

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations (the "MD&A") of Alpha Peak Leisure Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") is prepared for the years ended December 31, 2018 and 2017. The MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2018 and 2017 of the Group. These financial statements were prepared in accordance with International Financial Reporting Standards. The results of operations, business prospects and financial condition of the Group will be affected by certain risk factors described elsewhere in this document.

All dollar figures stated in this MD&A are expressed in Canadian dollars, unless otherwise specified. Information contained herein includes any significant developments to April 30, 2019.

RESULTS OF OPERATIONS

Selected Quarterly Financial Data

	2018				2017			
	31 Dec	30 Sep	30 Jun	31 Mar	31 Dec	30 Sep	30 Jun	31 Mar
Revenue	128,941	72,944	138,935	163,484	370,713	392,025	465,620	163,191
Cost of sales/services	93,726	160,910	82,992	207,147	654,495	589,467	578,095	409,397
Other income	(508)	69,967	42,763	69,676	915	44,399	43,850	42,688
Other (losses) and gains	(318,701)	(51,120)	(52,835)	160,020	23,939	39,216	43,943	35,697
Marketing expenses	135,609	165,482	206,693	203,226	(259,320)	372,126	446,257	321,114
Impairment loss on IA from SCA	-	-	-	-	7,770,223	-	-	-
Write-off in respect of PPE	-	-	-	-	7,471,811	-	-	-
Impairment loss on PPE	-	-	-	-	10,163,037	-	-	-
Administrative expenses	1,258,608	448,799	410,924	429,472	889,457	806,330	922,527	664,456
Finance cost	27,448	23,845	24,204	24,267	24,484	23,956	25,700	25,464
Loss before tax	1,705,659	707,245	595,950	470,932	26,318,620	1,316,239	1,419,166	1,178,855
Income tax expense	-	-	-	-	-	-	-	-
Loss for the year	1,705,659	707,245	595,950	470,932	26,318,620	1,316,239	1,419,166	1,178,855
Basic loss per share	0.02	0.01	0.01	0.01	0.39	0.02	0.02	0.02
Diluted loss per share	0.02	0.01	0.01	0.01	0.39	0.02	0.02	0.02

Forward-looking statement

This MD&A includes certain forward-looking information and forward-looking statements (collectively "Forward-Looking Statements") concerning the future performance of the Group's business, operations and financial performance and condition, as well as management's objectives, strategies, beliefs and intentions. Forward-Looking Statements are frequently identified by such words as "may", "will", "plan", "expect", "anticipate", "estimate", "intend" and similar words referring to future events and results. Some of the Forward-Looking Statements in this MD&A are included in the section entitled "Outlook: Repositioning of business focus and completing the preliminary offering of vacation package". Some of these Forward-Looking Statements express management's beliefs and intentions relating to the future operational direction of the Company, such as "to create a diversified tourism experience, as well as promoting a new tourism style"; "we will improve the overall planning scheme"; and "we will consult and work closely with local government to better promote Swallow Gully". Forward-Looking Statements are based on the current opinions and expectations of management based on currently available information. All Forward-Looking Statements are inherently uncertain and subject to a variety of risks and uncertainties, such as unfavorable weather conditions, natural disasters, competition from nearby scenic tourism areas, changes in the tourism promotion policies of Mainland China, acceptability of terms of arrangements with local governments on new programs and initiatives, acceptability of our new programs and initiatives by the consumer audience that we are targeting, costs related to implementing new programs and initiatives to add new revenue streams, availability of working capital and financial resources to implement and sustain programs and initiatives once they have been started, changes in Chinese laws and regulations, all as described in various parts of this MD&A and the "Risk Factors" section below. Such Forward-Looking Statements are based on a number of assumptions, including but not limited to, information or statements concerning the Group's expectations for its ability to raise capital and meet the Group's obligations. Should one or more risks and uncertainties materialize or should any assumptions prove incorrect, then actual events or results may differ materially from those expressed or implied in the Forward Looking-Statements. Investors are cautioned against placing undue reliance thereon. The Group undertakes no obligation to revise or update the Forward-Looking Statements, except as required by applicable law.

