



China International Development Corporation Limited
中聯發展控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 0264

2023
INTERIM REPORT



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Zhao Jingfei (*Chairman*)
Mr. Fan Xin (*Chief Executive Officer*)
Mr. Qin Bohan

Independent Non-executive Directors

Ms. Han Yu
Ms. Jia Lixin
Mr. Rong Yi

COMPANY SECRETARY

Mr. Chan Tsang Mo

AUDIT COMMITTEE

Ms. Han Yu (*Committee Chairlady*)
Ms. Jia Lixin
Mr. Rong Yi

NOMINATION COMMITTEE

Mr. Zhao Jingfei
(*Committee Chairman*)
Ms. Han Yu
Ms. Jia Lixin
Mr. Rong Yi

REMUNERATION COMMITTEE

Mr. Rong Yi (*Committee Chairman*)
Mr. Fan Xin
Ms. Han Yu
Ms. Jia Lixin

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 26
39 Queen's Road Central
Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd.
Hong Kong Branch
Nanyang Commercial Bank Limited
Bank of China (Hong Kong) Limited

AUDITOR

Ascenda Cachet CPA Limited
Certified Public Accountants

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

LEGAL ADVISER ON HONG KONG LAW

Li & Partners

CORPORATE INFORMATION

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D, P.O. Box 1586
Gardenia Court, Camana Bay
KY1-1100, Cayman Islands

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Tricor Investor Service Limited
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16 Harcourt Road
Hong Kong

COMPANY WEBSITE

www.irasia.com/listco/hk/cidc/index.htm

STOCK CODE

264

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited

Operating results

Revenue (HK\$'000)	16,914	19,614
Gross profit (HK\$'000)	4,856	5,324
Gross profit margin (%)	28.7	27.1
Loss before tax (HK\$'000)	(8,175)	9,856
Loss for the period (HK\$'000)	(8,443)	9,856
Basic loss per share (HK cents)	(2.20)	2.58

	As at	As at
	30 June	31 December
	2023	2022
	Unaudited	Audited

Total assets (HK\$'000)	20,396	30,582
Deficiency in assets attributable to equity shareholders of the Company (HK\$'000)	(52,769)	(46,016)

Business performance ratios

Current ratio (times)	0.19	0.31
Quick ratio (times)	0.09	0.21

The Board (the “**Board**”) of Directors (the “**Director(s)**”) of China International Development Corporation Limited (the “**Company**”) hereby announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2023 (the “**Reporting Period**”), together with the comparative figures for 2022, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		Unaudited	Unaudited
		HK\$'000	HK\$'000
Revenue	5	16,914	19,614
Cost of sales		(12,058)	(14,290)
Gross profit		4,856	5,324
Other income		34	327
Other losses	6	(896)	(1,519)
Selling and distribution costs		(1,032)	(2,252)
Administrative and other operating expenses		(9,710)	(10,719)
Reversal of impairment/(impairment) of trade receivables	14	41	(19)
Finance costs	7	(1,468)	(1,036)
Loss before tax	8	(8,175)	(9,856)
Income tax expense	9	(268)	–
Loss for the period attributable to owners of the Company		(8,443)	(9,856)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
Notes	HK\$'000	HK\$'000
Other comprehensive income		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
– Exchange differences arising on translation of operations outside Hong Kong	278	922
Other comprehensive income for the period	278	922
Total comprehensive income for the period attributable to owners of the Company	(8,165)	(8,934)
Loss per share attributable to owners of the Company		
– Basic and diluted	11 (2.20) HK cents	(2.58) HK cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		As at 30 June 2023 Unaudited HK\$'000	As at 31 December 2022 Audited HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	12	3,705	4,370
Right-of-use assets	13	5,561	7,187
Deposits paid		818	1,194
Total non-current assets		10,084	12,751
Current assets			
Inventories		5,153	5,718
Trade receivables	14	2,009	7,943
Prepayments, deposits and other receivables		1,554	1,407
Tax recoverable		–	268
Cash and cash equivalents		1,596	2,495
Total current assets		10,312	17,831
Current liabilities			
Trade payables	15	5,459	7,032
Other payables and accruals		22,603	21,682
Due to a director	16	44	–
Due to ultimate controlling shareholder	16	8,725	9,135
Due to a related company	16	1,627	1,702
Loan from a director	17	8,000	8,000
Loans from ultimate controlling shareholder	18	4,428	4,863
Lease liabilities	13	3,947	4,326
Total current liabilities		54,833	56,740

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	As at 30 June 2023 Unaudited HK\$'000	As at 31 December 2022 Audited HK\$'000
<i>Notes</i>		
Net current liabilities	(44,521)	(38,909)
Total assets less current liabilities	(34,437)	(26,158)
Non-current liabilities		
Loan from ultimate controlling shareholder	18 13,899	14,139
Lease liabilities	13 4,433	5,719
Total non-current liabilities	18,332	19,858
Net liabilities	(52,769)	(46,016)
Deficiency in assets		
Share capital	19 3,827	3,827
Reserves	(56,596)	(49,843)
Total deficiency in assets	(52,769)	(46,016)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Share capital	Share premium	Capital reserve	Translation reserve	Statutory and discretionary reserve	Accumulated losses	Total
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
At 1 January 2022	3,827	77,760	1,397	2,854	5,249	(121,622)	(30,535)
Total comprehensive income for the period	-	-	-	922	-	(9,856)	(8,934)
Notional interest of interest-free loans provided by ultimate controlling shareholder (note 18)	-	-	1,070	-	-	-	1,070
At 30 June 2022	3,827	77,760	2,467	3,776	5,249	(131,478)	(38,399)
At 1 January 2023	3,827	77,760	4,525	3,181	5,249	(140,558)	(46,016)
Total comprehensive income for the period	-	-	-	278	-	(8,443)	(8,165)
Notional interest of existing interest-free loans extension provided by ultimate controlling shareholder (note 18)	-	-	1,412	-	-	-	1,412
At 30 June 2023	3,827	77,760	5,937	3,459	5,249	(149,001)	(52,769)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash from operating activities	2,115	955
Net cash from/(used) in investing activities	7	(7)
Net cash used in financing activities	(3,083)	(1,063)
Net decrease in cash and cash equivalents	(961)	(115)
Cash and cash equivalents at the beginning of the period	2,495	1,469
Effect of foreign exchange rate changes on cash and cash equivalents	62	278
Cash and cash equivalents at the end of the period	1,596	1,632

