GUDOU HOLDINGS LIMITED
古兜控股有限公司

(incorporated in the Cayman Islands with limited liability)

(stock code: 8308)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Hong Kong Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Hong Kong Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2022 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	**2022** *RMB'000*	2021 *RMB'000*
Revenue	*5*	**41,900**	63,964
Cost of sales		**(83,012)**	(63,891)
Gross (loss)/profit		**(41,112)**	73
Other income		**110**	772
Other gain, net		**2,266**	3,359
Fair value losses on investment properties		**(27,110)**	(5,270)
Selling expenses		**(4,399)**	(10,967)
Administrative expenses		**(28,801)**	(28,923)
Net impairment losses on financial assets		**(34,621)**	(11,297)
Loss from operations		**(133,667)**	(52,253)
Finance costs		**(14,732)**	(18,137)
Share of loss of an associate		**–**	(656)
Loss before income tax		**(148,399)**	(71,046)
Income tax credit	*6*	**15,706**	2,096
Loss for the year attributable to owners of the Company		**(132,693)**	(68,950)
Other comprehensive (loss)/income for the year, net of tax			
Item that may be reclassified to profit or loss:			
Currency translation differences		**(14,120)**	487
Item that will not be reclassified to profit or loss:			
Currency translation differences		**10,032**	–
Fair value losses on financial assets at fair value through other comprehensive income		**–**	(756)
Total comprehensive loss for the year attributable to owners of the Company		**(136,781)**	(69,219)

Losses per share

		2022 *RMB cents*	2021 *RMB cents*
Basic and diluted losses per share	*8*	**(13.51)**	(7.04)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		**215,467**	244,477
Right-of-use assets		**9,792**	38,025
Investment properties		**573,050**	600,160
Financial assets at fair value through other comprehensive income		**55**	55
Deferred income tax assets		**6,904**	6,822
		805,268	889,539
Current assets			
Properties held for sale		**67,267**	104,708
Inventories		**2,608**	2,848
Accounts receivable	*9*	**4,850**	2,749
Prepayments, deposits and other receivables		**10,290**	24,959
Amount due from the joint operator	*10*	**44,294**	39,705
Restricted bank balances		**–**	2,683
Bank and cash balances		**3,356**	3,379
		132,665	181,031
TOTAL ASSETS		**937,933**	1,070,570
Current liabilities			
Accounts payable	*11*	**50,933**	44,417
Provision, accruals and other payables		**77,375**	30,484
Borrowings		**63,171**	85,514
Lease liabilities		**720**	4,409
Current tax liabilities		**63,291**	65,852
Contract liabilities		**70,421**	65,367
		325,911	296,043

	Note	**2022**	2021
	Note	***RMB'000***	*RMB'000*
Non-current liabilities			
Borrowings		**175,863**	165,613
Lease liabilities		**3,798**	30,184
Loan from a related party		**6,406**	4,893
Amount due to a director		**–**	500
Deferred income tax liabilities		**160,104**	176,238
Deferred income		**12,850**	13,750
		359,021	391,178
TOTAL LIABILITIES		**684,932**	687,221
Capital and reserves			
Share capital	*12*	**8,804**	8,669
Reserves		**244,197**	374,680
TOTAL EQUITY		**253,001**	383,349
TOTAL LIABILITIES AND EQUITY		**937,933**	1,070,570

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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 Windward 3, Regatta Office Park, 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 the operation and management of Gudou Hot Spring Resort and provision of consultancy and/or management services to third party resort and hotel operators and the development and sales of tourism properties in Guangdong Province.

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

2. BASIS OF PREPARATION

2.1 Compliance with HKFRS and HKCO

The consolidated financial information 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 ("HKCO") Cap.622.

2.2 Historical cost convention

The consolidated financial information has 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, which are stated at fair value.

The preparation of consolidated financial information 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.

3. GOING CONCERN

During the year ended 31 December 2022, the Group reported a net loss of approximately RMB132,693,000. As at 31 December 2022, the Group's current liabilities exceeded its current assets by approximately RMB193,246,000. Included in its current liabilities were borrowings, accounts payable, other payables and current tax liabilities of approximately RMB63,171,000, RMB50,933,000, RMB55,936,000 and RMB63,291,000, respectively, while its bank and cash balances amounted to approximately RMB3,356,000 only.

3. GOING CONCERN *(CONTINUED)*

The precautionary and control measures being implemented in Mainland China for Coronavirus Disease 2019 (the "COVID-19 pandemic") during the year 2022 have serious impact to the Group's hotel and resort operations. Although the precautionary and control measures are canceled in late 2022, the hotel and resort operations have not been fully recovered up till now.

Besides, the Group's property development business related to the joint operation (the "Joint Operation") with Guangdong Aoyuan Company Limited ("GD Aoyuan") was also negatively affected by the liquidity condition of China Aoyuan Group Limited ("China Aoyuan"), the shareholder of GD Aoyuan. Pursuant to the cooperation agreements, GD Aoyuan is solely responsible for the funding of construction of projects of the Joint Operation. However, GD Aoyuan was unable to advance sufficient funding for the settlement of construction and other costs and thus certain construction and other costs for the projects were settled by proceeds received from the pre-sales activities relating to the Joint Operation held by the Group during the year ended 31 December 2022. In addition, the Group is involved in several legal disputes with GD Aoyuan being the plaintiff as set forth in Note 10 to the consolidated financial information. Upon the civil ruling handed down by Jiangmen Xinhui's People Court (the "Court"), the Court has ordered to discharge the Joint Operation on 19 May 2023. As a result, the Group needs to be primarily responsible for the ongoing operation of the property development project, which may further affect the liquidity of the Group.

All of the above conditions indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company (the "Directors") have given careful consideration of the future liquidity and operating performance of the Group and its available source of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The Directors of the Company have reviewed a cash flow projection of the Group prepared by management covering a period up to 31 March 2025 taking into consideration the following plans and measures:

(i) The Group has been actively negotiating with a bank on revising repayment schedules to extend the due dates of installment loans of RMB112,706,000 as at 31 December 2022. Moreover, the Group has bank facilities with another bank of RMB85,366,000 as at 31 December 2022 and has successfully renewed the revolving facilities with that bank during 2023. Having considered the successful record and the longstanding relationships with this bank, the Directors believe that the Group will be able to further renew its existing bank facilities of approximately RMB65,040,000 when they expire in 2024.

(ii) The Group has entered into a new uncommitted bank facilities of RMB230,000,000 with a bank and be able to draw down from these bank facilities, as and when needed.