Overview

The principal activities of the Group are developing and operating Swallow Gully Scenic Area ("Swallow Gully"), a large scale tourist attraction site in Sichuan Province, the People's Republic of China (the "PRC").

The Company was incorporated on June 24, 2011 under the British Columbia Business Corporation Act and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "TSX-V"). On June 23, 2015, the Company completed the qualifying transaction ("Qualifying Transaction") pursuant to the policies of the TSX-V through a private placement financing and an amalgamation with 1016772 B.C. Ltd ("6772BC"), a private limited company incorporated under the British Columbia Business Corporation Act. In connection with the closing of the Qualifying Transaction, 6772BC amalgamated with the Company to continue as an amalgamated company which continues in the name of the Company.

Fourth Quarter 2018 Operating Results

The Group's revenue totaled \$128,941 for the fourth quarter, compared to \$370,713 in the prior year quarter, fallen by 65.22%.

The Group revenue decline was led by decreased visitors in the fourth quarter. In 2018, management decided to not engage travel agent with a sales rebate arrangement, resulting in less group visitors.

Total operating costs were \$1.7 million in the fourth quarter, compared to \$26.4 million in the prior year period.

The net loss for the fourth quarter of 2018 decreased by 93.52% to \$1,705,659 from \$26,318,620 for the fourth quarter of 2017.

Overall Performance 2018

In 2018, we reported net loss of \$3.48 million, a substantial decrease of 88.49% as compared to 2017 which amount is \$30.23 million. The decrease was mainly due to the impairment losses recognised in respect of intangible asset arising from a service concession arrangement and property, plant and equipment and the write-off in respect of property, plant and equipment that were recorded in 2017 with no corresponding impairment loss and write-off recognised in 2018.

Revenue

The Group's revenue consists of construction services under a service concession arrangement, admission ticket sales, attraction ticket sales and bubble hotels business. Revenue for the full year decreased 63.8% to \$504,304 in 2018 compared with amount \$1,391,549 in 2017, mainly due to no rebate being paid to travel agencies for group tourists, resulting in a significant reduction in the revenue from group tourists; in this year, there was almost no external promotion and publicity, resulting in a reduction in the number of individual tourists.

Revenues from admission ticket sales decreased 70.5% to \$152,225 in 2018 compared with amount \$515,578 in 2017. In 2017, traffic facilities in Chengdu to Moxi were greatly improved, and convenient for tourists to enter scenic spots. The main reason for the decrease in 2018, again is mainly due to no rebate being paid to travel agencies for group tourists, resulting in a significant reduction in the revenue from group tourists; in this year, there was almost no external promotion and publicity, resulting in a reduction in the number of individual tourists.

Revenues from attraction ticket sales recorded an approximately 60.69% reduction which reflected in revenues resulting from the decrease in number of visitors.

In 2018, the decrease in admission ticket sales and attraction ticket sales are mainly caused by few reasons as follow:

- 1) No rebate being paid to travel agencies in 2018, resulting in a significant reduction in the number of group tourists.
- 2) The lack of promotion and publicity in 2018 has reduced the number of individual visitors.

Operating Expenses

Marketing expenses were \$0.71 million in 2018, a substantial decrease of 19.2% from the same period in 2017. The Group's decreased marketing program spending is mainly caused by the factor that in 2018, there was almost no external promotion and publicity, and the corresponding advertising costs were reduced. As the number of tourists declined, temporary employment was reduced accordingly; and better control for entertainment expense in 2018 compared with same period in 2017, thus, the entertainment expenses decreased by 86%.

Promotional expenses were \$5,919 in 2018, which was 96.9% lower than in 2017, as there was almost no external promotion and publicity of promoting Swallow Gully.

