05

Notes:

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

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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 8,454.9 tonnes (2018: 8,128.2 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 156 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 1,656.2 thousand tonnes.

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	Total consumption (Thousand Tonnes)		Average water usage per Occupied Room Night (Approximate Tonnes/ room night)	
	2018	2019	2018	2019
Domestic water	970.2	1,096.6	4.9	5.7
Hot Spring water	517.4	559.6	2.6	2.9

Note: 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, 6,478 tonnes of sewage were purified (2018: 8,990 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Electricity

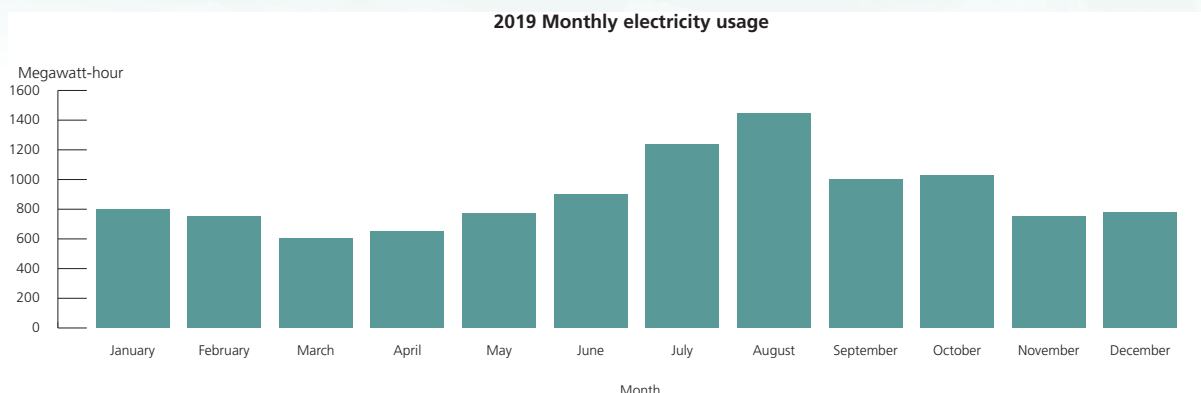
Electricity is necessary for the operation of hotel and other ancillary facilities within Gudou Hot Spring Resort and the tourism property development and is the main source of energy used. During the Period, the Group's electricity utilisation data during the Period is as follows:

Year	Total consumption (megawatt-hour)	Average electricity usage per Occupied Room Night (kilowatt-hour/ room night)
2018	10,288.9	51.6
2019	10,702.4	55.3

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 the PRC (《中華人民共和國勞動合同法》) and the Employment Ordinance of Hong Kong and Occupational Safety and Health Ordinance of Hong Kong 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

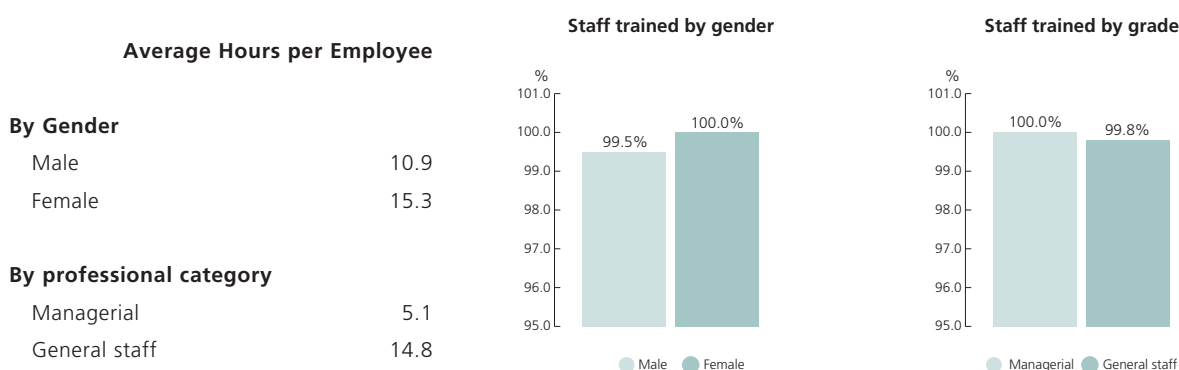
During the Period, no material workplace injury has been recorded at Gudou Hot Spring Resort.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 506 hours of job-related training on the above topics to its staff.



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 Employment Ordinance of Hong Kong in the following aspects.

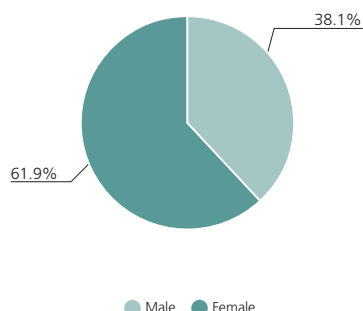
(a) Practices on recruitment process and dismissal

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.

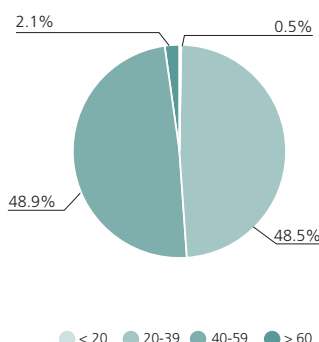
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 Employment of Children Regulations of Hong Kong. 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 2019, the Group has 583 employees. The following diagrams illustrate the Group's staff composition as at 31 December 2019:

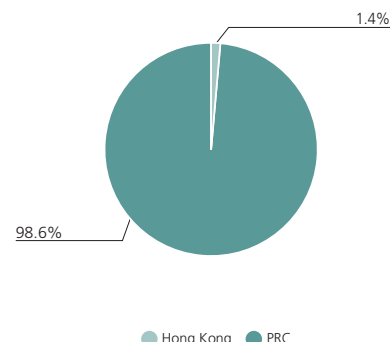
Staff by Gender as at 31 December 2019



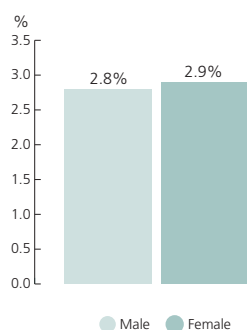
Staff by Age as at 31 December 2019



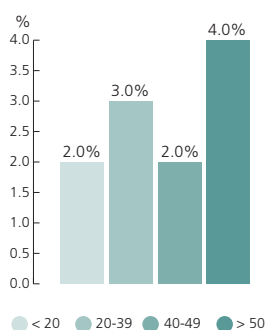
Staff by Geographical region



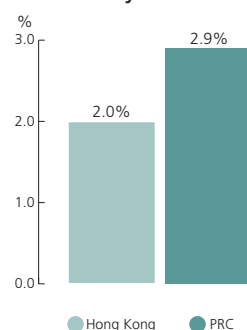
Turnover rate by Gender for year 2019



Turnover rate by age group for year 2019



Turnover rate by geographical region for year 2019



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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(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 2019, there were 107 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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 17 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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\$35,850 (2018: approximately HK\$58,000) 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 75 to 161, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 2019, 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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INDEPENDENT AUDITOR'S REPORT

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 RMB24,614,000 for the year ended 31 December 2019. In addition, the Group had net current liabilities of RMB80,482,000 as at 31 December 2019.

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, the expected progress of sale of properties in the property development operation and the availability of existing and new bank facilities.

Management of the Group has prepared 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 2019 to support the going concern basis of preparation of the consolidated financial statements.

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:

- Confirmed the cash resources and available facilities as at year end by circularisation of bank confirmations, reviewed management assessment of probability of facilities renewed or new facilities to be obtained during the forecast period by examining historical records of renewal pattern and examining the facilities agreements obtained subsequent to year end;
- Evaluated management's assessment on compliance with 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;
- Assessed 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

INDEPENDENT AUDITOR'S REPORT

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

Going concern assumption *(continued)*

We focused on this assessment as it involved consideration of future events and application of significant judgements and estimates and accordingly, this is an area of our audit focus.

- Evaluated 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.