(iii) The Group has been actively negotiating with the relevant tax authority on the deferring of the payment of the Group's current taxes (including the PRC enterprise income tax ("PRC EIT") and PRC land appreciation tax ("LAT")). The Directors are of the opinion that the current tax liabilities (including PRC EIT and LAT) will not be fully payable in 2024 and 2025 based on the Group's understanding of the practice of the tax authority to support the industry that was seriously affected under the COVID-19 pandemic.

3. GOING CONCERN *(CONTINUED)*

(iv) Riding on the cancellation of the precautionary and control measures in response to the COVID-19 pandemic in December 2022 and the gradual recovery of the Group's hotel and resort operations in 2023, the Group is cautiously optimistic that the leisure travel market and the Group's hotel and resort operations will continue to recover in 2024. The Group continues its efforts by generating cash from hotel and resort operations, delaying the settlement to key suppliers or contractors and implementing measures to further control capital and operating expenditures of the Group.

(v) After the discharge of the Joint Operation, the Group is primarily responsible for the operation of the property development project and does not plan to further develop the project until the Group has come up an agreed settlement plan with GD Aoyuan. Based on the development plan of the project and the Directors' best understanding on the construction progress, the Directors considered that the additional obligation that the Group needs to take up is inconsequential. In addition, the Group was sued by various parties for the settlement of outstanding construction and other costs of approximately RMB31 million that should have been responsible by GD Aoyuan. The Group will continue its effort in negotiating the reimbursements from GD Aoyuan.

The Directors, after due consideration of the basis of management's plans and measures as well as the reasonable possible downside changes to the cash flow projections, are confident that the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due covering a period up to 31 March 2025. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial information on a going concern basis.

Notwithstanding the above, a material uncertainty exists as to whether the Group is able to achieve its plans and measures as described above, which incorporate assumptions about future events and conditions that are subject to inherent uncertainties. Whether the Group will be able to continue as a going concern depends upon:

(a) the Group's ability to negotiate with the bank on revising repayment schedules to extend the due dates of installment loans;

(b) the Group's ability to draw down from the uncommitted bank facilities of RMB230,000,000 as and when needed;

(c) the Group's ability to further defer the payment of the Group's PRC EIT and LAT; and

(d) the Group's ability to accelerate the recovery from COVID-19 pandemic and generate operating cash inflow from its hotel and resort operations, delaying the settlement to key suppliers or contractors and implementing measures to further control capital and operating expenditures of the Group.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial information.

4. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

The Group has applied the following amended standards and annual improvements for the first time for their annual reporting period commencing 1 January 2022:

Standards	**Subject of amendments**
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
Accounting Guideline 5 (Amendments)	Revised Accounting Guidelines 5 Merger Accounting for Common Control Combinations (AG 5)
Annual Improvements Project	Annual Improvements to HKFRSs 2018–2020 cycles

The Group has adopted these amended standards and annual improvements and the adoption of these amended standards and annual improvements do not have any significant impacts on the Group's consolidated financial information.

4.1 (b) New standards and interpretations not yet adopted

The following new or amended standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2022 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKFRS 17	Insurance contracts	1 January 2023
HKAS 12 (Amendments)	Deferred Income Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 12 (Amendments)	International Tax Reform – Pillar Two Model Rules	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024

4. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(CONTINUED)*

4.1 (b) New standards and interpretations not yet adopted *(Continued)*

		Effective for accounting periods beginning on or after
HKFRS 16 (Amendments)	Lease Liability in a Sales and Leaseback	1 January 2024
HKAS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of Assets between an Investor and its Associate or Joint venture	To be determined

The directors of the Group are in the process of assessing the financial impact of the adoption of the above new standards, amendments to standards and annual improvement. The Group will adopt the new standards, amendments to standards and annual improvement when they become effective.

5. REVENUE

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Hotel and resort operations		
Admission income		
– Hot Spring Valley	**6,721**	11,731
– Waterpark	**688**	893
	7,409	12,624
Catering income	**6,840**	11,364
Conference fee income	**841**	720
Massage service income	**165**	787
Rental income	**1,943**	3,463
Other service income	**3,192**	3,868
Merchandise sales income	**159**	59
Room revenue	**20,932**	28,059
	41,481	60,944
Tourism properties		
Property sales	**419**	2,562
Property renovation income	**–**	458
	41,900	63,964
Timing of revenue recognition		
At a point in time	**15,833**	28,116
Over time	**24,124**	32,385
	39,957	60,501
Rental income	**1,943**	3,463
	41,900	63,964

6. INCOME TAX CREDIT

The revenue from tourism property as described in Note 5 includes sales of apartments. Under the applicable tax regulations, LAT is charged at progressive rate from 30% to 60% (2021: 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 been determined by the local tax bureau. Management adopted the progressive rate from 30% to 60% (2021: 30% to 60%) according to their best estimation. The tax credit on the Group's loss before income tax differs from the theoretical amount that would arise using the taxation rate in the PRC as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Income tax credit — PRC EIT and LAT	**(15,706)**	(2,096)

7. DIVIDEND

No dividend was paid or declared by the Company during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

8. LOSSES PER SHARE

Basic

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

	Year ended 31 December	
	2022	2021
Loss attributable to owners of the Company *(RMB'000)*	**(132,693)**	(68,950)
Weighted average number of ordinary shares in issue *('000)*	**982,485**	980,000
Basic losses per share *(RMB cents)*	**(13.51)**	(7.04)

Diluted

Diluted losses 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. 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.

For the year ended 31 December 2022, share options were not assumed to be exercised/converted as they have an anti-dilutive impact due to the loss for the year attributable to owners of the Company (2021: Same).

9. ACCOUNTS RECEIVABLE

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Accounts receivable	**13,191**	11,948
Less: allowance for impairment	**(8,341)**	(9,199)
Accounts receivable, net	**4,850**	2,749

The Group allows an average credit period ranging from 30 to 90 days (2021: 30 to 90 days) to travel agencies and corporate customers in hotel and resort operations 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 (2021: 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. Overdue balances are reviewed regularly by the directors.

