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

2020
ANNUAL REPORT

CONTENTS

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
OCBC Wing Hang Bank Limited
Bank of China (Hong Kong) Limited
China Merchants Bank Hong Kong Branch

AUDITOR

Ascenda Cachet CPA Limited
Certified Public Accountants

LEGAL ADVISERS ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

LEGAL ADVISERS ON HONG KONG LAW

Li & Partners

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

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

STOCK CODE

264

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2020	Year ended 31 December 2019
Operating results		
Revenue (HK$'000)	**39,771**	61,202
Gross profit (HK$'000)	**11,934**	28,787
Loss before income tax expense (HK$'000)	**21,758**	18,325
Loss for the year (HK$'000)	**21,758**	18,327
Business performance ratios		
Gross profit margin (%)	**30.0**	47.0
Net profit margin (%)	**N/A**	N/A
Return on shareholders' equity (%)	**N/A**	N/A
Current ratio (times)	**0.75**	1.14
Quick ratio (times)	**0.45**	0.79
Share data (as at year end date)		
Shares in issue ('000)	**382,704**	382,704
Shares closing price (HK$)	**0.96**	1.52
Market capitalization (HK$'000)	**367,396**	581,710
Basic loss per share (HK cents)	**5.7**	4.8
Interim dividend per share (HK$)	**Nil**	Nil
Final dividend per share (HK$)	**Nil**	Nil
Net (liabilities)/asset value per share (HK$)	**(0.03)**	0.02
Price-to-book value ratio (times)	**(32)**	76

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China International Development Corporation Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual report of the Company for the year ended 31 December 2020.

FINANCIAL PERFORMANCE

The Group has recorded revenue of approximately HK$39,771,000 for the year ended 31 December 2020 (2019: approximately HK$61,202,000), representing a significant decrease of 35.0% or approximately HK$21,431,000 as compared with the year ended 31 December 2019. Revenue contributed from manufacturing and retail business segments (excluding inter-segment revenue) was approximately HK$36,743,000 and approximately HK$3,028,000 for the year ended 31 December 2020, respectively. Gross profit was approximately HK$11,934,000 (2019: approximately HK$28,787,000) for the year ended 31 December 2020. There was a significant decrease in gross profit margin from approximately 47.0% for the year ended 31 December 2019 to approximately 30.0% for the year ended 31 December 2020. The decrease is mainly due to the significant impact of the outbreak of coronavirus disease ("**COVID-19**") on the global business environment and the Group's retail business.

Other income and gains increased by 435.1% from approximately HK$518,000 for the year ended 31 December 2019 to approximately HK$2,772,000 for the year ended 31 December 2020. The increase was mainly attributable to the government subsidies and rent concessions from landlords totalling approximately HK$2,109,000 in response to the outbreak of the COVID-19 pandemic.

Selling and distribution costs reduced significantly by approximately HK$7,813,000 to approximately HK$4,358,000 (2019: approximately HK$12,171,000) for the year ended 31 December 2020. The decrease was mainly attributable to a decrease in rental expenses of the retail business segment following the close down of certain under-performed retail stores and a decrease in marketing activities being engaged as a result of the significant impact of the COVID-19 pandemic on the Group's retail business during the year ended 31 December 2020.

Administrative and other operating expenses decreased by approximately HK$6,644,000 to approximately HK$25,155,000 (2019: approximately HK$31,799,000) for the year ended 31 December 2020. The decrease was mainly due to the decrease in employee costs as a result of the strengthened human resources management of the Group and the decrease in professional fee of the Group.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK$21,758,000 (2019: approximately HK$18,327,000) for the year ended 31 December 2020. Loss per share for the year ended 31 December 2020 was HK5.7 cents (2019: HK4.8 cents).

BUSINESS REVIEW

For the year ended 31 December 2020, the Leather Manufacturing Business and Leather Retail Business accounted for approximately 92.4% (2019: approximately 82.0%) and approximately 7.6% (2019: approximately 18.0%) of the Group's total revenue, respectively.

Leather Manufacturing Business

For the year ended 31 December 2020, revenue of the Leather Manufacturing Business from external customers was approximately HK$36,743,000, in comparison with approximately HK$50,190,000 for the year ended 31 December 2019. The decrease was mainly due to the outbreak of the COVID-19 pandemic which led to the decrease in demand from Hong Kong, the PRC and overseas markets, the temporary closure of the Group's factories in the PRC and the logistics restrictions imposed worldwide.