Valuation for investment properties

Refer to Notes 2.7, 3(d) and 19 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 RMB584,470,000 as at 31 December 2019. For the year ended 31 December 2019, a revaluation gain of RMB30,480,000 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.

In assessing the valuation for investment properties, the following audit procedures have been performed by us:

- 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.
- Involved our internal valuation expert to assess the appropriateness of the valuation methodology adopted by the valuer and 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 methodology and the assumptions used in the valuations were supportable in light of available evidence.

INDEPENDENT AUDITOR'S REPORT

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 HKSAAs 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 HKSAAs, 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.
- 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.

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 *(continued)*

- 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, 27 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	6	238,221	248,729
Cost of sales	11	<u>(132,376)</u>	<u>(157,441)</u>
Gross profit		105,845	91,288
Other income	7	269	428
Fair value gains on investment properties	19	30,480	53,500
Selling expenses	11	(19,105)	(26,755)
Administrative expenses	11	(49,317)	(47,947)
Net impairment loss on financial assets	26	(1,774)	(1,767)
Share of loss of an associate	22	<u>(1,142)</u>	<u>—</u>
Profit from operations		65,256	68,747
Finance costs	9	<u>(17,463)</u>	<u>(13,849)</u>
Profit before tax		47,793	54,898
Income tax expenses	10	<u>(23,179)</u>	<u>(39,328)</u>
Profit for the year		24,614	15,570
Other comprehensive loss for the year, net of tax			
<i>Item that may be reclassified to profit or loss:</i>			
Currency translation differences		(219)	(832)
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on financial assets at fair value through other comprehensive income	23	<u>(604)</u>	<u>(2,124)</u>
Total comprehensive income for the year		<u>23,791</u>	<u>12,614</u>
Earnings per share			
		2019 RMB cents	2018 RMB cents
Basic earnings per share	15	2.51	1.59
Diluted earnings per share	15	<u>2.47</u>	<u>1.54</u>

The notes on pages 82 to 161 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	16	292,888	249,356
Prepaid land lease payments	18	—	7,020
Right-of use assets	17	23,280	—
Investment properties	19	584,470	661,620
Financial assets at fair value through other comprehensive income	23	1,273	1,877
Investment in an associate	22	64,028	—
Deferred tax assets	33	2,353	1,297
		<u>968,292</u>	<u>921,170</u>
Current assets			
Properties held for sale	24	109,772	37,732
Inventories	25	3,688	3,622
Accounts receivable	26	16,255	60,700
Prepaid land lease payments	18	—	326
Prepayments, deposits and other receivables	27	14,347	44,199
Amount due from a joint operator	21	13,221	—
Restricted bank balances	28	29,307	—
Bank and cash balances	29	60,687	41,492
		<u>247,277</u>	<u>188,071</u>
TOTAL ASSETS		<u>1,215,569</u>	<u>1,109,241</u>
Current liabilities			
Accounts payable	30	57,196	79,856
Accruals and other payables	31	34,211	45,405
Amount due to an associate	22	15,000	—
Borrowings	32	117,517	58,172
Lease liabilities	17	7,792	—
Current tax liabilities		59,646	60,044
Contract liabilities	31	36,397	31,948
		<u>327,759</u>	<u>275,425</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Borrowings	32	211,420	233,339
Lease liabilities	17	9,120	—
Amount due to an associate	22	30,020	—
Deferred tax liabilities	33	175,653	169,541
Deferred income	34	13,550	8,500
		<u>439,763</u>	<u>411,380</u>
TOTAL LIABILITIES		<u>767,522</u>	<u>686,805</u>
Capital and reserves			
Share capital	35	8,669	8,669
Reserves		<u>439,378</u>	<u>413,767</u>
TOTAL EQUITY		<u>448,047</u>	<u>422,436</u>
TOTAL LIABILITIES AND EQUITY		<u>1,215,569</u>	<u>1,109,241</u>

The notes on pages 82 to 161 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 75 to 161 were approved by the Board of Directors on 27 March 2020 and were signed on its behalf.

.....
Hon Chi Ming
Director

.....
Huang Zhanxiong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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	—	—	—	—	—	—	—	(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	<u>8,669</u>	<u>99,249</u>	<u>(2,124)</u>	<u>(4,731)</u>	<u>9,349</u>	<u>(277)</u>	<u>69,528</u>	<u>242,773</u>	<u>422,436</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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
As at 1 January 2019	8,669	99,249	(2,124)	(4,731)	9,349	(277)	69,528	242,773	422,436
Comprehensive income/ (loss)									
Profit for the year	—	—	—	—	—	—	—	24,614	24,614
Other comprehensive loss									
Currency translation differences	—	—	—	(219)	—	—	—	—	(219)
Fair value loss on financial assets at fair value through other comprehensive income	—	—	(604)	—	—	—	—	—	(604)
Total comprehensive (loss)/ income for the year	—	—	(604)	(219)	—	—	—	24,614	23,791
Transactions with owners in their capacity as owners									
Transfer upon lapse of share options	—	—	—	—	(882)	—	—	882	—
Share-based payment (Note 14)	—	—	—	—	1,820	—	—	—	1,820
Total transactions with owners in their capacity as owners	—	—	—	—	938	—	—	882	1,820
As at 31 December 2019	8,669	99,249	(2,728)	(4,950)	10,287	(277)	69,528	268,269	448,047

The notes on pages 82 to 161 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
Profit before tax	47,793	54,898
Adjustments for:		
Interest income	(126)	(343)
Fair value gains on investment properties	(30,480)	(53,500)
Amortisation of prepaid land lease payments	—	326
Amortisation on prepayment for renovation for properties	—	13,404
Depreciation on property, plant and equipment	28,163	23,446
Depreciation on right-of-use assets	8,090	—
Share-based payment	1,820	4,345
Finance costs	18,934	18,087
Share of loss of an associate	1,142	—
	<hr/>	<hr/>
Operating profit before working capital changes	75,336	60,663
Properties held for sale	35,590	32,544
Inventories	(66)	(217)
Accounts receivable	44,445	(9,492)
Prepayments, deposits and other receivables	(1,310)	(21,483)
Amount due from a joint operator	(13,221)	—
Accounts payable	(22,660)	(6,545)
Contract liabilities	4,449	31,948
Restricted bank balances	(29,307)	—
Accruals and other payables	(6,143)	(8,187)
	<hr/>	<hr/>
Cash generated from operations	87,113	79,231
Interest paid in respect of amount capitalised in properties held for sale	—	(3,404)
Income taxes paid	(18,522)	(15,996)
	<hr/>	<hr/>
Net cash generated from operating activities	68,591	59,831
	<hr/>	<hr/>
Cash flows from investing activities		
Increase in restricted bank deposits	—	13,010
Interest received	126	342
Interest paid in respect of amount capitalised in property, plant and equipment	(1,127)	(834)
Purchase of property, plant and equipment	(40,561)	(17,792)
Capital injection on investment in an associate	(20,150)	—
Capital injection on financial assets at fair value through other comprehensive income	—	(4,001)
Proceeds from disposal of property, plant and equipment and prepaid land lease payments	30	—
	<hr/>	<hr/>
Net cash used in investing activities	(61,682)	(9,275)
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Interest paid		(17,807)	(13,848)
Inception on borrowings		135,000	74,500
Repayment of borrowings		(97,574)	(92,994)
Principal elements of lease payments for right-of-use assets excluding land use rights		(7,112)	—
Net cash generated from/(used in) financing activities		12,507	(32,342)
Net increase in cash and cash equivalents		19,416	18,214
Effect of foreign exchange rate changes		(221)	(837)
Cash and cash equivalents at beginning of year		41,492	24,115
Cash and cash equivalents at end of year	29	60,687	41,492

NET DEBT RECONCILIATION

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

		As at 31 December 2018 <i>Note</i> RMB'000	Adjustment for change in accounting policy RMB'000	Cash inflows/ (outflows) RMB'000	Acquisition- leases non-cash amount RMB'000	Foreign exchange adjustment RMB'000	As at 31 December 2019 RMB'000
Lease liabilities	17	—	25,487	(7,112)	(1,463)	—	16,912
Cash and cash equivalents	29	41,492	—	19,416	—	(221)	60,687
Bank borrowings	32	291,511	—	37,426	—	—	328,937
					</		

The notes on pages 82 to 161 are an integral part of these 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(continued)*

2.1.1 Going concern

As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB80,482,000 (2018: RMB87,354,000) which is mainly attributable to current bank borrowings of RMB117,517,000 (2018: RMB58,172,000). The Group's current liabilities also consisted of contract liabilities of RMB36,397,000 (2018: RMB31,948,000) 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.