9. ACCOUNTS RECEIVABLE *(CONTINUED)*

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					
	2022			2021		
	Travel agencies and corporate customers	**Property purchasers**	**Total**	Travel agencies and corporate customers	Property purchasers	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Up to 30 days	**3,080**	**–**	**3,080**	1,457	–	1,457
31 to 60 days	**879**	**–**	**879**	495	–	495
61 to 90 days	**201**	**–**	**201**	245	–	245
Over 90 days	**9,031**	**–**	**9,031**	8,237	1,514	9,751
	13,191	**–**	**13,191**	10,434	1,514	11,948
Allowance for impairment	**(8,341)**	**–**	**(8,341)**	(7,685)	(1,514)	(9,199)
Accounts receivable, net	**4,850**	**–**	**4,850**	2,749	–	2,749

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

	2022	2021
	RMB'000	*RMB'000*
At the beginning of the year	**9,199**	5,736
Impairment losses	**479**	3,463
Write-off of provision	**(1,337)**	–
At the end of the year	**8,341**	9,199

The above impairment losses have been included in "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 values.

10. AMOUNT DUE FROM THE JOINT OPERATOR

Guangdong Gudou Travel Group Company Limited ("GD Gudou"), an indirect wholly owned subsidiary of the Group, entered into a joint operation arrangement with Guangdong Aoyuan Group Company Limited ("GD Aoyuan" or "Joint Operator"), which is an indirect wholly owned subsidiary of China Aoyuan Group Limited, through the execution of two cooperation agreements dated 16 July 2019 and 30 June 2020 (the "Joint Operation Agreements") for the development of a tourism property, facilities and other infrastructures incidental to the development of tourism property on 8 parcels of land (the "Land") in Gudou Jiangmen, the PRC (the "Joint Operation"). In return of this Joint Operation, GD Gudou and GD Aoyuan are entitled to 30% and 70%, respectively, of the net income derived from the Joint Operation.

Pursuant to the Joint Operation Agreements, while GD Gudou is responsible for contributing the Land to the Joint Operation, GD Aoyuan is responsible for (i) funding the development, construction and management of the Land; (ii) maintaining the books and records of the Joint Operation; and (iii) operating a designation bank account under the name of GD Gudou (the "Designated Bank Accounts"). Additionally, the purpose of the Designated Bank Accounts are to deposit fundings received from GD Aoyuan to settle the construction and other costs of the Joint Operation and receive proceeds from the sales of the property units developed under the Joint Operation. Fundings can also be withdrawn from the Designated Bank Accounts to settle any construction and other costs incurred for the Joint Operation.

Upon the inception of the Joint Operation, based on the Joint Operation Agreements and management's understanding of the operation of the Joint Operation, management has recognised the Land as properties held for sale, the bank balances in the Designated Bank Accounts as restricted cash, all the proceeds received from the pre-sales activities relating to the Joint Operation and deposited at the Designated Bank Accounts as contract liabilities in the consolidated statement of financial position, and recognised 30% (as entitled by GD Gudou in accordance with the Joint Operation Agreements) of the revenue recognised and expenses incurred in connection with the Joint Operation in the consolidated statement of comprehensive income. Additionally, for any amounts settled by the Group or the Joint Operator on behalf of the Joint Operation which are expected to be recovered from the Joint Operator or the Group, respectively, these transactions would be recognised as amount due from/to the joint operator.

10. AMOUNT DUE FROM THE JOINT OPERATOR *(CONTINUED)*

Since the commencement of the Joint Operation, construction work has begun only on 3 parcels of the Land and two developed properties on these 3 parcels of Land have commenced pre-sale activities in 2019 and 2022. There has been no further development for the remaining 5 parcels of the Land now. The development of the Land has been further delayed starting from the second half of 2022. In 2022, GD Gudou received several claims as one of the defendants from a few property buyers in respect of alleged breach of contracts by a contractor introduced by GD Aoyuan for the remodelling of their property units. Although these claims have been closed, it led to the Group's management to probe closer into the activities of the Joint Operation, including the transaction activities in the Designated Bank Accounts. Furthermore, the Group could not proceed with the search as GD Aoyuan moved out from the office building of GD Gudou in November 2022, and all the accounting records and related supporting documents of the Joint Operation were taken away by GD Aoyuan at the same time. GD Aoyuan had provided accounting records including ledger, balance sheets and profit and loss accounts for the Joint Operation in the previous periods but the Group did not maintain a full set of accounting vouchers and supporting documents as they had access in the past. Since then, GD Aoyuan was not cooperative and despite the Group's continuous effort, the Group was not able to obtain the accounting records of the Joint Operation taken away by GD Aoyuan.

In March 2023, the Directors, of which have no prior knowledge, were made aware of two loan agreements involving GD Gudou, being the borrower, and GD Aoyuan, being the lender, totalling not more than RMB50,000,000 which are interest-bearing at 12% per annum in 2019 (the "Loan Agreements") in 2021 and a commitment letter made by GD Gudou in favour of GD Aoyuan in relation to RMB15,000,000 at an interest rate of 12% per annum in 2021 (the "Commitment Letter"). These Loan Agreements and Commitment Letter were received from an anonymous source and were alleged by the informant to be related to certain withdrawals being made from the Designated Bank Accounts by the Group over the years from 2019 to 2021. However, it was the understanding of the management of the Group that these withdrawals were not loans in nature and in fact are fund transfer. The withdrawals made in 2019 was for the purposes to settle certain construction and other costs incurred by the Group and paid on behalf from the Designated Bank Accounts as agreed with GD Aoyuan in order to complete the existing property development project of GD Gudou so as to expedite the overall pre-sales activities of the property development project under the Joint Operation. Such withdrawals had already been settled by the Group based on management's understanding. While the withdrawals made in 2021 was for the purpose to release the mortgage over one of the parcels of the Land contributed by GD Gudou so as to facilitate the application of pre-sales permit of the Joint Operation.

In March and April 2023, GD Aoyuan filed two claims against the Group in relation to (i) the Commitment Letter and (ii) the operation of the Joint Operation and claimed that GD Aoyuan has intended to continue the Joint Operation but cannot do so unless these disputes can be resolved. In the hearing process of the court case, GD Aoyuan has further submitted to the court certain supplemental agreements to the court of which the Directors have no prior knowledge. In October 2023, the Group received a civil ruling from the court to discharge the Joint Operation with effective date on 19 May 2023 and concluded that certain alleged supplemental agreements to the Joint Operation Agreements, of which the Group still has no access, were invalid and should not be enforceable. However, the Loan Agreements have been determined by the civil ruling to be authentic.