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

China International Development Corporation Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is principally engaged in (i) manufacturing and distribution of leather products; (ii) retail of fashion apparel, footwear and leather accessories; and (iii) industrial hemp planting and production of hemp fabric products. There was no significant change in the nature of the Group’s principal activities during the interim period.

The directors (the “**Director(s)**”) of the Company considered that Waterfront Holding Group Co., Ltd. (“**Waterfront**”), a company incorporated in the British Virgin Islands (the “**BVI**”) with limited liability, is the holding company of the Company and its ultimate controlling shareholder is Mr. Zhao Jingfei (“**Mr. Zhao**”), an executive Director and Chairman of the Company. The registered office of Waterfront is located at Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, BVI.

The unaudited interim condensed consolidated financial statements (the “**Interim Financial Statements**”) are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Group and all values are rounded to the nearest thousand except when otherwise indicated. The Interim Financial Statements, which have not been audited, have been approved and authorised for issue by the board (the “**Board**”) of Directors on 31 August 2023.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

(a) Statement of compliance

The Interim Financial Statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The Interim Financial Statements contain interim condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the consolidated financial statements for the year ended 31 December 2022 (the “**2022 Annual Financial Statements**”). The Interim Financial Statements and notes thereon do not include all the information and disclosures required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), and should be read in conjunction with the 2022 Annual Financial Statements.

(b) Basis of measurement

These Interim Financial Statements have been prepared on the historical cost basis.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION *(Continued)*

(c) Going concern basis

The Group (i) incurred a loss of approximately HK\$8,443,000 for the six months ended 30 June 2023 and had net current liabilities and deficiency in assets of approximately HK\$44,521,000 and HK\$52,769,000, respectively, as at 30 June 2023; and (ii) only had cash and cash equivalents of approximately HK\$1,596,000 as at 30 June 2023 to meet its financial obligations as at that date. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In view of the above circumstances, the Directors have prepared a cash flow forecast of the Group and are satisfied that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for at least 12 months from 30 June 2023 after taking into account of the following measures (the “**Measures**”):

- (i) the Company has obtained a letter of undertaking from Mr. Qin Bohan (“**Mr. Qin**”), an executive Director, pursuant to which Mr. Qin agreed not to demand for repayment of (a) the loan from him with a principal amount of HK\$8,000,000; and (b) the amount due to him of approximately HK\$44,000 as at 30 June 2023 until the Company is in a position to do so. The loan and the amount due to Mr. Qin are interest-free, unsecured and have no fixed terms of repayment.
- (ii) in addition to the loan provided by Mr. Qin as stated above, the Company and Mr. Qin entered into another loan agreement on 28 August 2021, pursuant to which, Mr. Qin further granted an unsecured interest-free loan facility up to HK\$30,000,000 (the “**Director Facility**”) to the Company for a term of two years expiring on 27 August 2023. On 25 August 2023, the Company and Mr. Qin agreed to extend the expiry date of the Director Facility to 27 August 2025. None of the Director Facility has been utilised as at 30 June 2023 and the date of approving these Interim Financial Statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION *(Continued)*

(c) Going concern basis *(Continued)*

- (iii) Mr. Zhao had provided certain loans to the Group with aggregate principal amounts of RMB7,010,000, HK\$2,226,000 and US\$1,480,000 (equivalent to approximately HK\$21,330,000 in aggregate, the “**Shareholder Loans**”) as at 30 June 2023, out of which, aggregate outstanding loan principal amounts of RMB2,510,000 and HK\$2,226,000 (equivalent to approximately HK\$4,933,000 in aggregate) are repayable on or before June 2024 while the remaining loans with aggregate outstanding principal amounts of RMB4,500,000 and US\$1,480,000 (equivalent to approximately HK\$16,397,000 in aggregate) are due in 2025.
- (iv) in addition to the Shareholder Loans, the Company and Mr. Zhao entered into another loan facility agreement on 27 May 2020, pursuant to which, Mr. Zhao further granted an unsecured interest-free loan facility up to HK\$20,000,000 (the “**Shareholder Facility**”) to the Company for a term of two years. The expiry date of the Shareholder Facility has been extended for additional two years to 27 May 2024. None of the Shareholder Facility has been utilised as at 30 June 2023 and the date of approving these Interim Financial Statements.
- (v) the Company and an independent third party (the “**Lender**”) licensed under the Money Lenders Ordinance, entered into a loan facility agreement on 30 March 2023, pursuant to which, the Lender granted a loan facility up to HK\$30,000,000 (the “**External Financing Facility**”) to the Company for a term of 14 months, extendable to 26 months. Any amounts drawn down under the External Financing Facility will bear interest at 20% per annum and are unsecured. None of the External Financing Facility has been drawn down as at 30 June 2023 and the date of approving these Interim Financial Statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION *(Continued)*

(c) Going concern basis *(Continued)*

(vi) the Company has also obtained a letter of support from Mr. Zhao pursuant to which, Mr. Zhao agreed not to demand for repayment of (a) the Shareholder Loans and (b) other amount due to him of approximately HK\$8,725,000 as at 30 June 2023 until the Group is in a position to do so. Mr. Zhao has also confirmed his willingness to further extend the Shareholder Facility for further 24 months on its original expiry on 27 May 2024 if necessary, and to further provide for adequate financial resources as is necessary to enable the Group both to meet its financial obligation as and when they fall due and to carrying on its business for at least 24 months from 30 June 2023.