Following the outbreak of Coronavirus Disease 2019 ("the COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across mainland China, including postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements and encouraged social distancing, etc. Such precautionary and control measures has limited the normal operations of the Group in mainland China, in particular the Group's hotel and resort operation was suspended temporarily. In light of the negative impact brought upon by the COVID-19 outbreak, it may cause a short-term impact on all sectors and the Group's hotel and resort operation and property sales have also been affected by the short-term psychological impact of the public on the epidemic. If the present situation in respect of the COVID-19 outbreak continues and the restrictions and control measures are prolonged, the Group's operation performance and cash flow may be negatively affected.

In view of such circumstances, the directors have assessed the appropriateness of adopting the going concern basis for the preparation of the consolidated financial statements for the year ended 31 December 2019. The directors of the Company has reviewed a cash flow projection of the Group prepared by management covering a period of not less than twelve months from 31 December 2019 taking into account the following plans and measures into consideration:

- (i) Despite the temporary suspension of hotel and resort operation from 28 January 2020 to 5 March 2020 due to the outbreak of Coronavirus Disease 2019, the Group is closely monitoring the development and taking actions to minimise the impact to operating performance of the Group. With the gradual uplifting of the control and precautionary measures for the COVID-19 outbreak, the Group is confident that the hotel and resort operation will resume to normal during the year and generate net cash inflow from its operations;
- (ii) The Group will commence the presale of its property development project as planned and receive proceeds from sale of properties in the expected timeframe; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(continued)*

2.1.1 Going concern *(continued)*

- (iii) The Group had available committed facilities of RMB17,500,000 as at 31 December 2019 and the directors believe that the bank borrowings will be repaid in accordance with the scheduled dates as set out in the relevant loan agreements. Subsequent to the year end date, the Group further obtained a 3 years committed loan facility of RMB100,000,000 from a licenced money lender in the PRC and is also in the process of obtaining a 3 years loan facility of RMB150,000,000, which is expected to be finalised by the second quarter of 2020. Given the good track records and relationships the Group has with the banks, the directors are of the opinion that the Group will be able to renew the existing banking facilities with the banks when their current terms expire and to secure new bank borrowings, as and when needed.

Notwithstanding the above, whether the Group will be able to continue as a going concern would depend upon timely generation of sufficient cash flow from its hotel and resort operation, successful and timely sales of the properties held for sale, continuous availability of its existing banking facilities and obtaining adequate new banking facilities as and when need. 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 2019. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 2019:

Standards	Subject of amendment
HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment features with negative compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to Annual Improvements Project	Annual improvements 2015–2017 cycle
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
HK(IFRIC)-Int 23	Uncertainty over income tax treatments

The Group changed its accounting policies for leases with effect from 1 January 2019 following the adoption of HKFRS 16 "Leases" ("HKFRS 16") as disclosed in Note 2.1.3. All other amendments to standards and interpretation listed above do not have a significant effect on the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2019 reporting periods and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 3	Definition of a business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
HKFRS 17	Insurance contracts	1 January 2022
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

The Group will adopt the new and amended standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new and amended standards and new interpretations, none of which is expected to have a significant effect on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(continued)*

2.1.3 Changes in accounting policy and disclosures

HKFRS 16 Lease

The following explains the impact of the adoption of HKFRS 16 on the Group's financial information. As indicated in note 2.1.2 above, the Group has adopted HKFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The new accounting policies are disclosed in Note 2.8.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.58%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following recognition exemptions and practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- exempting operating leases for which the underlying assets are of low value
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(continued)*

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

HKFRS 16 Lease *(continued)*

(i) Practical expedients applied *(continued)*

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) — 4 “Determining whether an Arrangement contains a Lease”.

	<i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018	21,972
Discounted using the lessee's incremental borrowing rate at the date of initial application	20,746
Less: short-term leases recognised on a straight-line basis as expense	(794)
Add: adjustments as a result of a different treatment of extension options	2,910
	<hr/>
Lease liabilities recognised as at 1 January 2019	22,862
	<hr/> <hr/>
Of which are:	
— Current lease liabilities	7,156
— Non-current lease liabilities	15,706
	<hr/>
	22,862
	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(continued)*

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

HKFRS 16 Lease *(continued)*

(ii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payment relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

Prepaid land lease payments previously presented as a separate item on the consolidated statement of financial position is grouped as part of right-of-use assets with effect from 1 January 2019.

The recognised right-of-use assets relate to the following types of assets:

	As at 31 December 2019 RMB'000	As at 1 January 2019 RMB'000
Buildings	16,260	22,862
Prepaid land lease payments	7,020	7,346
	<u>23,280</u>	<u>30,208</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(continued)*

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

HKFRS 16 Lease (continued)

(iii) Adjustments recognised on the adoption of HKFRS 16

Changes in accounting policies affected the following items in the consolidated statement of financial position on 1 January 2019:

Consolidated statement of financial position (extract)	31 December	Effects of the adoption of HKFRS 16	1 January
	2018 as originally presented		2019 Restated
	RMB'000	RMB'000	RMB'000
Non-current assets			
Prepaid land lease payments	7,020	(7,020)	—
Right-of-use assets	—	30,208	30,208
Current assets			
Prepaid land lease payments	326	(326)	—
Current liabilities			
Lease liabilities	—	9,781	9,781
Accruals and other payables	45,405	(2,625)	42,780
Non-current liabilities			
Lease liabilities	—	15,706	15,706

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(continued)*

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

HKFRS 16 Lease *(continued)*

(iv) Impact on segment disclosures

The adoption of HKFRS 16 had the following impact on the segment profit for the year ended 31 December 2019 and segment assets as at 31 December 2019.

	Increase in segment profit for the year ended 31 December 2019 RMB'000	Increase in segment assets as at 31 December 2019 RMB'000
Hotel and resort operation	588	14,575
Property development	73	1,685
	<u>661</u>	<u>16,260</u>

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the prior year.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for the assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.2 Principles of consolidation and equity accounting *(continued)*

(ii) Associates

Associates are all entities over which the group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangement and determined it to be joint operations. The joint operation is accounted for using the equity method.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular revenues and expenses. Details of the joint operation are set out in Note 21.

(iv) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.2 Principles of consolidation and equity accounting *(continued)*

(iv) Equity accounting (continued)

Unrealised gains on transactions between the Group and its associate 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.

2.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.5 Foreign currency translation *(continued)*

(ii) Transactions and balances *(continued)*

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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 assets' 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

2.8 Leases

The Group as lessee

As explained in note 2.1.3 above, the group has changed its accounting policy for leases where the group is the lessee. The new policy is described below and the impact of the change in note 2.1.3.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable (if any);
- variable lease payment that are based on an index or a rate;

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liabilities.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.8 Leases *(continued)*

The Group as lessee *(continued)*

To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Company, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received (if any);
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipment.

Variable lease payments

Variable lease payments that depend on an index or a rate are included in lease payments, initially measured using the index or rate as at the commencement date. They meet the definition of liabilities for the lessee because they are unavoidable and do not depend on any future activity of the lessee. Any uncertainty, therefore, relates to the measurement of the ability that arises from those payments and not to the existence of that ability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.8 Leases *(continued)*

The Group as lessee (continued)

Variable lease payments (continued)

At initial recognition, such payments are measured using the index or rate at the commencement date (without estimating changes in the index or rate over the remainder of the lease term). Variable lease payments that depend on an index or a rate are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The Group as lessor

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.9 Investments and other financial assets

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.9 Investments and other financial assets *(continued)*

(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.