10. AMOUNT DUE FROM THE JOINT OPERATOR *(CONTINUED)*

Independent investigation on the Loan Agreements and the Commitment Letter

Upon the discovery of the Loan Agreements and the Commitment Letter, the Directors established an independent investigation committee to investigate the Loan Agreements and the Commitment Letter in April 2023 (the "Investigation"). The investigation committee engaged an independent professional advisor to conduct the Investigation. Based on the Independent Review report from the independent professional advisor, they found the validity of the Loan Agreements and the Commitment Letter and the existence of the loan of RMB15 million under the Commitment Letter to be questionable. According to the Independent Review Report, the approval and signing procedures for the Loan Agreements and the Commitment Letter was different from those stipulated in the "Usage and management system for company seals and chops". There was no formal application on using of the company seals and chops in relation to the signing of both of the Loan Agreements and the Commitment Letter and such usage was not recorded on the contract register. They also found that the Commitment Letter was only stamped with the Company seal, which was not following the normal practice of stamping both the Company seal and the legal representative chop (or signed by the responsible Director) at the same time. The independent advisor cannot find any evidence which may suggest that the Loan Agreements and the Commitment Letter were executed and further based on their computer data analysis, the independent advisor concluded that there is no finding which suggest evidence to show that the relevant personnel of the Group have knowledge in or have discussed on the Loan Agreements and the Commitment Letter. However, the Investigation is subject to several limitations, including but not limited to, inability to obtain the financial record and supporting documents of the Joint Operation and conduct interview GD Aoyuan and some of the major service providers of the Joint Operation. Nevertheless, the Board is in the opinion that the independent investigator has already exhausted all reasonable means to provide the full extent of findings and conclusion to the Group.

The Board, having reviewed the findings of the Independent Review Report, considered that despite the Loan Agreements have been determined by the civil judgement to be authentic, there is insufficient evidence to prove either the validity of the Commitment Letter or the existence of the RMB15 million loan. It is possible that due to the internal control deficiency as identified by the independent professional advisor, the Loan Agreements and the Commitment Letter might have been chopped by the Group personnel unintentionally and accidentally. In light of the fact that the truthfulness and validity of the Commitment Letter remains an issue to be concluded in the PRC civil action, the judgement of which would only be available later, the Board remain a conservative stance and shall further assess its position with regard to the Commitment Letter.

Although the Group is not able to resolve with GD Aoyuan on the dispute over the Loan Agreements and the Commitment Letter, based on the finding of the Investigation and the Group's understanding of the operation of the Joint Operation, unless the court would ultimately conclude otherwise, the Group consider that while GD Gudou used the RMB15 million deposited by GD Aoyuan, such usage was within the boundaries of the Joint Operation and not for private usage, suggesting that the nature of the RMB15 million could not have been a loan and will continue to account that as amount due from/to the joint operator without fixed term and interest.

10. AMOUNT DUE FROM THE JOINT OPERATOR *(CONTINUED)*

Incomplete accounting records of the Joint Operation

Due to the ongoing disputes with GD Aoyuan whereby the Group continues to be unable to obtain the books and records of the Joint Operation, the Group could only rely on the limited information and documents available to account for the transactions related to Joint Operation and prepare its financial information for the Group's consolidated financial statements based on its best understanding of the operation of the Joint Operations and judgement. In particular, the Group checked to the detailed listing of the pre-sale previously provided by GD Aoyuan and reconciled the sales and pre-sale transactions in the current year in preparing the financial information for the Joint Operation.

Subsequent to the discharge of the Joint Operation, the Group has received several claims from the contractors of the Joint Operation for the settlements of outstanding construction and other costs amounting to RMB31 million (the "Construction Costs"). The Group has accrued the corresponding amount but considering these settlements related to the operation of the Joint Operation should be borne by GD Aoyuan in accordance with the Joint Operation Agreements, the Group has accounted for the Construction Costs to be settled on behalf of GD Aoyuan as amount due from the joint operator.

Due to the inability to obtain the accounting records of the Joint Operation from GD Aoyuan, the Group could not ensure if there is any unknown outstanding construction and other costs and any possible disputes with other creditors related to the Joint Operation. Nevertheless, up to the date of the financial statements, the Group did not receive any other claims from the suppliers or creditors of the Joint Operation.

After the discharge of the Joint Operation, although the Group is primarily responsible for the development of the Land, the Group does not plan to further the development until the Group can resolve any open disputes with GD Aoyuan. Based on the current plan and the Directors' best understanding on the construction progress of the Joint Operation, together with the Group's active communication with the relevant creditors, the Group would seek various ways to resolve these litigations and the Directors consider that these litigations relating to the construction of the Land, individually or jointly, will not have significant adverse effects on the operating performance, cash flow and financial condition of the Group at the current stage.

Given the court has not concluded the litigation on the Commitment Letter as well as the Group is preparing to file for a judgement on the entitlements in the sharing of profit of the Joint Operations on the basis that GD Aoyuan has not fulfilled its obligation in accordance with the Joint Operation Agreements, any possible settlement arrangements relating to these disputes related to Joint Operation are currently unknown. Nevertheless, based on the PRC legal advice, the Group considers it has the rights to claim GD Aoyuan on any possible settlements on behalf of GD Aoyuan relating to the Joint Operation and therefore, the Group has recognised these settlements made on behalf of GD Aoyuan, together with any withdrawals from the Designated Bank Accounts to GD Aoyuan, as amount due from the joint operator. However, in consideration of the liquidity condition of GD Aoyuan, the Group has also recognised an impairment provision up to the Group's entitlement of the Joint Operation as stated in the Joint Operation Agreements.

10. AMOUNT DUE FROM THE JOINT OPERATOR *(CONTINUED)*

Based on the aforementioned assessment by management as of the date of this announcement, the Directors have prepared the financial information for the Joint Operation from 1 January 2022 to 31 December 2022 and recognised the following on the Company's consolidated financial information as at and for the year ended 31 December 2022.

Consolidated statement of comprehensive income	**Year ended 31 December 2022**	Year ended 31 December 2021
	RMB'000	*RMB'000*
Revenue	**419**	2,562
Cost of sales, selling and administrative expenses	**1,519**	3,274
Provision for loss on properties held for sale	**37,279**	–
Impairment losses on financial assets	**34,142**	7,834

Consolidated statement of financial position	**As at 31 December**	
	2022	2021
	RMB'000	*RMB'000*
Properties held for sales	**65,681**	103,122
Amount due from the joint operator *(Note)*	**44,294**	39,705
Bank and cash balances	**843**	–
Restricted bank balances	**–**	2,683
Contract liabilities	**(62,569)**	(55,786)

Note:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Amount due from the joint operator	**86,270**	47,539
Less: allowance for impairment	**(41,976)**	(7,834)
Amount due from the joint operator, net	**44,294**	39,705

10. AMOUNT DUE FROM THE JOINT OPERATOR *(CONTINUED)*

Movements on the provision for impairment of amount due from the joint operator are as follows:

	2022	2021
	RMB'000	*RMB'000*
At the beginning of the year	**7,834**	–
Impairment losses	**34,142**	7,834
At the end of the year	**41,976**	7,834

The amount is unsecured, interest-free and there is no fixed term of repayment for such balance.