These Interim Financial Statements do not include any adjustments that would result from a failure to obtaining such financing to the Group under the Director Facility and the Shareholder Facility, undertakings and/or financial support from Mr. Zhao and Mr. Qin, and/or the External Financial Facility, which indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Should the Group be unable to continue in business as a going concern, adjustments would have been made to restate the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2022 Annual Financial Statements, except for the accounting policy changes that are required to be adopted in the consolidated financial statements for the year ending 31 December 2023. Details of these changes in accounting policies are set out below.

3.1 New and amended standards adopted by the Group

The Group has adopted the following new and revised HKFRSs for the first time for these Interim Financial Statements.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The application of the amendments in the current period had no significant impact on the Interim Financial Statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2023.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 New standards and amendments to standards issued but not yet effective for the accounting period beginning on 1 January 2023 and not early adopted by the Group

		Effective for accounting periods beginning on or after
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
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of making an assessment on the impact of these new standards and amendments to standards and preliminary results showed that their applications are not expected to have a material impact on the financial performance and the financial position of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. ESTIMATES

The preparation of the Interim Financial Statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

In preparing the Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2022 Annual Financial Statements.

5. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group consisted of (i) manufacturing and distribution of leather products (the “**Leather Manufacturing Business**”); (ii) retail of fashion apparel, footwear and leather accessories (the “**Leather Retail Business**”); and (iii) the industrial hemp planting and production of hemp fabric products (the “**Industrial Hemp Planting Business**”). However, the Industrial Hemp Planting Business did not form a separate reportable segment as it has not built its scale and was considered immaterial by the management of the Group.

The Group determines its operating segments based on the reports reviewed by the chief operating decision makers that are used to make strategic decisions.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

Leather Manufacturing Business	–	Manufacturing and distribution of leather products
Leather Retail Business	–	Retail of fashion apparel, footwear and leather accessories

The Group's senior executive management, being the chief operating decision maker, monitors the results of the Group's operating segments separately for the purpose of making decision about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income as well as corporate expenses are excluded from such measurement.

Segment assets exclude tax recoverable and unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated corporate liabilities as these liabilities are managed on a group basis.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

	Leather Manufacturing Business		Leather Retail Business		Total	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2023	2022	2023	2022	2023	2022
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	16,473	18,670	441	944	16,914	19,614
Inter-segment revenue	82	57	-	-	82	57
Reportable segment revenue <i>(Note (i))</i>	16,555	18,727	441	944	16,996	19,671
Reportable segment loss	(3,514)	(4,540)	(1,373)	(928)	(4,887)	(5,468)
Interest income					1	-
Unallocated corporate expenses <i>(Note (ii))</i>					(3,289)	(4,388)
Loss before tax					(8,175)	(9,856)
Income tax expense					(268)	-
Loss for the period					(8,443)	(9,856)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

	Leather Manufacturing Business		Leather Retail Business		Total	
	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December
	2023	2022	2023	2022	2023	2022
	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	18,884	27,533	1,539	2,220	20,423	29,753
Elimination of inter-segment assets					(599)	(147)
Tax recoverable					-	268
Unallocated corporate assets					572	708
Consolidated total assets					20,396	30,582
Reportable segment liabilities	18,249	20,212	42,865	42,218	61,114	62,430
Elimination of inter-segment liabilities					(41,105)	(40,652)
Unallocated corporate liabilities					53,156	54,820
Consolidated total liabilities					73,165	76,598

Notes:

- (i) Revenue from the Leather Manufacturing Business and the Leather Retail Business is recognised at a point in time when the control of the products has been passed to customers.
- (ii) The amount represented unallocated corporate expenses that are not allocated to operating segments, including professional fees, directors' emoluments, employee costs, foreign exchange loss and other head office expenses as well as the expenses incurred in the Industrial Hemp Planting Business.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER LOSSES

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Impairment loss on right-of-use assets	896	1,519

7. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest on lease liabilities	455	667
Imputed interest on loans from ultimate controlling shareholder (<i>note 18</i>)	1,013	369
	1,468	1,036

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. LOSS BEFORE TAX

Loss before tax is arrived at after (crediting)/charging:

	Six months ended 30 June	
	2023	2022
	Unaudited HK\$'000	Unaudited HK\$'000
Cost of inventories recognised as expenses	12,058	14,290
Depreciation of property, plant and equipment (<i>note (i)</i>)	492	700
Depreciation of right-of-use assets (<i>note (i)</i>)	1,393	1,881
Foreign exchange losses, net	233	879
Expenses relating to short term leases	42	158
Employee costs (excluding Directors' emoluments) (<i>note (i)</i>)	8,337	9,283
(Reversal of impairment)/impairment of trade receivables	(41)	19
Government subsidies	–	(8)
Interest income	(1)	–

Note:

- (i) Cost of inventories included approximately HK\$4,025,000 (six months ended 30 June 2022: approximately HK\$4,419,000) for the six months ended 30 June 2023 relating to employee costs, depreciation of property, plant and equipment and depreciation of right-of-use assets, which amounts are also included in the respective total amounts disclosed above for each of these types of expenses.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAX EXPENSE

Under the Hong Kong two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of one subsidiary of the Group, which is a qualifying group entity operating in Hong Kong, is taxed at 8.25%, and its remaining assessable profits is taxed at 16.5% during the six months ended 30 June 2023 and 2022. Other group entities operating in Hong Kong are taxed at 16.5%.