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 has four types of financial assets that are subject to expected credit loss model of HKFRS 9:

- Trade receivables,
- Other receivables;
- Bank and cash balances; and
- Restricted bank balances

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

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) for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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.

2.12 Properties held for sale under development

Properties held for sale under development are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights prepaid land lease payments, construction costs, borrowing costs incurred during the construction period and other direct costs attributable to such properties. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 26 for further information about the Group's accounting for accounts receivables and Note 4(b) for a description of the Group's impairment policies.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

2.20 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.22 Current and deferred income tax *(continued)*

(ii) Deferred income tax (continued)

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

2.26 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.26 Revenue recognition *(continued)*

(i) **Properties sales** *(continued)*

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. Since the duration between pre-sale of properties and sales recognition point is around 13 to 14 months. Thus, it is considered that capitalisation of sales commission and stamp duties is immaterial to the financial statement position as it will be amortised within the same financial year.

(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 unutilized 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 unutilized admission ticket is recognised as revenue when it is expired.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.26 Revenue recognition *(continued)*

(ix) Properties renovation income

Renovation income is recognised over time when the Group provides the service and all of the benefits are received and consumed simultaneously by the customer throughout the renovation contract period. Thus, the Group satisfies a performance obligation and recognises revenue over time based on the time and cost incurred to provide the services.

(x) 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 of a financing component, if significant.

(xi) 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.

2.28 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.28 Provisions and contingent liabilities *(continued)*

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 40.

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) **Impairment of property, plant and equipment** *(continued)*

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(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.

(b) Credit risk

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

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

	As at 31 December	
	2018 RMB'000	2018 RMB'000
Accounts receivable (Note 26)	16,255	60,700
Deposits and other receivables (Note 27)	13,515	42,995
Amount due from a joint operator (Note 21)	13,221	—
Restricted bank balances (Note 28)	29,307	—
Cash at banks (Note 29)	59,754	40,441
	<hr/>	<hr/>
Maximum exposure to credit risk	132,052	144,136
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

As at 31 December 2018 and 2019, all the bank balances 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 receivables 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 2019, the five largest accounts receivable represents approximately 31% (2018: 66%) of the total accounts receivable.

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 2019 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 31 December 2019 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
		<u>7,126</u>	<u>996</u>	<u>57,321</u>	<u>2,751</u>	<u>64,447</u>	<u>3,747</u>

		31 December 2019					
		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%	9,347	9	—	—	9,347	9
31 to 60 days	0.5% — 0.8%	1,365	4	—	—	1,365	4
61 to 90 days	0.5% — 3.2%	1,515	5	—	—	1,515	5
Over 90 days	0.5% — 100%	3,526	1,318	6,023	4,185	9,549	5,503
		<u>15,753</u>	<u>1,336</u>	<u>6,023</u>	<u>4,185</u>	<u>21,776</u>	<u>5,521</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT *(continued)*

(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 <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>
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

As at 31 December 2019

Accounts payable	57,196	—	—	—
Other payables and deposits	14,602	—	—	—
Borrowings and interest payments	132,959	61,528	173,204	—
Lease liabilities	8,253	3,280	1,626	4,403
Amount due to an associate	15,000	30,020	—	—

(d) Interest rate risk

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

As at 31 December 2019, 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 RMB1,308,000 lower (2018: RMB1,366,000 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 RMB1,308,000 higher (2018: RMB1,366,000 higher), arising mainly as a result of decrease in interest expense on borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT *(continued)*

(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	
	2019	2018
	RMB'000	RMB'000
Total debt		
Interest-bearing bank loans	<u>328,937</u>	<u>291,511</u>
Total capital	<u>448,047</u>	<u>422,436</u>
Gearing ratio	<u>0.73</u>	<u>0.69</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT *(continued)*

(f) Categories of financial instruments

The Group holds the following financial instruments:

	2019 RMB'000	2018 RMB'000
Financial assets at amortised cost		
Accounts receivable	16,255	60,700
Deposit and receivables	13,515	42,995
Restricted bank balances	29,307	—
Bank and cash balances	60,687	41,492
Amount due from a joint operator	13,221	—
	132,985	145,187

	2019 RMB'000	2018 RMB'000
Financial liabilities at amortised cost		
Accounts payable	57,196	79,856
Other payables	14,602	15,406
Borrowings	328,937	291,511
Lease liabilities	16,912	—
Amount due to an associate	45,020	—
	462,667	386,773

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FAIR VALUE MEASUREMENT

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 2019 and 2018. Refer to Note 19 for disclosures of the investment properties that are measured at fair value.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2018				
Assets				
Financial assets at fair value through other comprehensive income	877	—	1,000	1,877
As at 31 December 2019				
Assets				
Financial assets at fair value through other comprehensive income	673	—	600	1,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FAIR VALUE MEASUREMENT *(continued)*

Financial Instruments *(continued)*

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.

The changes in level 3 instruments for the year ended is as follows:

	Year ended 31 December	
	2019	2018
	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at fair value through other comprehensive income RMB'000
Opening balance	1,000	—
Fair value loss in other comprehensive income	(400)	1,000
Closing balance	600	1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE

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

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Property sales	48,697	105,997
Properties renovation income	28,250	—
Room revenue	64,712	53,605
Admission income	38,257	34,518
Catering income	24,916	27,559
Rental income	2,407	1,279
Massage service income	2,571	2,173
Conference fee income	1,936	2,937
Consultancy service income	18,973	17,150
Other service income	7,502	3,511
	238,221	248,729

7. OTHER INCOME

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	126	343
Gain on disposal of property, plant and equipment and prepaid land lease payments, net	22	—
Others	121	85
	269	428

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SEGMENT INFORMATION *(continued)*

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	—	Development and sales of properties and provision of properties renovation services in the PRC
Hotel and resort operation	—	Operation of hotels and resort in the PRC and provision of consultancy services and/or management services to leisure hotels and resorts and other hot spring resort operators 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.

(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 2018			
REVENUE			
Revenue from external customers	<u>142,732</u>	<u>105,997</u>	<u>248,729</u>
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			<u>(28,165)</u>
Profit before tax			54,898
Income tax expenses			<u>(39,328)</u>
Profit for the year			<u>15,570</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	<u>514,015</u>	<u>136,096</u>	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			<u>41,492</u>
Consolidated total assets			<u>1,109,241</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Hotels and resort operation RMB'000	Property development RMB'000	Total RMB'000
For the year ended 31 December 2019			
REVENUE			
Revenue from external customers	161,274	76,947	238,221
RESULTS			
Segment profit	60,796	14,008	74,804
Fair value gains on investment properties for undetermined use			19,410
Finance costs			(17,463)
Unallocated corporate expenses			(28,958)
Profit before tax			47,793
Income tax expenses			(23,179)
Profit for the year			24,614

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2019			
ASSETS			
Segment assets	450,993	267,462	718,455
Property, plant and equipment for general administrative use			15,212
Investment properties for undetermined use			417,130
Financial investments at fair value through other comprehensive income			1,273
Prepayments, deposits and other receivables for general administrative use			459
Deferred tax assets			2,353
Bank and cash balances			60,687
Consolidated total assets			1,215,569

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2019			
LIABILITIES			
Segment liabilities	74,745	128,541	203,286
Borrowings			328,937
Current tax liabilities			59,646
Deferred tax liabilities			175,653
Consolidated total liabilities			767,522
OTHER INFORMATION			
Interest income	80	46	126
Depreciation and amortisation	33,642	260	33,902
Additions to segment non-current assets	70,940	—	70,940

(ii) Geographical information:

All the revenue and non-current assets are based in the PRC for the year ended 31 December 2019 (2018: Same).

(iii) Revenue from major customers:

Revenue of RMB33,027,000 (2018:RMB28,074,000) is derived from a single external customer attributed to the property development segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance costs:		
— Bank borrowings interest expenses	17,692	18,087
— Unwinding of interests on lease liabilities	1,242	—
Amounts capitalised to properties held for sale	—	(3,404)
Amounts capitalised to construction in progress and property, plant and equipment	(1,471)	(834)
Total finance costs	17,463	13,849

Borrowing costs on funds borrowed generally for construction in progress are capitalised at a rate of 5.31% (2018: 4.91%) per annum for the year ended 31 December 2019.