The amount due from the joint operator is denominated in RMB and approximate to its fair values.

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

11. ACCOUNTS PAYABLE

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Up to 90 days	**2,094**	4,128
91 to 180 days	**1,287**	1,680
181 to 365 days	**7,021**	8,575
Over 1 year	**40,531**	30,034
	50,933	44,417

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

12. SHARE CAPITAL

	Number of shares *(thousands)*	Share capital *RMB'000*
As at 1 January 2021 and 31 December 2021	980,000	8,669
Exercise of share option	14,872	135
As at 31 December 2022	994,872	8,804

13. EVENTS AFTER THE REPORTING PERIOD

Except as disclosed elsewhere in the consolidated financial information, significant event after the reporting period is as follows.

(a) Issuance of the convertible bond

On 19 February 2023, the Group has entered into a subscription agreement with an independent third party for the issuance of a 1-year 2.3% convertible bond at principal amount of approximately HK$25.3 million to the independent third party. The final issuance of the convertible bond is subject to obtain all necessary consents and approvals. The net proceeds from the issuance of convertible bond is used for partial repayment of the Group's borrowings and general working capital of the Group.

AUDIT OPINION

The auditor of the Group will issue a qualified opinion with material uncertainty related to going concern on the consolidated financial statements of the Group for the year under audit. An extract of the auditor's report is set out in the section headed "EXTRACT OF THE AUDITOR'S REPORT OPINION" below.

EXTRACT OF THE AUDITOR'S REPORT OPINION

Our qualified opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, 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.

Basis for qualified opinion

Limitation of scope on the financial information of a joint operation with Guangdong Aoyuan Company Limited

As set out in Note 21 to the consolidated financial statements, Guangdong Gudou Travel Group Company Limited ("GD Gudou"), an indirect wholly owned subsidiary of the Group, entered into a joint operation arrangement with Guangdong Aoyuan Group Company Limited ("GD Aoyuan") through the execution of the two cooperation agreements dated 16 July 2019 and 30 June 2020 (the "Joint Operation Agreements") for the development of 8 parcel of land in Gudou Jiangmen, the People's Republic of China (the "PRC") (the "Joint Operation").

In respect of this Joint Operation, the Group recorded, among others, selling and administrative expenses of RMB1,496,000, provision for loss on properties held for sale of RMB37,279,000 and impairment losses on financial assets of RMB34,142,000 for the year ended 31 December 2022. The Group had properties held for sales of RMB65,681,000 (net of provision recognised of RMB37,279,000) and an amount due from the joint operator of RMB44,294,000 (net of impairment loses recognised of RMB41,976,000) as at 31 December 2022.

(a) The Loan Agreements and the Commitment Letter

During the course of our audit, we received copies of two loan agreements involving GD Gudou, being the borrower, and GD Aoyuan, being the lender, totalling not more than RMB50,000,000 which are interest-bearing at 12% per annum dated 2019 (the "Loan Agreements") and a commitment letter made by GD Gudou in favour of GD Aoyuan of RMB15,000,000 at an interest rate of 12% per annum in 2021 (the "Commitment Letter") from anonymous source; and the informant alleged that to be related to certain withdrawals by the Group from the bank account designated for the Joint Operation over the years from 2019 to 2021. In our prior years' audits, we were not made aware nor were we informed by GD Aoyuan nor the Group of the Loan Agreements and the Commitment Letter. The Directors represented that they have no prior knowledge of the Loan Agreements and the Commitment Letter. In March and April 2023, GD Aoyuan filed a claim against the Group in relation to the Commitment Letter and other affairs of the Joint Operation. The Group received a civil ruling from the Court to discharge the Joint Operation with effective date on 19 May 2023 and, among others, the Loan Agreements have been determined by the civil ruling to be authentic.

The Directors established an independent investigation committee to investigate the Loan Agreements and the Commitment Letter in April 2023 (the "Investigation"). The investigation committee engaged an independent professional advisor to conduct the Investigation. Based on the independent review report from the independent professional advisor (the "Independent Review Report"), they found the validity of the Loan Agreements and the Commitment Letter and the existence of the loan of RMB15 million under the Commitment Letter to be questionable.

The Directors, having reviewed the findings of the Independent Review Report, despite the Loan Agreements have been determined by the civil ruling to be authentic, they considered that there is insufficient evidence to prove either the validity of the Commitment Letter or the existence of the RMB15 million loan. It is possible that due to the internal control deficiency as identified by the independent professional advisor, the Loan Agreements and the Commitment Letter might have been chopped by the Group personnel unintentionally and accidentally. Based on the finding of the Investigation and the Group's understanding of the operation of the Joint Operation, unless the court would ultimately conclude otherwise, the Group considers that the usage by GD Gudou of the RMB15 million deposited by GD Aoyuan was within the boundaries of the Joint Operation and not for private usage, suggesting that the RMB15 million could not have been a loan and will continue to be accounted for as amount due from/to the joint operator without fixed term and interest.

As stated in the Independent Review Report, the Investigation is subject to several limitations in respect of the nature and extent of the procedures conducted, including but not limited to, inability to obtain the financial record and supporting documents of the Joint Operation and conduct interview with GD Aoyuan and some of the major service providers of the Joint Operation.

In response to the above-mentioned matters and the limitations of the Investigation, we have planned to conduct certain extended procedures during the course of our audit of the Company's consolidated financial statements as at and for the year ended 31 December 2022. However, we also encountered similar and other limitations when we conducted the extended procedures. In particular, we had requested to the Group to arrange interview with GD Aoyuan but were unable to access GD Aoyuan and therefore we were not able to obtain explanation about the reasons of disagreement of the balance in GD Aoyuan's confirmation reply and enquire about the reasons of non-disclosure of the Loan Agreements and the Commitment Letter to us previously.