The promotional expenses to adjusted revenue ratio is a measurement of the effectiveness of our advertising campaign and depends on several factors such as the competitive rivalry, business size, and its growth stage. This ratio will fluctuate in any given period depending on the timing of program spending. Promotional expenses were 0% of adjusted revenue in 2018 as compared to 13.8% of adjusted revenue in 2017.

Administrative expenses were \$2.55 million in 2018, which was 22.4% lower than in 2017. The decrease in spending was mainly due to the reduction of staff and resignation of former executives.

Administrative expenses were 505.1% of revenue in 2018 as compared to 235.9% in 2017. The increase has been the result of higher net loss.

2019 Outlook: Repositioning of business focus and completing the preliminary offering of vacation package

For the year 2019, our management suggests to change of current scenic area's service concept and product offering, we are going to create a diversified tourism experience, as well as promoting a new tourism style. Under this world class environmental resources and the distinct culture of Kangba, we aim to create an international vacation resort -- Swallow Gully tourism cultural resort of Gongga Mountain, China.

In order to facilitate such change, our product offering and marketing efforts will focus on the followings:

Operation and marketing: our main target tourists are the parent-child family as well as middle-aged and young people with middle and high income such as the white-collar. These people, who have both the power of consumption and influence, are the future marketing target group of our scenic area.

In operation, we will mainly focus on providing resort service, to meet the tourists' demand for the high mountain vacation. As well as encouraging add-on sales, to improve the overall income of the scenic area.

Product offering: The Company positions the scenic area as Swallow Gully tourism cultural resort of Gongga Mountain, highlighting the tourism and vacation aspects. The scenic area is a high mountain resort town, with wild resort hotels, catering, the outdoor recreation, science and natural education providing to kids, and sightseeing. Therefore, in 2019, the bubble hotel will be reconstructed, we will establish some restaurants, create outdoor parent-child products, and improve the IT system of scenic area, so that tourists can experience a unique vacation experience.

Factors Affecting Results of Operations

Foreign Currency

Majority of the Group's revenue and expenses are denominated in Renminbi ("RMB") and generated through its wholly owned operating subsidiary, Gongga Terraferma Limited ("Gonga"), a company incorporated under the laws of the PRC, which is the developer and operator of Swallow Gully. Meanwhile, some of the Group's expenses are denominated in Hong Kong dollars ("HKD") and generated through its wholly owned subsidiary, Merit Sign Investments Limited ("Merit Sign"), a company incorporated in Hong Kong, which provides management services to the Group. Accordingly, the results of operations are impacted by the fluctuation of RMB and HKD against Canadian dollars ("CAD"). The average exchange rate of RMB against CAD for the years ended December 31, 2018 and 2017 was RMB 1 = CAD 0.1962 and RMB 1 = CAD 0.1920 respectively. While that for HKD against CAD for the years ended December 31, 2018 and 2017 was HKD 1 = CAD 0.1653 and HKD 1 = CAD 0.1661 respectively.

Seasonality

The tourism business is seasonal in nature. Based on historical results, we generally expect our revenue to be lower during the first calendar quarter of each year than during each of the three subsequent quarters, with the second and third quarters producing the strongest revenue of the year.

Selected annual information

The financial results of the Group for the financial years ended December 31, 2018, 2017 and 2016 are summarized as follows:

	For the financial year ended and as at Dec 31, 2018	For the financial year ended and as at Dec 31, 2017	For the financial year ended and as at Dec 31, 2016
	\$	\$	\$
Total Revenue	504,304	1,391,549	1,647,025
Loss before tax			
(i) Total for the year	3,479,786	30,232,880	4,309,795
(ii) per share - basic	0.05	0.45	0.07
(iii) per share - fully diluted	0.05	0.45	0.07
Net Loss			
(i) Total for the year	3,479,786	30,232,880	4,263,282
(ii) per share - basic	0.05	0.45	0.07
(iii) per share - fully diluted	0.05	0.45	0.07
Total Assets	6,001,732	9,294,616	37,766,715
Total Non-current Liabilities	-	-	2,075,712
Distributions or Cash Dividends declared per-share	Nil	Nil	Nil