10. INCOME TAX EXPENSES

For the year ended 31 December 2019, no provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong (2018: Nil). The Group's subsidiaries in the PRC are subject to the PRC enterprise income tax at a rate of 25% (2018:25%) on estimated assessable profits.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax	15,505	12,444
Land appreciation tax	2,618	17,162
	18,123	29,606
Deferred tax (Note 33)	5,056	9,722
	23,179	39,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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% (2018: 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% (2018: 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	
	2019 RMB'000	2018 RMB'000
Profit before tax	<u>47,793</u>	<u>54,898</u>
Tax at the domestic income tax rate of 25%	11,948	13,725
Tax effect on LAT deductible for calculation of income tax purpose	(655)	(4,290)
Income not taxable	(2,442)	(998)
Expenses not deductible for tax purposes	6,329	12,275
Tax losses not recognised as deferred tax	5,381	1,454
LAT	<u>2,618</u>	<u>17,162</u>
	<u><u>23,179</u></u>	<u><u>39,328</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
	2019	2018
	RMB'000	RMB'000
Auditors' remuneration		
— Audit services	2,588	1,672
— Non-audit services	356	376
Amortisation of prepaid land lease payments	—	326
Cost of properties sold and renovation services	47,876	59,845
Cost of goods sold	9,469	11,653
Sales commission	1,564	5,150
Amortisation on prepayments for renovation for properties	—	13,404
Depreciation on property, plant and equipment	28,163	23,446
Depreciation on right-of-use assets	8,090	—
Employee benefit expenses (including directors' emoluments) (Note 12)	48,004	54,011
Legal and professional fees	5,751	3,617
Operating lease rental for short-term and low value leases (2018: Operating lease rental in respect of land and buildings)	794	7,919
Utilities expenses	8,487	9,231
Advertising and promotion expenses	11,496	14,165
Miscellaneous tax	4,021	4,621
Repair and maintenance	3,849	3,543
Cleaning expenses	3,650	3,994
Entertainment and travelling expenses	1,294	1,905
Others	15,346	13,265
Total cost of sales, selling expenses and administrative expenses	200,798	232,143

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, bonus and allowances	40,929	44,079
Pension costs — defined contribution plans	5,255	5,587
Share-based payment (Note 14)	1,820	4,345
	48,004	54,011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2019 include two directors (2018: three) whose emoluments are reflected in the analysis presented in Note 13. The emoluments payable to the remaining three (2018: two) individuals during the year ended 31 December 2019 are as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, bonus and allowances	1,907	1,119
Pension costs — defined contribution plans	51	34
Share-based payment	236	820
	<u>2,194</u>	<u>1,973</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
	2019	2018
Emolument band (in HK\$)		
Nil to HK\$1,000,000 (equivalent to Nil to RMB886,260)	2	1
HK\$1,000,001 to HK\$1,500,000 (equivalent to RMB886,261 to RMB1,329,390)	1	1
	<u>3</u>	<u>2</u>

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 RMB'000	Employer's contribution to pension scheme RMB'000	Share-based payment RMB'000	Total RMB'000
Year ended 31 December 2019				
<i>Executive directors</i>				
Mr. Hon Chi Ming	1,623	44	190	1,857
Mr. Huang Zhanxiong	410	22	190	622
Ms. Zhen Yaman	245	—	95	340
Mr. Hon Ka Fung	294	8	95	397
<i>Non-executive directors</i>				
Mr. Ruan Yongxi (Note a)	115	—	—	115
Mr. Hui Chin Tong, Godfrey (Note b)	45	—	88	133
<i>Independent non-executive directors</i>				
Mr. Wu Sai Him	223	—	95	318
Mr. Chiu Chi Wing	191	—	95	286
Prof. Wang Dawu	160	—	95	255
	<u>3,306</u>	<u>74</u>	<u>943</u>	<u>4,323</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Note:

(a) Appointed on 12 April 2019.

(b) Resigned on 12 April 2019.

Name	Salary RMB'000	Employer's contribution to pension scheme RMB'000	Share-based payment RMB'000	Total RMB'000
Year ended 31 December 2018				
<i>Executive directors</i>				
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
<i>Non-executive directors</i>				
Mr. Hui Chin Tong, Godfrey	154	—	656	810
<i>Independent non-executive directors</i>				
Mr. Wu Sai Him	216	—	205	421
Mr. Chiu Chi Wing	185	—	205	390
Prof. Wang Dawu	154	—	205	359
	<u>3,261</u>	<u>80</u>	<u>2,501</u>	<u>5,842</u>

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 2019 (2018: None).

No directors waived any emoluments during the year ended 31 December 2019 (2018: None).

(b) Directors' retirement benefits and termination benefits

No retirement benefits and termination benefits paid to these directors during the year ended 31 December 2019 (2018: None).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(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 2019 (2018: None).

(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 2019 (2018: 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 (2018: 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
	HK\$0.62
Exercise price	(equivalent to RMB0.54)
Contractual option term	Eight years
Expiry date	4 April 2025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE-BASED PAYMENTS *(continued)*

Share option scheme *(continued)*

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.

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 <i>(Note)</i>	45.00%
Expected option lifespans	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 47,040,000 (2018: 51,940,000) with weighted average share price of HK\$0.62 (equivalent to RMB0.54) and 12,372,000 out of them are exercisable as at 31 December 2019 (HK\$0.62 (equivalent to RMB0.54) and 12,895,000 out of them are exercisable as at 31 December 2018).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE-BASED PAYMENTS *(continued)*

Share option scheme *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2019		2018	
	Average exercise price in HK\$ per share option	Number of share options (thousands)	Average exercise price in HK\$ per share option	Number of share options (thousands)
At 1st January	0.62	51,940	0.62	51,940
Exercised	0.62	—	0.62	—
Lapsed	0.62	(2,450)	0.62	—
Forfeited	0.62	(2,450)	0.62	—
At 31st December		<u>47,040</u>		<u>51,940</u>

During the year ended 31 December 2019, share-based payment expense of RMB1,820,000 for the Share Option Scheme was recognised in the consolidated statement of comprehensive income (2018: RMB4,345,000) (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	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	24,614	15,570
Weighted average number of ordinary shares in issue ('000)	<u>980,000</u>	<u>980,000</u>
Basic earnings per share (RMB cents)	<u>2.51</u>	<u>1.59</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. EARNINGS PER SHARE *(continued)*

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	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	24,614	15,570
Weighted average number of ordinary shares in issue ('000)	980,000	980,000
Adjustments for:		
Share options (number of shares) ('000)	17,891	31,194
Weighted average number of ordinary shares for diluted earnings per share ('000)	997,891	1,011,194
Diluted earnings per share (RMB cents)	2.47	1.54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 and 1st January 2019	212,788	34,038	139,292	9,024	44,833	439,975
Additions	—	6,220	4,565	505	60,403	71,693
Reclassification	—	881	45,210	—	(46,091)	—
Disposal	—	(63)	(613)	(1,086)	—	(1,762)
Exchange differences	—	—	11	33	—	44
As at 31 December 2019	212,788	41,076	188,465	8,476	59,145	509,950
Accumulated depreciation						
As at 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 and 1 January 2019	101,031	29,599	52,525	7,464	—	190,619
Charge for the year	10,201	2,325	14,825	812	—	28,163
Disposal	—	(63)	(613)	(1,078)	—	(1,754)
Exchange differences	—	—	9	25	—	34
As at 31 December 2019	111,232	31,861	66,746	7,223	—	217,062
Net book value						
As at 31 December 2019	101,556	9,215	121,719	1,253	59,145	292,888
As at 31 December 2018	111,757	4,439	86,767	1,560	44,833	249,356

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

The carrying amount of Group's buildings amounting to RMB53,808,000 (2018: RMB52,292,000) were pledged as securities for the Group's borrowings at 31 December 2019 (Note 32).