(b) Incomplete accounting records of the Joint Operation

Under the Joint Operation Agreements, amongst others, GD Aoyuan is responsible for maintaining the books and records of the Joint Operation and operating a designated bank account for the Joint Operation. Management represented that GD Aoyuan moved out from the office building of GD Gudou in November 2022, and all the accounting records and related supporting documents of the Joint Operation were taken away by GD Aoyuan at the same time. GD Aoyuan had provided accounting records including ledger, balance sheets and profit and loss accounts for the Joint Operation in the previous periods but the Group did not maintain a full set of accounting vouchers and supporting documents they had access in the past. Hence, the Group was unable to provide a complete set of books and records of the Joint Operation for our audit.

Due to the ongoing disputes with GD Aoyuan whereby the Group continues to be unable to obtain the books and records of the Joint Operation, the Group could only rely on the limited information and documents available (other than sales of property units) to account for the transactions related to the Joint Operation and prepare its financial information based on the Group's best understanding and management's judgement of the operation of the Joint Operations.

Subsequent to the discharge of the Joint Operation, the Group has received several claims from the contractors of the Joint Operation for the settlement of outstanding construction and other costs. Due to the inability to obtain the accounting records of the Joint Operation from GD Aoyuan, the Group could not ensure if there is any unknown outstanding construction and other costs incurred and any possible disputes with other creditors related to the Joint Operation.

In view of the above scope limitation, there were no alternative audit procedures that we could perform to satisfy ourselves as to:

(i) the nature of the balance of amount due from/to the joint alleged to be related to the Loan Agreements and the Commitment Letter and whether any adjustment is required to accrue for interest on the relevant balance for the year ended 31 December 2022 and the corresponding period; and whether any adjustment is required on the corresponding impairment provision made on the amount due from the joint operator for the year ended 31 December 2022;

(ii) the completeness of construction and other costs incurred by the Joint Operation and any unrecorded construction and other costs that might affect the cost of the property held for sale as at 31 December 2022 as well as the corresponding impact on the related impairment loss for the year ended 31 December 2022;

(iii) the accuracy, validity, completeness and valuation of the balance of amount due form the joint operator as of 31 December 2022 and the validity, accuracy, completeness and presentation of other transactions (apart from sales of property units) of the Joint Operation and whether the effects of these transactions, including the related cashflows, have been properly accounted for and disclosed in the consolidated financial statements as at and for the year ended 31 December 2022. Consequently, we were unable to determine whether any adjustments to or disclosures of these amounts were necessary.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw your attention to Note 2.1.1 to the consolidated financial statements, which states that the Group incurred a net loss of approximately RMB132,693,000 during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB193,246,000. Included in its current liabilities were borrowings, accounts payable, other payables and current tax liabilities of approximately RMB63,171,000, RMB50,933,000, RMB55,936,000 and RMB63,291,000, respectively, and bank and cash balances were approximately RMB3,356,000 only. Furthermore, the Group's hotel and resort operations for the year ended 31 December 2022 were negatively impacted by COVID-19 pandemic and have not been fully recovered up till now. In addition, in relation to the Joint Operation with GD Aoyuan, the Group discharged the Joint Operation in May 2023 as set forth in Note 21 and needs to be primarily responsible for the ongoing operation of the property development project. These conditions, along with other matters as set forth in Note 2.1.1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to this set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group is principally engaged in (i) the operation and management of Gudou Hot Spring Resort and provision of consultancy and/or management services to third party resort and hotel operators; and (ii) the development and sale of tourism properties in Guangdong Province.

During the Year, the Group recorded a turnover of approximately RMB41.9 million, representing a decrease of approximately 34.5% when compared to that of the previous year. Such change was mainly attributable to:

(i) a decrease in revenue generated from the Group's hot spring resort and hotel operations business due to various measures implemented by the government of the People's Republic of China in order to contain the spread of variants of novel coronavirus (COVID-19) pandemic, including travel restrictions and mandatory quarantine, which adversely affected the demand of cultural tourism;

(ii) absence of revenue generated from the Group's consultancy fees income during the Year due to a contraction in investment decisions from hot spring resort owners, operators and investors, resulted from the continuing presence of COVID-19 pandemic; and

(iii) a decrease in revenue generated from the Group's tourism property development business due to weakened demand in general real estate market environment and decrease in units sold and delivered in Gudou Yishui Mingting Apartments during the Year.

Hot Spring Resort and Hotel Operations

The revenue of the Group from the hot spring resort and hotel operations and consultancy and/or management services business decreased by approximately 31.9% to approximately RMB41.5 million for the year ended 31 December 2022 as compared with that for the year ended 31 December 2021. Such decrease was mainly attributable to the decrease in room revenue, admission income, catering income, conference fee income and consultancy fee income. In addition, the Group recorded approximately RMB0.1 million of management fee income during the Year, which was attributable to the subsequent engagement of the Group for management services following the Group's initial provision of consultancy services to a third-party resort and hotel operators.

The Occupancy Rate of the Group's nine themed hotel complexes decreased from approximately 27% for the year ended 31 December 2021 to approximately 26% for the Year, mainly because the strict epidemic prevention and quarantine policies have affected overall tourism demand, resulting in a decline in Total Occupied Room Nights. The average room rate of the Group's nine themed hotel complexes decreased from approximately RMB286.4 for the year ended 31 December 2021 to approximately RMB276.6 for the Year, mainly attributable to lower room rates of middle-end resort hotels and city hotels.

Tourism Property Development

Revenue from the tourism property development business was approximately RMB0.4 million, representing a decrease of approximately 86.1% from approximately RMB3.0 million for the year ended 31 December 2021. Such decrease was mainly attributable to weakened demand in general real estate market environment during the Year. Revenue from the tourism property development business consists of the sales and delivery of Gudou Yishui Mingting Apartments totalling RMB2.5 million.

During the Year, we sold and delivered 3 units (approximately 2.6% of the total saleable GFA) of Gudou Yishui Mingting Apartments. We expect the sales and delivery of Gudou Yishui Mingting Apartments to continue in 2023. Steady progress is also made in the construction of the other tourism property, namely Guanshanyue Apartments, under the first cooperation agreement dated 16 July 2019 and entered into between Guangdong Gudou and GD Aoyuan. The property are expected to be delivered to property owners in 2023.

Prospect

Gudou is built upon our unwavering belief in the vitality of health for every individual. We champion the well-being of both body and mind, with a vision to enhance the quality of life for the wider community. The global pandemic is coming to an end, we've witnessed a remarkable shift: people are prioritizing their health like never before.