Results of Operations – Year Ended December 31, 2018 compared to December 31, 2017

Revenue

	For the year ended December 31,			
	2018	% of Total	2017	% of Total
	\$		\$	
Construction services under a service concession arrangement	-	-	-	-
Admission ticket sales	152,225	30.2%	515,578	37.1%
Attraction ticket sales	340,980	67.6%	867,303	62.3%
Others	11,099	2.2%	8,668	0.6%
Total	504,304	100.0%	1,391,549	100.0%
Less:				
Construction services under a service concession arrangement	-		-	
Adjusted total	504,304		1,391,549	
Number of visitors	27,005		102,003	
Spending per visitor	19		14	

For the year ended December 31, 2018, total revenue was 63.8% lower than last year, as the Company earned revenue from the tickets sales of \$1,382,881 last year.

Revenue from construction services was accounted for in accordance with IFRS 15 *Revenue from Contracts with Customers* (see note 4 to the audited consolidated financial statements). As such, the revenue and cost from construction services were offset with each other. No revenue from construction services were recognised for the years ended December 31, 2018 and 2017. The total revenue was \$504,304 for the year ended December 31, 2018 compared to \$1,391,549 for the same period in the prior year, reflecting a decrease of \$887,245. The decrease was attributed to the decrease in the number of visitors.

Swallow Gully attracted 27,005 visitors for the year ended December 31, 2018, compared to 102,003 visitors for the same period in the previous year. The decrease was mainly due to no rebate was paid for group travel agencies in 2018, resulting in a significant reduction in the number of group tourists; also there was almost no external promotion and publicity, resulting in a reduction in the number of individual tourists.

The spending per visitor for the year ended December 31, 2018 was \$19, compared to \$14 for the same period in the previous year. It was expected to use the price adjustment strategy to stabilize the number of visitors, to remain competitive.

Cost of Sales/Services

	For the year ended December 31,			
	2018	% of Total	2017	% of Total
	\$		\$	
Provision of construction services under a service concession arrangement	-	-	-	-
Amortization of intangible assets	-	-	258,657	11.6%
Depreciation	52,524	9.6%	655,735	29.4%
Salary	229,349	42.1%	315,470	14.1%
Insurance expenses	56,278	10.3%	73,001	3.2%
Transportation	49,286	9.0%	217,830	9.8%
Sales rebate and others	157,338	29.0%	710,761	31.9%
Total	544,775	100.0%	2,231,454	100.0%
Less:				
Provision of construction services under a service concession arrangement	-		-	
Adjusted total	544,775		2,231,454	

The cost of sales/services decreased by 75.6% to \$544,775 for the year ended December 31, 2018, compared to \$2,231,454 in the previous year. This was mainly because of the decrease in the depreciation, in last year, certain fixed asset had been impaired and write-off so no any depreciation in cost of sales/services. Excluding this portion, the adjusted cost of sales/services decreased by \$1,686,679 to \$544,775 for the year ended December 31, 2018, compared to \$2,231,454 for the same period in the year prior.

The more notable components of the year-over-year change in cost of sales/services included:

- For the year ended December 31, 2018, sales rebate and other expenses of \$0 decreased by \$546,118 or 100% from the year ended December 31, 2017.
- For the year ended December 31, 2018, depreciation of \$52,524 decreased by \$603,211 or 92% from the year ended December 31, 2017.

Gross Loss

	For the year ended December 31,		
	2018	2017	Increase (decrease)
	\$	\$	
Gross loss	40,471	839,905	-95.2%

The gross loss decreased by 95.2% to \$40,471 for the year ended December 31, 2018 as compared to \$839,905 for prior year.