According to the relevant announcements of income tax relief policy for small low-profit enterprises issued by the State Administration of Taxation, a lower corporate income tax (“**CIT**”) rate is applicable to small scale enterprises with low profitability that meet certain conditions, pursuant to which, the subsidiaries qualified as small scale enterprises with assessable profits not over RMB3,000,000 are effectively taxable at 5% (i.e. 20% CIT rate on the 25% of the assessable profits) for the six months ended 30 June 2023. For the six months ended 30 June 2022, (i) the first RMB1,000,000 of assessable profits (the “**1st Assessable Profits**”) of these subsidiaries were effectively taxable at 2.5%; and (ii) the remaining assessable profits not over RMB3,000,000 (the “**Remaining Assessable Profits**”) were taxable at 5% (i.e. 20% CIT rate on 12.5% of the 1st Assessable Profits; and 20% CIT rate on the 25% of the Remaining Assessable Profits). For the other subsidiaries operating in the PRC, the CIT is taxed at the statutory rate of 25%.

No Hong Kong Profits Tax has been provided as the Group did not generate any assessable profits arising in Hong Kong or has available tax losses brought forward from prior years to offset the assessable profits generated for both periods. The provision for CIT in the PRC represents the write-off of tax recoverable in relation to the overprovision of CIT in respect of prior years during the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023 and 2022.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss for the period of HK\$8,443,000 (six months ended 30 June 2022: HK\$9,856,000) attributable to the owners of the Company and the weighted average number of 382,704,000 (six months ended 30 June 2022: 382,704,000) ordinary shares in issue during the six months ended 30 June 2023.

For the six months ended 30 June 2023 and 2022, no adjustment has been made to the basic loss per share amounts for the respective period in respect of a dilution as there is no potential dilutive ordinary share in issue for the six months ended 30 June 2023 and 2022.

12. PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment amounted to approximately HK\$5,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$7,000). Assets with a net book value of approximately HK\$11,000 were disposed by the Group during the six months ended 30 June 2023 (six months ended 30 June 2022: Nil), with no net gain or loss on disposal was resulted.

Leather Retail Business

As at 30 June 2023, the Directors considered that there were impairment indicators on certain of the property, plant and equipment (including leasehold improvements) (the "**Retail PPE**") and right-of-use assets (note 13) (the "**Retail ROA**") because of the substantial loss incurred by its Leather Retail Business during the six months ended 30 June 2023. Accordingly, the relevant items of the Retail PPE and Retail ROA in each of the retail shops of the Leather Retail Business are grouped together to constitute a cash generating unit (the "**Retail CGU**") for the purpose of the impairment assessment. The value in use (the "**2023 Retail Valuation**") of the Retail CGU as at 30 June 2023 have been determined by the Directors by using the discounted cashflow projection for a period covered from 2023 to 2024.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Leather Retail Business *(Continued)*

Based on the 2023 Retail Valuation, the recoverable amount of the Retail PPE and Retail ROA were estimated to be zero. An impairment loss of approximately HK\$896,000 (six months ended 30 June 2022: Nil) on the Retail ROA was recognised in the profit or loss for the six months ended 30 June 2023, and no write back of impairment loss on the fully impaired Retail PPE (six months ended 30 June 2022: Nil) was considered necessary for the six months ended 30 June 2023.

Leather Manufacturing Business

As at 30 June 2023, the Directors considered that there were impairment indicators on certain of the property, plant and equipment (including leasehold improvements) (the “**Manufacturing PPE**”) and right-of-use assets (note 13) (the “**Manufacturing ROA**”) because of the substantial loss incurred by its Leather Manufacturing Business during the six months ended 30 June 2023. Accordingly, the relevant items of the Manufacturing PPE and Manufacturing ROA of the Leather Manufacturing Business are grouped together to constitute a cash generating unit (the “**Manufacturing CGU**”) for the purpose of the impairment assessment. The value in use (the “**2023 Manufacturing Valuation**”) of the Manufacturing CGU as at 30 June 2023 has been determined by the Directors by using the discounted cashflow projection for a period covered from 2023 to 2024.

Based on the 2023 Manufacturing Valuation, the estimated recoverable amounts of the Manufacturing PPE & Manufacturing ROA were higher than their respective carrying amounts. No impairment loss on the Manufacturing PPE and the Manufacturing ROA is considered necessary (six months ended 30 June 2022: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. LEASES

During the six months ended 30 June 2023, the Group entered into a lease agreement to extend the lease of the existing leather workshop for a further term of 2 years (six months ended 30 June 2022: certain new lease agreements for office premises for terms of 2 years). Right-of-use assets and lease liabilities amounting to approximately HK\$896,000 were initially recognised during the six months ended 30 June 2023 (six months ended 30 June 2022: approximately HK\$3,255,000).

As detailed in note 12 to the Interim Financial Statements, the Group performed an impairment assessment on the Retail ROA and the Manufacturing ROA and an impairment loss of approximately HK\$896,000 on the Retail ROA was recognised during the six months ended 30 June 2023. No write back of previously impaired Retail ROA or further impairment (six months ended 30 June 2022: Nil) was considered necessary during the six months ended 30 June 2023 for the Manufacturing ROA.

In addition, the Directors further performed an impairment assessment on the right-of-use asset (the “**Corporate ROA**”) which was used by the Group as corporate head office because of the existence of impairment indicator resulted from the substantial loss incurred by the Group during the six months ended 30 June 2023. The recoverable amount of the Corporate ROA was determined by the Directors with reference to the value in use calculations, using the discounted cash flow projections from the latest financial budgets covering the lease terms. Based on the assessment, the recoverable amount of Corporate ROA was estimated to be zero. No write back of impairment loss on the previously fully impaired Corporate ROA (six month ended 30 June 2022: impairment of approximately HK\$1,519,000) was considered necessary for the six months ended 30 June 2023.