Adaptability has been our compass during these challenging times. The Gudou Group swiftly established an efficient business model, one that gracefully adjusts to the ever-changing landscape. Our unwavering commitment to software excellence, hardware innovation, and brand recognition has been unwavering.

As the world heals, so will tourism. We eagerly await the return of travellers seeking destinations that nurture their well-being. Our belief in the power of consumption and the promise of a prosperous future post-pandemic remains steadfast.

At our core, health and wellness continue to reign supreme. We leverage our brand's strength to craft enticing offerings, including indulgent catering options and an elevated spa experience. And that's not all! Our management team is actively exploring opportunities to expand our hotel footprint across China, further diversifying our income streams.

Together, we stride toward a brighter, healthier future–one where Gudou remains synonymous with well-being and rejuvenation.

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 2022. 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 2022
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, regional economy, regional level of disposal income, cost of transportation and cost of energy supply.
(ii) Provide management services to other hot spring resort owners	(ii) The Group will continue to explore new business opportunities to provide management services to hot spring resorts owned by third party owners. The investment and development team will continue to identify and evaluate potential business opportunities.

Business Objectives	Actual Business Progress up to 31 December 2022
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 have 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 year, the Group sold and delivered 3 units of Gudou Yishui Mingting Apartments. The Directors expect the sales of the jointly developing property projects, Gudou Yishui Mingting Apartments and Guanshanyue Apartments, to continue in 2023 and properties to be delivered to its customers from 2023 onwards.
3. Continue to enhance the Group's "Gudou" brand across the PRC by providing quality products and services to the customers	The Group has implemented strict quality control standards and closely monitored the product or service quality, and the workmanship of its contractors throughout the property development process in relation to the Group's tourism property development business. During the Year, the Group had also organised a number of promotional events to promote the Group's "Gudou" brand, such as: • Chinese New Year God of Wealth Cultural Tourism Festival in February 2022 • Tent Camping Festival and Summer Kids Dream Water Park Opening in May 2022 • Opening of Gudou Tianji Hot Spring Hotel in August 2022 • Mid-Autumn Festival and National Day Evening Party in Gudou Valley in October 2022 • The 10th Gudou Yamen Tianshui Radish Festival in December 2022

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;

(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.

Financial Review

Turnover

For the Year, the Group recorded turnover of approximately RMB41.9 million (2021: approximately RMB64.0 million), representing a decrease of approximately 34.5% 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 hot spring resort, hotel operations and tourism property development business. The turnover from the Group's hot spring resort and hotel operations decreased by approximately 31.9% from approximately RMB60.9 million in the previous year to approximately RMB41.5 million for the Year. Such decrease was mainly driven by a decrease in room revenue, admission and catering income due to the resurgence of the novel coronavirus (COVID-19) which slowed down the recovery of hot spring resort and hotel business. The Group's revenue from its tourism property development business recorded a decrease of approximately 86.1% from approximately RMB3.0 million for the year ended 31 December 2021 to approximately RMB0.4 million for the Year. The decrease was primarily attributable to the decrease in GFA delivered and sold of Gudou Yishui Mingting Apartments recorded during the Year.

Cost of Sales

The Group's cost of sales for the Year was approximately RMB83.0 million, representing an increase of approximately 30% from approximately RMB63.9 million for the year ended 31 December 2021. Such increase was primarily due to a provision for loss on properties held for sale during the Year. The cost of sales of the Group's hot spring resort and hotel operations decreased by approximately 27.4% to RMB45.6 million for the Year which was mainly attributable to the increase in staff costs which is partially offset by the decrease in material costs and energy expenses resulted from the Group's initiative in cost reduction.

Gross (Loss)/Profit and Gross (Loss)/Profit Margin

The Group's gross loss for the Year was approximately RMB41.1 million, representing a decrease when compared with its gross profit of approximately RMB0.1 million for the year ended 31 December 2021. The Group's gross profit margin decreased from approximately 0.1% for the year ended 31 December 2021 to gross loss margin of approximately 98.1% for the Year, which reflected the provision for loss on properties held for sale and the decrease in gross profit margin for hot spring resort and hotel operations.

For the Year, the gross loss margin for hot spring resort and hotel operations was approximately 9.9% (2021: gross loss margin approximately 2.9%). The change is primarily due to a decrease in revenue from the hot spring resort and hotel operations and the extent of decrease in cost of sales being less than the decrease in revenue from the hot spring resort and hotel operations because certain operating costs were partially fixed in nature. The gross loss margin for tourism property development for the Year was approximately 8,839% (2021: approximately 61.5%). Such increase is mainly due to a provision for loss on properties held for sale for the Year.

Fair Value Losses 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 losses on investment properties of the Group for the Year was approximately RMB27.1 million in value, while there was a fair value loss of RMB5.3 million in previous year.

Selling Expenses

The Group's selling expenses for the Year were approximately RMB4.4 million, representing a decrease of approximately 59.9% over the selling expenses of approximately RMB11.0 million for the previous year. The decrease is primarily attributable to the decrease in adverting expenses incurred by the Group in connection with the hot spring resort and hotel operations.

Administrative Expenses

The Group's administrative expenses for the Year were approximately RMB28.8 million, representing a decrease of approximately 0.4% over the administrative expenses of approximately RMB28.9 million for the year ended 31 December 2021. The decrease was mainly attributable to the decrease in professional fee during the Year.

Income Tax Expenses

The Group's income tax credit for the Year were approximately RMB15.7 million, representing an increase by approximately 7.5 times from approximately RMB2.1 million tax credit for the year ended 31 December 2021, which is mainly due to an increase in PRC enterprise income tax and an increase in deferred tax credit, which reflects the fair value losses on investment properties of the Group during the Year.

Net (Loss)/Profit and Net (Loss)/Profit Margin

The Group's net loss for the Year was approximately RMB132.7 million, representing an increase in loss when compared to the net loss of the Group of approximately RMB69.0 million for the year ended 31 December 2021. Such increase in net loss was primarily attributable to a decrease in revenue recognised for the Group's hot spring resort and hotel operations business caused by the adverse effect from COVID-19 and the increase in impairment losses on financial assets and the provision for loss on properties held for sale.

The Group's net loss margin (which is calculated by dividing its net loss for the relevant period by the turnover for the same period) was approximately 316.7%, representing an increase in loss when compared to the net loss margin of the Group of approximately 107.8% for the year ended 31 December 2021. Such decrease was mainly due to (i) a decrease in gross profit; (ii) an increase in fair value losses on investment properties; and (iii) an increase in impairment losses on financial assets and the provision for loss on properties held for sale.