Other Income

	For the year ended December 31,		
	2018	2017	Increase (decrease)
	\$	\$	
Other income	181,898	131,852	38.0%

Other income consists of imputed interest income on advances to a local authority, Hailuogou Authority (see note 10 to the audited consolidated financial statements), which was advanced in prior years, bank interest income, interest income from structured deposits and sundry income. For the year ended December 31, 2018, other income increased by \$50,046 or 38.0% compared to the same period in the last year, representing the interest income derived from structured deposits increased during the current year.

Marketing Expenses

	For the year ended December 31,		
	2018	2017	Increase (decrease)
	\$	\$	
Promotional activities	5,919	192,428	-96.9%
Staff costs and others	705,091	687,749	2.5%
Total	711,010	880,177	-19.2%

Marketing expenses decreased 19.2% to \$711,010 for the year ended December 31, 2018, compared to last year. The decrease was mainly due to there was almost no external promotion and publicity in 2018. During the year ended 2018, no any external promotion leads decrease of visiting numbers.

Other Gain and Loss

	For the year ended December 31,		
	2018	2017	Increase (decrease)
	\$	\$	
Other gain and (loss)	-262,636	142,795	-283.9%

In the current year, we recorded foreign exchange loss of \$173,220 as compared to a gain of \$142,795 for the last year. In 2018, other gain and loss comprises net foreign exchange gain or loss of \$173,220 and fair value loss on advances to a local authority of \$89,416. The year over year less in foreign exchange gain and loss is principally due to the result of devaluation of RMB in relation to CAD and HKD throughout 2018.

Administrative Expenses

	For the year ended December 31,		
	2018	2017	Increase (decrease)
	\$	\$	
Administrative expenses	2,547,803	3,282,770	-22.4%

Administrative expenses primarily consist of director fees, professional fees, salaries and benefits, hydro and electricity and entertainment expenses.

Administrative expenses decreased by 22.4% to \$2,547,803 for the year ended December 31, 2018 from \$3,282,770 for the same period in 2017. The decrease was mainly due to the reduction of staff and resignation of former executives.

Net Loss

	For the year ended December 31,		
	2018	2017	Increase (decrease)
	\$	\$	
Net loss	3,479,786	30,232,880	-88.5%
Less:			
Non-cash unrealized exchange gain/ (loss)	-262,636	142,795	
Fair value loss on advances to a local authority	-89,416	-	
Impairment loss recognised in respect of intangible asset arising from a service concession arrangement	-	-7,770,223	
Write-off in respect of property, plant and equipment	-	-7,471,811	
Impairment loss recognised in respect of property, plant and equipment	-	-10,163,037	
Adjusted net loss	3,127,734	4,970,604	-37.1%

Net loss decreased by 88.5% to \$3,479,786 for the year ended December 31, 2018, compared to last year. The decrease was mainly due to the impairment losses recognised in respect of intangible asset arising from a service concession arrangement and property, plant and equipment and the write-off in respect of property, plant and equipment that were recorded in 2017 but no further impairment and write-off in respect of property, plant and equipment in 2018. Excluding the foreign exchange gain or loss and impairment losses and write-off of Property, plant and equipment, the adjusted net loss decreased by 37.1% to \$3,127,734 for the year ended December 31, 2018, compared to the same period of prior year. The decrease was mainly due to the reduction of staff and resign of former executives.

Starting from Q3 of year 2017, our Group has changed management team. After careful analysis and projection, our Group recognised impairment losses in respect of intangible asset arising from a service concession arrangement and property, plant and equipment and the write-off in respect of property, plant and equipment, which lead our Group incur obvious loss for the year ended December 31, 2017.

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Group's financial commitments and obligations as they fall due. The Group believes that it has sufficient working capital to fulfill its obligations in 2019. The Group's main source of funds is from sales of admission and attraction ticket, while the use of funds is primarily for its operation.

At present, there are no known commitments, contingent liabilities or uncertainties that would adversely affect the trends and expected fluctuations in the Group's liquidity.