The operating lease commitments related to short-term leases for retail shops entered by the Group were approximately HK\$261,000 as at 30 June 2023 (31 December 2022: approximately HK\$576,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE RECEIVABLES

	As at 30 June 2023 Unaudited HK\$'000	As at 31 December 2022 Audited HK\$'000
Trade receivables	3,156	9,131
Less: Impairment loss	(1,147)	(1,188)
Net carrying amounts	2,009	7,943

No credit term is granted to customers of the Leather Retail Business. Customers of the Leather Manufacturing Business are generally granted with credit terms of 30 to 90 days from the date of invoice. The ageing analysis of trade receivables based on the invoice date (net of impairment loss) at the end of reporting period is as follows:

	As at 30 June 2023 Unaudited HK\$'000	As at 31 December 2022 Audited HK\$'000
Less than 30 days	1,360	3,833
31–60 days	574	2,317
61–90 days	75	1,631
91–120 days	–	20
121–365 days	–	142
More than 365 days	–	–
	2,009	7,943

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE RECEIVABLES *(Continued)*

The following table provides information about the Group's exposure to credit risk and the loss allowance for expected credit loss ("ECLs") for trade receivables as at 30 June 2023:

	Expected loss rate (%)	Gross carrying amount HK\$'000	Loss HK\$'000	Net carrying amount HK\$'000
Current (not past due)	0.13	1,996	(3)	1,993
1-30 days past due	1.41	16	-	16
31-60 days past due	N/A	-	-	-
61-90 days past due	N/A	-	-	-
91-365 days past due	100	21	(21)	-
Over 365 days past due	100	1,123	(1,123)	-
		3,156	(1,147)	2,009

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE RECEIVABLES *(Continued)*

The following table provides information about the Group's exposure to credit risk and the loss allowance for ECLs for trade receivables as at 31 December 2022:

	Expected loss rate (%)	Gross carrying amount HK\$'000	Loss HK\$'000	Net carrying amount HK\$'000
Current (not past due)	0.25	7,797	(20)	7,777
1–30 days past due	2.06	4	–	4
31–60 days past due	8.74	22	(2)	20
61–90 days past due	14.77	162	(24)	138
91–365 days past due	81.11	23	(19)	4
Over 365 days past due	100	1,123	(1,123)	–
		9,131	(1,188)	7,943

Expected credit losses are measured by using a provision matrix. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating). The calculation reflects the historical trade receivables loss rate, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking factors including forecasts of future economic conditions.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE RECEIVABLES *(Continued)*

Movements in the loss allowance for expected credit loss of trade receivables during the period is as follows:

	Six months ended 30 June 2023 Unaudited HK\$'000	Year ended 31 December 2022 Audited HK\$'000
Beginning of the period/year	1,188	1,148
(Reversal of)/provision for impairment loss	(41)	40
Balance at end of period/year	1,147	1,188

15. TRADE PAYABLES

Details of the ageing analysis of the trade payables based on the invoice date at the end of reporting period is as follows:

	As at 30 June 2023 Unaudited HK\$'000	As at 31 December 2022 Audited HK\$'000
Less than 30 days	853	2,697
31–60 days	572	2,045
61–90 days	743	1,244
91–120 days	1,495	654
121–365 days	1,284	22
More than 365 days	512	370
	5,459	7,032

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. DUE TO A DIRECTOR, ULTIMATE CONTROLLING SHAREHOLDER AND A RELATED COMPANY

The amount due to a director, namely Mr. Qin, amounting to HK\$44,000 (31 December 2022: Nil) is unsecured, interest-free and has no fixed terms of repayment. Mr. Qin has confirmed that he will not demand for repayment of the amount due to him until the Group is in a position to do so.

The amount due to the ultimate controlling shareholder, namely Mr. Zhao, amounting to HK\$8,725,000 (31 December 2022: HK\$9,135,000) is unsecured, interest-free and has no fixed terms of repayment. Mr. Zhao has confirmed that he will not demand for repayment of the amount due to him until the Group is in a position to do so.

The amount due to a related company, namely 北京盛茂坤科技產業發展有限公司, amounting to HK\$1,627,000 (31 December 2022: HK\$1,702,000) is unsecured, interest-free and has no fixed terms of repayment.

17. LOAN FROM A DIRECTOR

On 28 October 2019, the Company entered into a loan agreement with an executive Director, Mr. Qin, pursuant to which, Mr. Qin granted a loan of HK\$8,000,000 to the Company which is unsecured, interest-free and is repayable on demand. Mr. Qin has confirmed that he will not demand for repayment of the loan due to him until the Company is in a position to do so.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. LOANS FROM ULTIMATE CONTROLLING SHAREHOLDER

	Six months ended 30 June 2023 Unaudited HK\$'000	Year ended 31 December 2022 Audited HK\$'000
Beginning of the period/year	19,002	9,968
New loan agreements entered:		
Principal amount	–	11,544
Notional interest saving arising from the interest-free loans	–	(2,058)
Loan extension agreements entered:		
Notional interest saving arising from the interest-free loans	(1,412)	(1,070)
	17,590	18,384
Imputed interest charged	1,013	1,221
Exchange realignment	(276)	(603)
	18,327	19,002
Less: Current portion	(4,428)	(4,863)
	13,899	14,139

The Group entered into certain loan agreements with the ultimate controlling shareholder, Mr. Zhao, pursuant to which, Mr. Zhao granted certain interest-free loans to the Group with aggregate principal amounts of RMB7,010,000 (the “**RMB Loans**”), HK\$2,226,000 (the “**HK\$ Loans**”) and US\$1,480,000 (the “**US\$ Loans**”) (equivalent to approximately HK\$21,330,000 in aggregate, collectively the “**Shareholder Loans**”) as at 30 June 2023.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. LOANS FROM ULTIMATE CONTROLLING SHAREHOLDER *(Continued)*

The HK\$ Loans are repayable during January 2024 to June 2024 and were accounted for at amortised cost, using an effective interest rate of 8%. The US\$ Loans are repayable during July to August 2024 and were accounted for at amortised cost, using an effective interest rate of 10%.