Depreciation expense of RMB23,914,000 (2018: RMB19,025,000) for the year ended 31 December 2019 has been included in cost of sales. Depreciation expense of RMB4,249,000 (2018: RMB4,421,000) for the year ended 31 December 2019 has been included in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(a) Balances recognised in the consolidated statement of financial position

Right-of-use assets

	Buildings RMB'000	Prepaid land lease payment RMB'000	Total RMB'000
Balance at 1 January 2019	—	—	—
Changes in accounting policy – HKFRS16 (Note 2.1.3)	22,862	7,346	30,208
Restated balance at 1 January 2019	22,862	7,346	30,208
Additions	1,162	—	1,162
Depreciation (Note 11)	(7,764)	(326)	(8,090)
Balance at 31 December 2019	16,260	7,020	23,280

Lease liabilities

	As at 31 December 2019 RMB'000
Current portion	7,792
Non-current portion	9,120
	16,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES *(continued)*

(b) Amounts recognised in the consolidated statement of comprehensive income

	Year ended 31 December 2019 RMB'000
Depreciation charge of right-of-use assets (Note 11)	8,090
Unwinding of interests on lease liabilities (Note 9)	1,242
Operating lease rental for short-term and low-value leases (Note 11)	794
	<u><u> </u></u>

The total cash outflow of leases for the year ended 31 December 2019 was approximately RMB7,937,000.

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
In the PRC:		
Long leases	2,031	2,357
Medium-term leases	4,989	4,989
	<u>7,020</u>	<u>7,346</u>

The carrying amount of right-of-use assets of RMB6,091,000 was pledged as securities for the Group's borrowing at 31 December 2019 (Note 32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PREPAID LAND LEASE PAYMENTS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At beginning of year	7,346	7,672
Change in accounting policy – HKFRS16 (Note 2.1.3)	(7,346)	—
Amortisation	—	(326)
	<hr/>	<hr/>
At end of year	—	7,346
Less: Current portion	—	(326)
	<hr/>	<hr/>
Non-current portion	—	7,020
	<hr/> <hr/>	<hr/> <hr/>

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
In the PRC:		
Long leases	—	2,357
Medium-term leases	—	4,989
	<hr/>	<hr/>
	—	7,346
	<hr/> <hr/>	<hr/> <hr/>

The carrying amount of prepaid land lease payments as at 31 December 2018 was pledged as securities for the Group's borrowings (Note 32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. INVESTMENT PROPERTIES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At beginning of year	661,620	608,120
Transfer to properties held for sale	(107,630)	—
Fair value gains	30,480	53,500
	<u>584,470</u>	<u>661,620</u>
At end of year	<u>584,470</u>	<u>661,620</u>

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
In the PRC:		
Medium-term leases	<u>584,470</u>	<u>661,620</u>

- (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 33).
- (b) The fair value of the Group's investment properties at 31 December 2019 were based on valuations carried out by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer not connected with the Group (2018: Same). The revaluation gains or losses are included in "Fair value gains on investment properties".
- (c) The fair value of the Group's investment properties amounting to RMB455,380,000 (2018: RMB397,110,000) were pledged as security for the Group's borrowings at 31 December 2019 (Note 32).
- (d) During the year ended 31 December 2019, RMB107,630,000 was transferred from investment properties to properties held for sale, which included in the property development segment (Note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. INVESTMENT PROPERTIES *(continued)*

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Recurring fair value measurements		
— Land held for undetermined use	417,130	397,720
— Land held for development of investment properties	167,340	263,900
	<u>584,470</u>	<u>661,620</u>

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 2018	366,070	242,050	608,120
Fair value gains	<u>31,650</u>	<u>21,850</u>	<u>53,500</u>
As at 31 December 2018	<u>397,720</u>	<u>263,900</u>	<u>661,620</u>

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"

<u>31,650</u>	<u>21,850</u>	<u>53,500</u>
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As at 1 January 2019	397,720	263,900	661,620
Transfer to properties held for sale	—	(107,630)	(107,630)
Fair value gains	<u>19,410</u>	<u>11,070</u>	<u>30,480</u>
As at 31 December 2019	<u>417,130</u>	<u>167,340</u>	<u>584,470</u>

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"

<u>19,410</u>	<u>11,070</u>	<u>30,480</u>
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. INVESTMENT PROPERTIES *(continued)*

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2019 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 (2018: 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 2019, the fair values of the properties have been determined by LCH (Asia-Pacific) Surveyors Limited (2018: Same).

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 2019

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	2019: 417,130 (2018: 397,720)	Sales comparison approach	Price per sq.m.	2019: 3,357 per sq.m (2018:3,190 per sq.m)	The higher the price per sq.m. the higher the fair value
Land held for development of investment properties	2019: 167,340 (2018: 263,900)	Sales comparison approach	Price per sq.m.	2019: 3,357 per sq.m (2018:3,190 per sq.m)	The higher the price per sq.m. the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2019:

Name of subsidiary	Place of incorporation and kind of legal entity	Particulars 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 廣東古兜旅遊集團有限公司	The PRC limited liability company	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 "江門市古兜旅遊酒店管理有限公司")	The PRC limited liability company	RMB15,000,000	—	100%	Development of tourism projects in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation and kind of legal entity	Particulars 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 Gudou Travel and Development Company Limited 江門市古兜旅遊開發有限公司	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 known 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
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遊發展有限公司 (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
Jiangmen City quanxin gongyu Management Company Limited 江門泉心公寓管理有限公司	The PRC limited liability company	RMB1,000,000	—	100%	Property management in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INTERESTS IN JOINT OPERATION

The Group entered into a joint operation arrangement with Guangdong Aoyuan Company Limited (GD Aoyuan), which is the indirectly wholly owned subsidiary of China Aoyuan Group Limited (the shareholder of the Group), for property development projects. The Group and GD Aoyuan are entitled to 30% and 70%, respectively, of the income and expense derived from the development projects in accordance with the agreement. The amounts of income and expense recognised in the consolidated financial statements during the year ended 31 December 2019, related to the Group's interests in the joint operation arrangement are as follows:

<i>Consolidated statement of comprehensive income</i>	2019 RMB'000	2018 RMB'000
Selling expenses	771	—
Administrative expenses	231	—
	<hr/>	<hr/>
Total	1,002	—
	<hr/>	<hr/>
<i>Consolidated statement of financial position</i>		
Amount due from a joint operator (Note)	13,221	—
	<hr/>	<hr/>

Note: The amount is unsecured, interest-free and repayable on demand.

22. INVESTMENTS IN AN ASSOCIATE

	2019 RMB'000
As at 1 January	—
Addition (Note)	65,170
Share of loss	(1,142)
	<hr/>
At end of the year	64,028
	<hr/>

Note:

On 30 May 2019, the Group acquired 51% of the equity interests in Yangjiang City Shijia Property and Development Company Limited ("Yangjiang") at a consideration of RMB65,170,000 in way of capital injection into Yangjiang. The directors of the Company has completed the fair value assessment of identifiable assets of the investment as at acquisition date and RMB4,262,000 of goodwill was recognised in the investment in an associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. INVESTMENTS IN AN ASSOCIATE *(continued)*

As at 31 December 2019, the Group has injected in aggregate of RMB20,150,000 and the remaining amount of RMB45,020,000 is expected to pay upon the fulfillment of certain conditions. The directors of the Company has performed the assessment and is of the view that it is probable for Yangjiang to fulfill the conditions in the future and the Group has recognised RMB15,000,000 classified as current and RMB30,020,000 classified as non-current, as “amounts due to an associate” in the consolidated statement of financial position as at 31 December 2019 (Note 38).

Nature of investment in an associate as at 31 December 2019:

Name of entity	Place of business	% of ownership interest	Nature of the business	Measurement method	Carrying amount RMB'000
Yangjiang City Shijia Property and Development Company Limited (“Yangjiang”) 陽江市世嘉房地產開發有限公司	The PRC	51%	Property development	Equity	64,028

Summarised financial information for an associate

Set out below are the summarized financial information of Yangjiang which is accounted for using the equity method. The information below reflects the amounts presented in the financial statements of the associate.