	For the year ended December 31,	
	2018	2017
	\$	\$
Net cash used in operating activities	(3,342,189)	(3,453,289)
Net cash used in investing activities	1,947,100	(3,158,195)
Net cash from financing activities	(49,572)	1,496,277
Effects of foreign exchange rate changes on cash	37,218	(29,040)
Net decrease in cash	(1,407,443)	(5,144,247)
Working capital	(2,003,536)	1,164,932

The net cash used in investing activities for the year ended December 31, 2018 consists of the acquisition of property, plant and equipment in the amount of \$9,232 and placement of structured deposit amount of \$4,708,028, offset by the bank interest income of \$11,022 and redemption of structured deposits of \$6,471,622. The property, plant and equipment included attractions and improvement, motor vehicles and others (see note 6 to the audited consolidated financial statements). The net cash from investing activities for the same period in 2017 was the bank interest income of \$13,428, offset by the acquisition of property, plant and equipment in the amount of \$768,193.

The net cash used in financing activities for year ended December 31, 2018 was the interest paid to related parties. In 2017, the net cash from financing activities for the year ended December 31, 2017 merely represented the net proceeds from the private placement financing.

Effects of foreign exchange rate changes on cash representing the unrealized exchange gain (loss) arising on translation of bank balance of foreign subsidiaries, of which the functional currency is other currencies than CAD, the Group's presentation currency.

Working capital decreased from \$1,164,932 as at December 31, 2017 to negative \$2,003,536 as at December 31, 2018 mainly due to the continued operating loss.

Capital Expenditures

The Group's capital expenditures primarily relate to its investment in the property, plant and equipment required in its business operations. The management expects to obtain equity funding by private placing in the future for capital expenditures.

Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

Related Party Balances and Transactions

As at December 31, 2018, the Group had a current balance due to a shareholder, CN Lifestyle Limited, in the amount of nil (2017: \$66,440).

As at December 31, 2018, the Group had a current balance due to a related party and loan from a related party, Chong's Family, in the amount of \$99,764 (2017: \$33,164) and \$2,059,435 (2017: \$1,928,689), respectively.

As at December 31, 2018, the Group had a current balance due to a related party who is the spouse of a director of the Company, in the amount of \$6,611 (2017: \$nil).

The Group had the following transactions with a shareholder and related parties:

	For the year ended December 31,	
	2018	2017
	\$	\$
Interest expenses to a shareholder	-	66,440
Interest expenses to related parties	99,764	33,164
Management fee payable to a related party	-	31,347
Consultancy fee expense to a related party	82,230	-

Financial Instruments and Other Instruments

The Group held cash of \$1.2 million and structured deposits of \$0.5 million on its audited consolidated statement of financial position as at December 31, 2018 and does not have any other cash equivalents or invested assets. The Group does not currently utilize any other instruments such as derivative financial instruments to reduce its exposure. All of the Group's financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost.

The Group, through its financial instruments, is exposed to various risks as discussed below.

Currency risk

The Group's foreign currency risk exposure is mainly derived from bank balances, amounts due to a related parties and loan from related parties denominated in foreign currency. The management monitors foreign exchange fluctuation by closely monitoring the movement of foreign currency rate. The carrying amounts of the Group's foreign currency denominated bank balances were \$0.0075 million and \$0.24 million as at December 31, 2018 and 2017 respectively, and liabilities were \$2.2 million and \$2.0 million as at December 31, 2018 and 2017 respectively.

Management expects market forces are exerting strong pressure on the RMB to depreciate against CAD, drop 2% in 2018. Management will closely monitor the trend depreciation of the RMB and assessing its relevant impact on our performance, will consider the currency hedging should the need arises.