Among the RMB Loans, an interest-free loan with an outstanding principal amount of RMB2,510,000 (equivalent to approximately HK\$2,707,000) is repayable on 30 June 2024 and was accounted for at amortised cost, using an effective interest rate of 14%. Pursuant to supplemental agreements entered on 10 March 2023, the terms of the remaining RMB Loans with aggregate outstanding principal amounts of RMB4,500,000 (equivalent to approximately HK\$4,853,000) were extended for additional two years to be repayable during March 2025 to June 2025 and were accounted for at amortised cost, using effective interest rates from 16% to 17%.

Mr. Zhao has confirmed that he will not demand for repayment of the Shareholder Loans until the Group is in a position to do so.

19. SHARE CAPITAL

Authorised and issued share capital

	Number of shares <i>(in thousands)</i>	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31 December 2022 (audited) and 30 June 2023 (unaudited)	2,000,000	20,000
Issued and fully paid:		
At 31 December 2022 (audited) and 30 June 2023 (unaudited)	382,704	3,827

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. COMMITMENTS

Other than the operating lease commitments disclosed in note 13 to the Interim Financial Statements, the Group had no significant commitments as at 30 June 2023 and 31 December 2022.

21. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2023 and 31 December 2022.

22. RELATED PARTY BALANCES AND TRANSACTIONS

Details of balances and transactions with related parties are disclosed elsewhere in the Interim Financial Statements.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the periods is as follows:

	Six months ended 30 June	
	2023	2022
	Unaudited HK\$'000	Unaudited HK\$'000
Short-term benefits	585	646
Post employment benefits	–	–
	585	646

23. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

For the six months ended 30 June 2023, the Group's revenue decreased by approximately 13.8% from approximately HK\$19,614,000 for the six months ended 30 June 2022 to approximately HK\$16,914,000. Gross profit decreased by approximately 8.8% from approximately HK\$5,324,000 for the six months ended 30 June 2022 to approximately HK\$4,856,000 for the six months ended 30 June 2023. The gross profit margin of the Group increased from approximately 27.1% for the six months ended 30 June 2022 to approximately 28.7% for the six months ended 30 June 2023. The decrease in revenue was a result of the impact of post-COVID and geopolitical tensions, the position of the manufacturing industry of the PRC having undergone major changes in the global supply chain and the reduction in overseas orders, leading to a decrease in revenue and gross profit of the Group.

Other income decreased by approximately 89.6% from approximately HK\$327,000 for the six months ended 30 June 2022 to approximately HK\$34,000 for the six months ended 30 June 2023. The decrease was mainly attributable to the absence of the one-off income including the COVID-19-related rent concessions and write-back of site restoration costs for the six months ended 30 June 2022.

Selling and distribution costs decreased by approximately 54.2% from approximately HK\$2,252,000 for the six months ended 30 June 2022 to approximately HK\$1,032,000 for the six months ended 30 June 2023. The decrease was primarily due to (i) the decrease in the number of retail shops, which reduced the expenses of shop rental and human resource, and (ii) the reduction of air freight cost as production schedule was no longer affected by the epidemic during the six months ended 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and other operating expenses decreased by approximately HK\$1,009,000 to approximately HK\$9,710,000 (six months ended 30 June 2022: approximately HK\$10,719,000) for the six months ended 30 June 2023. The decrease was mainly due to (i) the decrease in depreciation in right-of-use assets as the corporate's right-of-use assets had been fully impaired during the year ended 31 December 2022, and (ii) the decrease in employee costs for administrative and supporting staff.

Other losses decreased by approximately HK\$623,000 to approximately HK\$896,000 (six months ended 30 June 2022: approximately HK\$1,519,000) for the six months ended 30 June 2023. It comprises the impairment of the right-of-use assets of the leather retail business during the six months ended 30 June 2023 and the impairment of the corporate's right-of-use assets of the corporate head office during the six months ended 30 June 2022.

As a result of the above, the Group recorded a net loss attributable to the owners of the Company of approximately HK\$8,443,000 (six months ended 30 June 2022: approximately HK\$9,856,000) for the six months ended 30 June 2023. Loss per share for the six months ended 30 June 2023 was 2.20 HK cents (six months ended 30 June 2022: 2.58 HK cents).

BUSINESS REVIEW

During the six months ended 30 June 2023, the leather manufacturing and leather retail business segments accounted for approximately 97.4% (six months ended 30 June 2022: approximately 95.2%) and approximately 2.6% (six months ended 30 June 2022: approximately 4.8%) of the total revenue of the Group, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Leather Manufacturing Business

For the six months ended 30 June 2023, the Group's revenue from its Leather Manufacturing Business from external customers decreased by approximately 11.8% from approximately HK\$18,670,000 for the six months ended 30 June 2022 to approximately HK\$16,473,000. This was mainly due to the slow pace of recovery of global general economic situation and the geopolitical tensions, the position of the manufacturing industry of the PRC having undergone major changes in the global supply chain and the reduction in overseas orders.

Revenue analysis by geographic location:

	Six months ended 30 June			
	2023		2022	
	Unaudited HK\$'000	%	Unaudited HK\$'000	%
United States	7,222	43.8	9,890	53.0
Europe	3,215	19.5	3,665	19.6
Hong Kong	3,254	19.8	2,163	11.6
PRC	149	0.9	463	2.5
Others	2,633	16.0	2,489	13.3
	16,473	100.0	18,670	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue analysis by product category:

	Six months ended 30 June			
	2023		2022	
	Unaudited		Unaudited	
	HK\$'000	%	HK\$'000	%
Belts	15,052	91.4	16,991	91.0
Leather goods and other accessories	1,421	8.6	1,679	9.0
	16,473	100.0	18,670	100.0

The Group's Leather Manufacturing Business segment recorded an operating loss of approximately HK\$3,514,000 for the six months ended 30 June 2023, representing a decrease of approximately 22.6% from approximately HK\$4,540,000 operating loss for the six months ended 30 June 2022.