	2019 RMB'000
Non-current assets	121,512
Current assets	22,710
Non-current liabilities	(18,206)
Current liabilities	(8,828)
Net assets as at 31 December 2019	117,188
Loss for the period from the acquisition date to 31 December 2019	(2,239)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. INVESTMENTS IN AN ASSOCIATE *(continued)*

Reconciliation of summarized financial information

Reconciliation of the financial information presented to the carrying amount of its interests in an associate.

	2019 RMB'000
Fair value net assets as at acquisition date	119,427
Loss for the period from the acquisition date to 31 December 2019	(2,239)
	<hr/>
Net assets as at 31 December 2019	117,188
	<hr/>
Share of net assets as at 31 December 2019	59,766
Goodwill	4,262
	<hr/>
Carrying value as at 31 December 2019	64,028
	<hr/>

The fair value of the land held by the associate amounting to RMB57,300,000 was pledged for the Group's borrowings as at 31 December 2019.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2019 RMB'000	2018 RMB'000
<i>Listed securities at market value</i>		
Equity Security – the PRC	673	877
<i>Unlisted securities</i>		
Equity investment – the PRC	600	1,000
	<hr/>	<hr/>
	1,273	1,877
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(continued)

The movements of the fair values of equity investments are as follows:

	Year ended 31 December 2019 RMB'000
At the beginning of the year	1,877
Fair value loss in other comprehensive income	(604)
At the end of the year	1,273

24. PROPERTIES HELD FOR SALE

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Completed properties held for sale		
— Leasehold land	283	6,287
— Construction costs and capitalised expenditures	1,713	28,990
— Interest capitalised	146	2,455
	2,142	37,732
Properties held for sale under development		
— Leasehold land	107,630	—
	109,772	37,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PROPERTIES HELD FOR SALE *(continued)*

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
In the PRC		
— Medium-term leases	<u>283</u>	<u>6,287</u>

- (b) Properties held for sale under development expected to be completed:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within one year	31,090	—
Between one to two years	<u>76,540</u>	<u>—</u>
	<u>107,630</u>	<u>—</u>

25. INVENTORIES

Inventories comprised merchandise goods as at 31 December 2019 (2018: Same) and are stated at lower of cost or net realisable value. The cost of goods sold charged in "cost of sales" amounted to RMB9,469,000 (2018:RMB11,653,000).

26. ACCOUNTS RECEIVABLE

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Accounts receivable	21,776	64,447
Less: allowance for impairment	<u>(5,521)</u>	<u>(3,747)</u>
Accounts receivable, net	<u>16,255</u>	<u>60,700</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. ACCOUNTS RECEIVABLE *(continued)*

The Group allows an average credit period ranging from 30 to 90 days (2018: 30 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 (2018: 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						
	2019			2018		
	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	9,347	—	9,347	5,140	49,932	55,072
31 to 60 days	1,365	—	1,365	840	—	840
61 to 90 days	1,515	—	1,515	130	—	130
Over 90 days	3,526	6,023	9,549	1,016	7,389	8,405
	<u>15,753</u>	<u>6,023</u>	<u>21,776</u>	<u>7,126</u>	<u>57,321</u>	<u>64,447</u>

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

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	(3,747)	(1,980)
Net impairment losses on financial assets	<u>(1,774)</u>	<u>(1,767)</u>
At the end of the year	<u>(5,521)</u>	<u>(3,747)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. ACCOUNTS RECEIVABLE *(continued)*

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 and approximate to their fair value.

As at 31 December 2019, accounts receivable of RMB12,861,000 (2018: RMB6,475,000) were pledged to secure a bank loan as set out in Note 32.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Prepayments		
— Prepaid rental for sales and leaseback transactions	—	352
— Others	832	852
	<u>832</u>	<u>1,204</u>
Other receivables	4,839	2,543
Deposits	8,676	40,452
	<u>13,515</u>	<u>42,995</u>
	<u>14,347</u>	<u>44,199</u>

All other receivables and deposits are denominated in RMB and approximate to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. RESTRICTED BANK BALANCES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Restricted bank balances	29,307	—

The carrying amounts of the Group's restricted bank balances approximate their fair values and are denominated in RMB.

Restricted bank balances of RMB29,307,000 mainly represent the proceed from pre-sales of properties units in the joint operation arrangement, which placed in designated bank accounts controlled by both joint operators.

29. BANK AND CASH BALANCES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash at banks	59,754	40,441
Cash on hand	933	1,051
Bank and cash balances	60,687	41,492

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Bank and cash balances	60,687	41,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. BANK AND CASH BALANCES *(continued)*

The carrying amounts 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	
		2019	2018
		RMB'000	RMB'000
RMB		59,902	41,327
HK\$		785	165
		<u>60,687</u>	<u>41,492</u>

30. ACCOUNTS PAYABLE

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

		As at 31 December	
		2019	2018
		RMB'000	RMB'000
Up to 90 days		10,318	24,734
91 to 180 days		7,318	6,305
181 to 365 days		6,806	5,980
Over 1 year		<u>32,754</u>	<u>42,837</u>
		<u>57,196</u>	<u>79,856</u>

The carrying amounts of the Group's accounts payable are denominated in RMB and approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. ACCRUALS AND OTHER PAYABLES AND CONTRACT LIABILITIES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Contract liabilities		
Contract liabilities (Note a)	36,397	31,948
Accruals and other payables		
Advances from PRC government (Note b)	2,000	8,000
Staff cost	2,790	3,641
Other tax payables	14,966	16,651
Deposit	2,550	2,332
Others	11,905	14,781
	34,211	45,405

Note:

- (a) Contract liabilities primarily represent the proceeds received from pre-sale of properties and receipts in advance from customers in relation to hotel operation and consultancy services with a sales contract amount of RMB36,397,000 (2018:RMB31,948,000).
- (b) The amounts represent the subsidies from the PRC government provided to the Group to enhance and upgrade the hotel facilities. The related facilities were still under construction as at 31 December 2019. The amounts are to be recognised in the profit or loss when the Group complies with all specific conditions.
- (c) The carrying amounts of the group's accruals and other payables and contract liabilities are denominated in the following currencies:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
RMB	66,260	73,975
HK\$	4,348	3,378
	70,608	77,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. BORROWINGS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Bank loans (Note a)	328,937	291,511

The borrowings are repayable as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within one year	117,517	58,172
Between one and two years	51,192	99,792
Between two and five years	160,228	88,688
Over five years	—	44,859
	328,937	291,511
Less: Current portion	(117,517)	(58,172)
Non-current portion	211,420	233,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. 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 2019 as follows:

	Note	As at 31 December	
		2019 RMB'000	2018 RMB'000
Property, plant and equipment	16	53,808	52,292
Right-of-use assets	17	6,091	—
Prepaid land lease payments	18	—	6,625
Investment properties	19	455,380	397,110
Accounts receivable	26	12,861	6,475
		<u>528,140</u>	<u>462,502</u>

The Group has undrawn borrowing facilities amounting to RMB17,500,000 (2018: RMB63,500,000) as at 31 December 2019.

- (b) The carrying amounts of the Group's borrowings are denominated RMB.

Details of interest rates per annum are set at below:

	As at 31 December	
	2019	2018
Short-term bank loans (floating rate)	6.18%	3.24%
Short-term bank loans (fixed rate)	6.25%	4.35%
Long-term bank loans (floating rate)	5.26%	5.52%
Long-term bank loans (fixed rate)	5.82%	6.58%
	<u>5.82%</u>	<u>6.58%</u>

- (c) The carrying amounts of the Group's borrowings approximate their fair values.
- (d) The Group's effective interest rate of the borrowings was 5.52% (2018: 4.91%) per annum for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group.