Adjusted net (Loss)/Profit

The Company has adjusted net (loss)/profit to eliminate the effect of certain non-cash items and one-time events including share-based payments.

Liquidity and Financial Resources and Capital Structure

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

As at 31 December 2022, the Group had bank and cash balances of approximately RMB3.4 million which were denominated in RMB and Hong Kong dollars.

There is no outstanding capital commitments of the Group as at 31 December 2022 (2021: Nil). Such commitments primarily related to construction in progress of the Group. Such outstanding commitments are expected to be funded by internal funds and/or borrowings.

As at 31 December 2022, the Group had an outstanding bank loan of RMB239.0 million which were denominated in RMB and Hong Kong dollars, among which approximately RMB127.4 million were fixed rate borrowings. The annual loan repayment amounted to approximately RMB57.1 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 2022, the Group had an outstanding loan from a related party of RMB6.4 million.

The Group's gearing ratio as at 31 December 2021 and 2022, which was calculated by dividing its total borrowings by its total equity as at those dates, was approximately 0.67 and 0.97, respectively. The Group's gearing ratio as at 31 December 2022 increased because of the decreased level in the total capital.

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 2022, an amount of approximately RMB513.6 million (2021: approximately RMB516.5 million) was pledged to certain banks to secure bank facilities granted to the Group.

Significant Investments/Material Acquisitions and Disposals

Save as disclosed above, the Group had not made any significant investments or material acquisitions and disposals of subsidiaries during the Year.

Litigation and Contingent Liabilities

Subsequent to the discharge of the Joint Operation with GD Aoyuan, the Group has received several claims from the contractors of the Joint Operation for the settlements of outstanding construction and other costs amounting to RMB31 million. The Group has accrued the corresponding amount but considering these settlements related to the operation of the Joint Operation should be borne by GD Aoyuan in accordance with the Joint Operation Agreements, the Group has accounted for the construction costs to be settled on behalf of GD Aoyuan.

In addition, the PRC Court has not concluded the litigation on the Commitment Letter as of the announcement date and thus any possible settlement relating to this dispute is currently unknown. Nevertheless, based on the PRC legal advice, the Directors do not expect that the litigation will have a material adverse effect on the Group's financial position or results of operations. No provision for liabilities in this respect has been made in the consolidated financial information for the year ended 31 December 2022.

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.

Human Resources

As at 31 December 2022, the Group had a workforce of 256 full-time employees of whom approximately 97.3% were employed in the PRC and approximately 2.7% in Hong Kong. The Group's staff costs for the years ended 31 December 2021 and 2022 amounted to approximately RMB35.8 million and RMB23.9 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 Year, the Group paid approximately RMB37,000 (2021: RMB49,000) as the annual fee for compliance with the applicable environmental laws and regulations in the PRC.

During the Year 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 Year, 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.

DIVIDEND

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

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 Year.

CORPORATE GOVERNANCE PRACTICES

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

1. Mr. Hon is currently performing the roles of chairman and chief executive officer of 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.

EVENTS AFTER THE REPORTING PERIOD

Except as disclosed elsewhere in the consolidated financial information, significant event after the reporting period is as follows.

(a) Issuance of the convertible bond

On 19 February 2023, the Group has entered into a subscription agreement with an independent third party for the issuance of a 1-year 2.3% convertible bond at principal amount of approximately HK$25.3 million to the independent third party. The final issuance of the convertible bond is subject to obtain all necessary consents and approvals. The net proceeds from the issuance of convertible bond is used for partial repayment of the Group's bank borrowings and general working capital of the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference that comply with the required of the CG Code. The audit committee currently comprises all independent non-executive Directors, namely Mr. Chan Cheuk Ho, Mr. Wu Sai Him and Ms. Zhang Shaomin, and is chaired by Mr. Chan Cheuk Ho. The audit committee has reviewed the annual results of the Group in respect of the Year.

DEFINITIONS

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

"Board"	the board of Directors of the Company
"CG Code"	Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules
"close associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Company"	Gudou Holdings Limited (古兜控股有限公司), a company incorporated as an exempted company with limited liability in the Cayman Islands
"Director(s)"	the director(s) of the Company
"GD Aoyuan"	Guangdong Aoyuan Group Company Limited (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 Group Limited
"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
"Group"	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 the Company
"Guanshanyue Apartments"	Guanshanyue Apartments* (觀山悅公館), a tourism property project under development jointly developed by Guangdong Gudou Travel Group Company Limited* (廣東古兜旅遊集團有限公司) and GD Aoyuan in the Gudou Hot Spring Resort

"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 Yishui Mingting Apartments"	Gudou Yishui Mingting Apartments* (古兜依水茗亭), a tourism property project under development jointly developed by Guangdong Gudou Travel Group Company Limited* (廣東古兜旅遊集團有限公司) and GD Aoyuan in the Gudou Hot Spring Resort
"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
"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
"LAT"	Land Appreciation Tax
"Listing"	the listing of the Shares on GEM of the Hong Kong Stock Exchange on 9 December 2016
"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
"Occupancy Rate"	Total Occupied Room Nights of a hotel during a period divided by the Total Available Room Nights
"Year"	the year ended 31 December 2022
"PRC" or "China" or "Mainland China"	the People's Republic of China, save that, for the purpose of this announcement and unless the context otherwise requires, references in this announcement do not include Hong Kong, Macau Special Administrative Region and Taiwan
"Prospectus"	the prospectus of the Company dated 30 November 2016 issued in connection with the Listing
"Room Revenue"	revenue generated from room rates (including related service charges) of the themed hotel complexes in the Gudou Hot Spring Resort

"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"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
"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 announcement, 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.

By order of the Board of
Gudou Holdings Limited
Hon Chi Ming
Chairman

Hong Kong, 27 March 2024

As at the date of this announcement, the executive Directors are Mr. Hon Chi Ming, Mr. Huang Zhanxiong, Mr. Wang Jun and Mr. Liang Juquan, the non-executive Director is Mr. Tam Man Chiu, and the independent non-executive Directors are Mr. Wu Sai Him, Mr. Chan Cheuk Ho and Ms. Zhang Shaomin.

*This announcement will remain on the GEM website at **www.hkgem.com** on the "Latest Listed Company Information" page for at least seven days from the date of its posting. This announcement will also be published on the Company's website at **www.gudouholdings.com**.*