Interest rate risk

Fluctuation in interest rate could impact the results of operations of the Group. The Group is exposed to cash flow interest rate risk in relation to the bank balances and loan from related parties. Interest rate risk is concentrated on the fluctuation of the Hong Kong Prime rate for all periods presented. The Group currently does not have any interest rate hedging policy in relation to cash flow interest rate risks. Management monitors this risk on ongoing basis and will consider hedging interest rate should the need arises.

Credit risk

As at December 31, 2018 and 2017, the balance that is subject to significant concentration of credit risk is the advances to a local authority. Management of the Group considered the credit risk on this balance is limited because Gongga had entered into a 40-year service concession arrangement with the local authority in 2007 (see note 5 to the audited consolidated financial statements). As at December 31, 2018 and 2017, the Group's maximum exposure to credit risk which will cause financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the Group applies internal credit rating for the advances to a local authority. The estimated loss rates are estimated with reference to external credit rating adjusted by a premium on probability of default rate and forward-looking information that is available without undue cost or effort. The directors consider that the credit risk of the advances to a local authority are insignificant after the assessment.

Outstanding Shares and Share Options Information

As at December 31, 2018 and at the date of this MD&A, the Company had 72,077,073 common shares, 320,000 share options for a total of 72,397,073 fully diluted common shares outstanding. As at December 31, 2017, the Company had 72,077,073 common shares, 355,000 share options for a total of 72,432,073 fully diluted common shares outstanding.

Critical Accounting Policies and Estimates

This MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2018 and 2017 of the Group. Note 4 to the audited consolidated financial statements outlines the significant accounting principles and policies used to prepare these consolidated financial statements. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

The key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost or revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recognised. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets or cash-generating unit. For any instance where this evaluation process indicates impairment, the relevant asset's carrying value would be written down to the recoverable amount and the amount of the write-down would be charged against the revaluation reserve in other comprehensive income or profit or loss, according to the accounting policies of the Group.

For the year ended December 31, 2017, impairment losses of \$10,163,037 and write-off of \$7,471,811 was recognised in the consolidated statement of profit or loss in respect of property, plant and equipment. No further impairment loss and write-off was made during the year ended December 31, 2018.

As at December 31, 2018, the carrying value of the property, plant and equipment was \$1,709,030 (2017: \$1,820,564).

Fair value measurement of financial instruments

The structured deposits amounting to \$584,761 as at December 31, 2018 (\$2,403,430 as at December 31, 2017) are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments.

Provision of ECL for advances to a local authority

For the year ended December 31, 2018, the Group performed impairment assessment on advances to a local authority and concluded that the probability of defaults of the local authority is insignificant and accordingly, no allowance for credit losses is provided.

As at December 31, 2018, the carrying amount of advances to a local authority is \$2,042,459 (2017: \$2,014,733).

Amortization and impairment assessment of concession intangible asset

Amortization of concession intangible asset is calculated using straight-line basis over the period which commences from the date when the part of the tourist attraction site is available for use. The estimation of the

useful life impacts the level of annual amortization expense recorded. At the end of each reporting period, the management of the Group would estimate future cash flows generated by the concession intangible asset and determine whether there is any indication on impairment. If such indication exists, the recoverable amount of the concession intangible asset would be estimated and the carrying amount of concession intangible asset would be written down to the recoverable amount and the amount of the write-down would be charged against the results of operations. Intangible asset arising from a services concession arrangement of \$7,770,223 is fully impaired during the year ended December 31, 2017.

Risk Factors

Due to the nature of its business, an investment is considered highly speculative by the Group. Such investment will be subject to certain material risks and investors should not invest in the Group unless they can afford to lose their entire investment. The following is a description of certain risks and uncertainties that may affect the business of the Group. Readers should be aware that this list is not a definitive list of all risk factors associated with an investment in the Group.

Unfavorable weather conditions

The Group's ability to attract visitors to Swallow Gully is influenced by weather conditions. Adverse weather conditions may discourage visitors to participate in outdoor activities at Swallow Gully. Prolonged periods of adverse weather conditions (including, severe winters, prolonged rain, fog and snow, sandstorms, or other conditions resulting from changes in climate attributable to greenhouse gases) could have a material adverse effect on the Group's financial condition and results of operation.