Deferred tax liabilities

	Revaluation of Investment properties <i>RMB'000</i>	Accelerated tax depreciation <i>RMB'000</i>	Others <i>RMB'000</i>	Total deferred tax liabilities <i>RMB'000</i>
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	<u>166,295</u>	<u>3,127</u>	<u>119</u>	<u>169,541</u>
As at 1 January 2019	166,295	3,127	119	169,541
Charged/(credited) to profit or loss for the year (Note 10)	<u>5,864</u>	<u>367</u>	<u>(119)</u>	<u>6,112</u>
As at 31 December 2019	<u>172,159</u>	<u>3,494</u>	<u>—</u>	<u>175,653</u>

Deferred tax assets

	Excess of amortisation of prepaid land lease over tax allowances <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Total deferred tax assets <i>RMB'000</i>
As at 1 January 2018	(1,216)	—	(1,216)
Credited to profit or loss for the year (Note 10)	<u>(81)</u>	<u>—</u>	<u>(81)</u>
As at 31 December 2018	<u>(1,297)</u>	<u>—</u>	<u>(1,297)</u>
As at 1 January 2019	(1,297)	—	(1,297)
Credited to profit or loss for the year (Note 10)	<u>(96)</u>	<u>(960)</u>	<u>(1,056)</u>
As at 31 December 2019	<u>(1,393)</u>	<u>(960)</u>	<u>(2,353)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. 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 RMB9,811,000 (2018: RMB14,392,000) as at 31 December 2019, in respect of losses amounting to RMB39,244,000 (2018: RMB57,568,000) as at 31 December 2019 respectively that can be carried forward against future taxable income and losses are subject to expiry period of five years.

34. 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 end 31 December 2019. 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.

35. SHARE CAPITAL

	Number of shares (thousands)	Share capital RMB'000
As at 1 January 2018 and 2019	980,000	8,669
As at 31 December 2018 and 2019	980,000	8,669

36. CAPITAL COMMITMENTS

The Group had the following capital commitments contracted but not provided for:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Construction in progress	8,554	29,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. LEASE COMMITMENTS

Operating lease commitments — lessor

The Group's total future minimum lease receivables under non-cancelable operating leases are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within one year	1,611	828
One to two years	1,447	274
Two to three years	1,442	274
Three to four years	1,411	274
Four to five years	1,412	273
More than 5 years	12,135	91
	19,458	2,014

Operating lease receivables represent stall rental receivable. Leases are negotiated for an average term of 2 to 15 years and rental are fixed over the lease terms and do not include contingent rentals.

38. 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.

As at 31 December 2019, the major shareholders of the Company are Harvest Talent Investments Limited and China Aoyuan Group Limited, which owned 34.34% and 29.18% of the Company's issued shares respectively.

The ultimate holding company of the Group is Harvest Talent Investments Limited ("Harvest Talent"), incorporated in the 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 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. MATERIAL RELATED PARTIES TRANSACTIONS *(continued)*

(a) Balances with related parties

The following transactions were carried out with related parties at terms mutually agreed by both parties:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Amounts due from a joint operator (Note 21)	13,221	—
Amount due to an associate	45,020	—
	<u>58,241</u>	<u>—</u>

(b) Transactions with related parties

The following transactions were carried out with related parties at terms mutually agreed by both parties:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Share of expenses from joint operation (Note 21)	1,002	—
Salary of Mrs. Hon (Spouse of an executive director)	132	132
	<u>1,134</u>	<u>132</u>

(c) Compensation of key management personnel of the Group:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, bonus and allowances	4,257	3,986
Pension costs		
— defined contribution plans	156	162
Share-based payment	988	2,541
	<u>5,401</u>	<u>6,689</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Non-current asset		
Investments in subsidiaries	213,198	212,528
Current assets		
Prepayments	275	434
Bank and cash balances	7	1
Amount due from a subsidiary	119,982	122,965
	120,264	123,400
TOTAL ASSETS	333,462	335,928
Current liabilities		
Accruals	4,344	3,098
TOTAL LIABILITIES	4,344	3,098
Capital and reserves		
Share capital	8,669	8,669
Reserves	Note (a) 320,449	324,161
TOTAL EQUITY	329,118	332,830
TOTAL LIABILITIES AND EQUITY	333,462	335,928

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2020 and was signed on its behalf:

.....
Hon Chi Ming
Director

.....
Huang Zhanxiong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(continued)

(a) Reserve movement of the Company

	Share premium RMB'000	Foreign currency translation reserve (i) RMB'000	Share-based payment reserve RMB'000	Capital reserve (ii) RMB'000	Other reserve (iii) RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2018	99,249	(18,654)	5,004	208,587	69,528	(39,292)	324,422
Total comprehensive income/ (loss) for the year	—	6,187	—	—	—	(10,793)	(4,606)
Share-based payment (Note 14)	—	—	4,345	—	—	—	4,345
As at 31 December 2018	<u>99,249</u>	<u>(12,467)</u>	<u>9,349</u>	<u>208,587</u>	<u>69,528</u>	<u>(50,085)</u>	<u>324,161</u>
As at 1 January 2019	99,249	(12,467)	9,349	208,587	69,528	(50,085)	324,161
Total comprehensive income/ (loss) for the year	—	2,214	—	—	—	(7,746)	(5,532)
Transfer upon lapse of share options	—	—	(882)	—	—	882	—
Share-based payment (Note 14)	—	—	1,820	—	—	—	1,820
As at 31 December 2019	<u>99,249</u>	<u>(10,253)</u>	<u>10,287</u>	<u>208,587</u>	<u>69,528</u>	<u>(56,949)</u>	<u>320,449</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of Coronavirus Disease 2019 (“the COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in offices, etc.

In response to the precautionary policies and measures implemented by the Guangdong provincial government to deter the spread of the COVID-19 outbreak, the operation of Gudou Hot Spring Resort was temporarily suspended from 28 January to 5 March 2020. The operation was partially resumed for certain hotels, facilities and restaurants at Gudou Hot Spring Resort on 6 March 2020. The COVID-19 outbreak in the short term has led to the decrease in visitors and occupancy rates, the temporary suspension of certain operations of the resort and hot spring facilities, thus reducing the revenue in the first quarter of 2020. On the other hand, for the property development project in the PRC which was originally expected to be completed and delivered in the second half of 2020, the management considered that the COVID-19 outbreak currently has minimal impact on the development progress. However, it may have impact on the completion timeline if the COVID-19 outbreak continues.

The Group will also continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Pending development of such subsequent non-adjustment event, the Group’s financial results may be affected, to extend of which could not be estimated as at the date of this financial statements.

PARTICULARS OF PROPERTIES

PROPERTIES HELD FOR DEVELOPMENT AND/OR SALE:

(A) Completed properties held for sale

Property name	Location	Use	Estimated approximate gross floor area sq.m	Attributable interest of the Group
Mountain Seaview Vacation Residence	A total of 2 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	161.3	100%
Heart of Spring Apartments	A total of 4 various apartment 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	314.0	100%

PARTICULARS OF PROPERTIES

(B) Property under development

Property name	Location	Type	Stage of completion	Expected completion date	Approximate site area sq.m	Estimated approximate gross floor area sq.m	Attributable interest of the Group
Gudou Yishui Mingting Apartments	Gudou Hot Spring Resort	Residential and commercial	Presale permit obtained	2020	5,677.0	10,866.7	30%
Guanshanyue Apartments	Gudou Hot Spring Resort	Residential	Presale permit obtained	2021	50,657.7	20,203.1	30%
Gudou Phase III	Gudou Hot Spring Resort	Residential	Site preparation	2021	11,526.0	22,627.0	30%

PROPERTIES HELD FOR INVESTMENT:

Location	Use	Tenure	Attributable interest of the Group
Four various parcels of land known as Lot Nos. 0928000290, 0928000505, 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 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Results					
Turnover	202,153	182,052	318,529	248,729	238,221
Profit/(loss) before tax	(299)	(34,148)	104,482	54,898	47,793
Total comprehensive income/(loss) for the year attributable to owners of the Company	(24,643)	(61,395)	53,180	12,614	23,791
Assets and Liabilities					
Total assets	1,008,945	1,144,930	1,072,982	1,109,241	1,215,569
Total liabilities	834,081	795,657	665,525	686,805	767,522
Net assets/Total equity	174,864	349,273	407,457	422,436	448,047

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.