Leather Retail Business

The Group's revenue from its Leather Retail Business decreased by approximately HK\$503,000 to approximately HK\$441,000 (six months ended 30 June 2022: approximately HK\$944,000) for the six months ended 30 June 2023. Despite the re-opening of the border with the PRC and the relaxation of social distancing in the first quarter of 2023, continued economic weakness and coupled with a significant increase in outbound travel by Hong Kong residents resulted in the substantial decline in the Leather Retail Business during the six months ended 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue analysis by geographic location:

	Six months ended 30 June			
	2023		2022	
	Unaudited		Unaudited	
	HK\$'000	%	HK\$'000	%
PRC	–	–	69	7.3
Hong Kong	441	100.0	875	92.7
	441	100.0	944	100.0

As at 30 June 2023, the Group operated one AREA 0264 store and one Teepee Leather workshop in Hong Kong (30 June 2022: three AREA 0264 stores and one Teepee Leather workshop).

The Group's leather retail business segment recorded an operating loss of approximately HK\$1,373,000 (six months ended 30 June 2022: approximately HK\$928,000) for the six months ended 30 June 2023. The increase was mainly due to (i) the slow recovery of the overall economic conditions in Hong Kong and the PRC which affected the revenue in leather retail business, (ii) the absence of the one-off income of the COVID-19-related rent concessions, and (iii) the impairment of the retail's right-of-use assets during the six months ended 30 June 2023.

PROSPECT

The ongoing COVID-19 pandemic over the past three years has disrupted business activities and supply chains across industries and eroded consumption power. Although the worldwide COVID-19 containment measures, travel restrictions and mandatory quarantine requirements were eased during the Reporting Period, the economy did not experience a significant rebound as expected. In view of the worries about global economic outlook and the prolonged geopolitical risks among major economies, the Group expects that the second half of 2023 will remain challenging.

MANAGEMENT DISCUSSION AND ANALYSIS

With these challenges, the Group will remain cautious for its business development in the second half of 2023 as we expect the economic outlook to remain uncertain to predict in the short term; therefore, we will continue to look for areas where we can further improve operational efficiency and reduce costs. In the second half of the year, we will continue to create and promote our products to provide long-term value to customers and the industry.

Furthermore, the Group has also undertaken plans to diversify into the businesses of industrial hemp planting and hemp fabric product production (the “**Business Plan**”). Hemp fabric is made of fibres from industrial hemp, and is a type of textile which is antibacterial, strong and versatile, and fills in as a characteristic environment-adjusting framework that makes it desirable for both summer and winter. The Group has obtained the relevant permit to plant industrial hemp and rented a parcel of land in Yunnan for the trial cultivation of industrial hemp. The Group has also secured the provision of the industrial hemp seeds of Yunma No. 7* (雲麻7號) from the Institute of Economic Crops of the Yunnan Academy of Agricultural Science* (雲南省農業科學院經濟作物研究所). The Group is still in a preliminary development stage but is committed to experimental cultivation of industrial hemp. The Group looks forward to the successful trial planting and the ability to manufacture and produce hemp fabrics in the future.

The Board considers that the Business Plan, if materialised, could diversify the Group’s product portfolio and income streams, thereby improving its profitability in the long term.

The Group will continue to work with customers, shareholders and business partners for the sustainable social development and concurrently review its strategic business directions and operations with a vision to further mitigate loss and to maximise its shareholders’ value.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2023, the Group's cash and bank deposits were approximately HK\$1,596,000 as compared to approximately HK\$2,495,000 as at 31 December 2022.

The Group recorded total current assets of approximately HK\$10,312,000 as (31 December 2022: approximately HK\$17,831,000) at 30 June 2023 and total current liabilities of approximately HK\$54,833,000 (31 December 2022: approximately HK\$56,740,000) as at 30 June 2023. The decrease in total current assets was mainly due to the decrease in trade receivables and cash and cash equivalents. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 0.19 times (31 December 2022: approximately 0.31 times) as at 30 June 2023.

As at 30 June 2023, the Group had total assets amounting to approximately HK\$20,396,000 (31 December 2022: approximately HK\$30,582,000) and total liabilities of approximately HK\$73,165,000 (31 December 2022: approximately HK\$76,598,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 358.7% (31 December 2022: approximately 250.5%) as at 30 June 2023.

The drop in current ratio and the increase in gearing ratio were mainly resulted by the decrease of trade receivables and cash and cash equivalents during the Reporting Period.

The Group recorded deficiency in assets of approximately HK\$52,769,000 (31 December 2022: HK\$46,016,000) as at 30 June 2023, the increase was mainly attributable to the operating loss of the Reporting Period.

As detailed in note 2(c) to the unaudited interim condensed consolidated financial statements (the **"Interim Financial Statements"**), the Company has undertaken various measures to improve its liquidity.

Apart from the loan of Mr. Qin, the Shareholder Loans, the Director Facility, the Shareholder Facility and the External Financing Facility disclosed in note 2(c) to the Interim Financial Statements, the Group did not have any bank borrowings or bank facilities as at 30 June 2023 and 31 December 2022 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Inventories and trade receivables

The Group recorded total inventories of approximately HK\$5,153,000 (31 December 2022: approximately HK\$5,718,000) as at 30 June 2023 and the inventory turnover days increased from 46 days to 78 days was mainly due to the preparation of inventory in the first half of 2023 for the peak season in the second half of 2023. The Group had trade receivables of approximately HK\$2,009,000 (31 December 2022: approximately HK\$7,943,000) as at 30 June 2023 and the debtor turnover days decreased from 52 days to 22 days because of the utilization of the early settlement program of customers during the six months ended 30 June 2023.