Natural disasters

The Group's operation of Swallow Gully will be adversely affected by natural disasters such as earthquakes or landslides. Swallow Gully is located in Sichuan Province of the PRC, which is an area prone to earthquakes, landslides and other natural disasters. If any of these natural disasters takes place in or near Swallow Gully, it may damage existing infrastructure in Swallow Gully, affect the operations of the Swallow Gully, postpone the planned development or construction of construction projects, and reduce the number of visitors to the Swallow Gully. In 2009, there was a landslide that occurred in the Swallow Gully and Gongga was required to remedy the effects caused by the landslide. Therefore, a natural disaster taking place in or near Swallow Gully may force the Group to suspend its operations for an indefinite period and cause the Group to incur additional expenditures, for which the Group is currently unable to obtain adequate insurance, and give rise to a material adverse effect on its financial condition and results of operation.

Competition from nearby scenic tourism areas

The Group faces competition from nearby scenic tourism areas. There are a number of AAAAA and AAAA scenic tourism areas in western and northern Sichuan, including the Hailuo Valley scenic area. Located approximately 30 minutes away from Swallow Gully, Hailuo Valley is the oldest commercial scenic park near Gongga Mountain and operates a 3.5 km cable car facility. Hailuo Valley attracted numerous tourists every year. Hailuo Valley Administration is the governmental agency that has jurisdiction over both the Hailuo Valley scenic area and Swallow Gully. Management believes that the success of Hailuo Valley's operation may be beneficial to Swallow Gully and that it may benefit from Hailuo Valley's experience in administering Hailuo Valley and the potential for sharing certain infrastructure owned or operated by the Hailuo Valley Administration. However, due to proximity and relative similarity, there will be competition between Hailuo Valley and Swallow Gully for tourists and the resources of Hailuo Valley Administration, and Swallow Gully may be disadvantaged in such competition as a new and less developed entrant into the market.

Changes in Chinese laws and regulations

Gongga is subject to a wide variety of laws and regulations relating to scenic area administration, natural reserve area protection, land use and development, and environmental compliance and permitting obligation. Such laws and regulations could change in a manner that materially and adversely affects the Group's ability to conduct its business and to implement desired expansions and improvements to its facilities.

Changes in Hong Kong laws and regulations

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the above amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and IAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- revenue from admission ticket sales
- revenue from attraction ticket sales

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 18 and 4, respectively.

Summary of effects arising from initial application of IFRS 15

The directors of the Company reviewed and assessed the Group's sources of revenue as at January 1, 2018 based on the facts and circumstances that existed at that date. The initial application of IFRS 15 has had no material impact on the consolidated financial statements of profit or loss and other comprehensive income of the Group with regards to the revenue recognition.

3.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the

classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and contract assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the structured deposits, as these financial assets are required to be measured at FVTPL under IFRS 9. As a result, these structured deposits totalling \$2,403,430 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

The directors of the Company reviewed and assessed the Group's financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. Except as described above, the initial application of IFRS 9 has had no material impact on classification and measurement of financial assets in these consolidated financial statements.

New and Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	Leases ¹
IFRS 17	Insurance Contracts ³
IFRIC 23	Uncertainty over Income Tax Treatments ¹
Amendments to IFRS 3	Definition of a Business ⁴
Amendments to IFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IAS 1 and IAS 8	Definition of Material ⁵
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle ¹

¹ Effective for annual periods beginning on or after January 1, 2019.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after January 1, 2021.

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.

⁵ Effective for annual periods beginning on or after January 1, 2020.

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of \$127,073 as disclosed in note 24. These arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of \$16,621 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elects the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. In addition, the Group elects the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on January 1, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Additional Information

Additional information relating to the Group can also be found on SEDAR at www.sedar.com.