TREASURY POLICY

The Group generally finances its operation with internally generated resources and financial assistance from an executive Director and the ultimate controlling shareholder of the Company, as well as the External Financing Facility as detailed in note 2(c) to the Interim Financial Statements. Cash and bank deposits of the Group are mainly denominated in HK\$, United States dollars (“US\$”) and RMB. Transactions of the Group are mainly denominated in HK\$, US\$ and RMB. As HK\$ is pegged to US\$, the Group does not expect any significant movements in the US\$/HK\$ exchange rate. In this regard, the Group is not exposed to significant currency risk arising from US\$. The fluctuations in the RMB’s value against other currencies will create foreign currency translation gains or losses and may have an adverse effect on the Group’s business, financial condition and results. Any imposition, variation or removal of foreign exchange controls may adversely affect the value, translated or converted into HK\$ or US\$, of our Group’s net assets and earnings. The Group currently does not have any foreign currency hedging policy. However, the management of the Company will continue to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CHARGES OF ASSETS

The Group did not have any charges on assets as at 30 June 2023 (31 December 2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

The Group did not have any significant investment nor make any significant acquisition of capital assets during the six months ended 30 June 2023.

The Group does not have any specific plans for material investments or capital assets acquisition as at the date of this report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not conduct any significant acquisition or disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2023.

COMMITMENTS AND CONTINGENT LIABILITIES

Other than the operating lease commitments disclosed in note 13 to the Interim Financial Statements, the Group had no significant commitments or contingent liabilities as at 30 June 2023 and 31 December 2022.

HUMAN RESOURCES

As at 30 June 2023, the Group employed 135 employees (31 December 2022: 142). The salaries of employees largely depend on their job nature, performance and length of service with the Group. The Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. In addition to the basic remuneration, the Group also provides employees with employees benefits, including pension, medical scheme and other applicable social insurance as required by the applicable laws and regulations. Apart from regular on-job training, the Group provides training to new employees including an introduction to relevant regulations and general safety awareness and a workshop specific training to the work area and the role of individual within the workshop.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2023, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (“SFO”)), (i) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have been taken under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) which were to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), were as follows:

(I) Interest in the Company***Long positions in the ordinary shares of the Company (the “Shares”)***

Name	Nature of interest	Number of Shares held	Approximate percentage of shareholding
Zhao Jingfei (Chairman and executive Director)	Interest of a controlled corporation (<i>Note</i>)	256,024,406	66.90

Note: These Shares are held by Waterfront Holding Group Co., Ltd., which is wholly and beneficially owned by Mr. Zhao Jingfei. By virtue of the SFO, Mr. Zhao Jingfei is deemed to be interested in all the Shares held by Waterfront Holding Group Co., Ltd..

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Interest in the associated corporation of the Company***Long positions in the shares of the associated corporation***

Name	Name of associated corporation	Nature of interest	Number of share held in the associated corporation	Approximate percentage of shareholding
Zhao Jingfei (Chairman and executive Director)	Waterfront Holding Group Co., Ltd.	Beneficial owner	1	100%

Save as disclosed above, as at 30 June 2023, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as known to the Directors, as at 30 June 2023, the following person (other than the Directors and chief executive of the Company) had interests in 5% or more of the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate percentage of shareholding
Waterfront Holding Group Co., Ltd.	Beneficial owner	256,024,406	66.90

Save as disclosed above, as at 30 June 2023, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had interests in 5% or more of the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 18 February 2003, the Company adopted a share option scheme (the “**Share Option Scheme**”). The Share Option Scheme expired on 17 February 2013 and the Company has not adopted any new share option scheme thereafter.

There was no outstanding share option of the Company under the Share Option Scheme as at 1 January 2023 and 30 June 2023 and no share option of the Company was granted, exercised, lapsed or cancelled during the Reporting Period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2023 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CHANGES IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmations from the Directors and chief executive of the Company, there was no change in the information of the Directors or chief executive of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the date of the Company's annual report published on 27 April 2023 or their appointment.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2023.

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and code provisions (the "**Code Provisions**") set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules. The Company has complied with the Code Provisions as set out in the CG Code during the six months ended 30 June 2023 and up to the date of this report except the following deviation.

MANAGEMENT DISCUSSION AND ANALYSIS

Under the code provision D.2.5 of the CG Code, the Group should have an internal audit function. The Company did not establish the internal audit function for the six months ended 30 June 2023. The Board is aware of the importance of internal audit function and based on the size and simple operating structure of the Group as well as the existing internal control processes, the Board has decided not to set up an internal audit department for the time being. Instead, the Company will engage an independent third party to carry out internal audit function annually. When necessary, the audit committee of the Company would carry out internal audit function for reviewing the adequacy and effectiveness of the risk management and internal control systems of the Group.

The Company will periodically review its corporate governance practices to ensure its continuous compliance with the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 June 2023.

EVENTS AFTER THE REPORTING PERIOD

There are no important events affecting the Group which have occurred after the end of the Reporting Period and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, internal controls and risk management systems of the Group. As at 30 June 2023, the Audit Committee comprised three independent non-executive Directors, Ms. Han Yu (Chairlady), Ms. Jia Lixin and Mr. Rong Yi. The Group’s Interim Financial Statements for the six months ended 30 June 2023 have not been audited or reviewed by the external auditor of the Company, but the Audit Committee has reviewed and discussed with management in relation to financial reporting matters, including but not limited to the Interim Financial Statements of the Group for the six months ended 30 June 2023 and this report.

By Order of the Board

China International Development Corporation Limited

Zhao Jingfei

Chairman and Executive Director

Hong Kong, 31 August 2023