Revenue analysis by geographic location:

	2020		2019	
	HK$'000	**%**	HK$'000	%
Hong Kong	**3,276**	**8.9**	2,499	5.0
Europe	**8,229**	**22.4**	10,134	20.2
The PRC	**14**	**0.0**	1,566	3.1
United States of America	**22,707**	**61.8**	28,095	56.0
Other countries	**2,517**	**6.9**	7,896	15.7
	36,743	**100**	50,190	100

Revenue analysis by product category:

	2020		2019	
	HK$'000	**%**	HK$'000	%
Belts	**35,937**	**97.8**	47,087	93.8
Leather goods and other accessories	**806**	**2.2**	3,103	6.2
	36,743	**100**	50,190	100

Leather Retail Business

For the Leather Retail Business, due to the adverse retail environment of Hong Kong largely due to the outbreak of the COVID-19 pandemic, and keen competition from rivals and online sales, the Group recorded revenue of approximately HK$3,028,000 (2019: approximately HK$11,012,000) for the year ended 31 December 2020, representing an approximately 72.5% decrease in comparison with the year ended 31 December 2019. Sales of the Group's in-house brand "Urban Stranger" comprised approximately 85.3% (2019: approximately 80.5%) of the retail sales of the Group for the year ended 31 December 2020, which was approximately 4.8% higher than that of the year ended 31 December 2019. Gross profit margin for the year ended 31 December 2020 reduced to approximately 56.6%, moderately reduced as compared to the year ended 31 December 2019's margin of approximately 64.0%.

The overall shop rental to revenue ratio significant increased from approximately 47.3% for the year ended 31 December 2019 to approximately 98.1% for the year ended 31 December 2020. The staff cost to revenue ratio also increased from approximately 43.1% for the year ended 31 December 2019 to approximately 80.4% for the year ended 31 December 2020. The increase was mainly due to travel restrictions and a series of social-distancing measures imposed, which led to a decline in revenue.

The Leather Retail Business resulted in a loss of approximately HK$7,286,000 for the year ended 31 December 2020 as compared to approximately HK$9,275,000 for the year ended 31 December 2019. The Group maintained four (2019: four) AREA 0264 stores and one (2019: one) Teepee Leather workshop in Hong Kong as at 31 December 2020.

PROSPECTS

Since January 2020, the outbreak of the COVID-19 pandemic has quickly spreaded around the world. Accordingly, various governments have taken pandemic prevention and control measures which have led to different degrees of restrictions on business activities. COVID-19 created severe challenges to all economies around the world, causing changes in many aspects such as global supply chains, trade practices and industrial layouts, and hence the global economy was adversely affected. The outbreak of the COVID-19 pandemic brought uncertainty to the Group's business, in particular the export of the Group's leather products to the United States and Europe and the retail business of the Group.

In terms of the industry, under the prevailing uncertain international trade environment, orders have been affected due to the ongoing Sino-US trade friction. In addition, due to the weakened market demands for leather products as a result of the outbreak of the COVID-19 pandemic and delay in the resumption of work and production by the downstream enterprises, the leather manufacturing enterprises were confronted with an overall challenging operation environment.

Despite the uncertain outlook, the Group will continue to pay close attention to the situation and react proactively to its impact on the financial position and operating results of the Group. The Group will focus on improving the production efficiency within the factory in order to achieve its optimal production level and reexamine the use of its resources prudently and make every effort to maximize its profit. The Group will continue to, while mitigating economic and external business risks, study the feasibility of related business opportunities of the Group with the expectation of capitalising on China's economic growth in the future.

The business environment of the retail sector in Hong Kong is not optimistic. Travel restrictions and border control were in force, while a series of social-distancing measures were imposed, which greatly impaired the consumer sentiment and stifled customer traffic. The latest statistics from the Census and Statistics Department indicated that the retails sales in Hong Kong further plunged by 13.6% year over year in January 2021, also representing the twelfth consecutive month of decline. The threat of the outbreak of the COVID-19 pandemic has turned the business environment of the retail sector in Hong Kong even more austere.

Despite the challenging retail environment, two new retail stores have commenced operations in the third quarter of 2020 to maintain the exposure of the brand and enhance the shopping experience of customers. The Group will further enhance the brand image by promoting the competitive advantage of its high quality leather products and flexibility in catering the needs of its customers. Meanwhile, the Group will further cooperate with shopping malls to carry out promotion activities and marketing activities of its leather products as well as improving the service quality of its stores by strengthening the human resource management of the retail business segment. On the other hand, the Group will continue to develop its e-commerce channel in order to tap into the fast-growing online market.

Furthermore, as announced on 16 June 2020, the Group has undertaken plans to diversify into the businesses of industrial hemp planting and hemp fabric product production. Hemp fabric is made of fibers from industrial hemp, and is a type of textile which is antibacterial, strong and versatile, and fill 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 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), and rented a parcels of farmland in Yunnan for the trial cultivation of industrial hemp during the year ended 31 December 2020.

The Group will concurrently review its business strategic directions and operations with a vision in order to chart its long term corporate strategy and growth and to explore other businesses or investment opportunities with a view to enhance the Group's overall future development and to maximize its shareholders' value.

Zhao Jingfei
Chairman

Hong Kong, 30 March 2021

* *For identification purpose only*

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the Group's cash and bank deposits were approximately HK$2,280,000 as compared to approximately HK$15,041,000 as at 31 December 2019.

The Group recorded total current assets of approximately HK$28,329,000 (31 December 2019: approximately HK$42,896,000) as at 31 December 2020 and total current liabilities of approximately HK$37,854,000 (31 December 2019: approximately HK$37,610,000) as at 31 December 2020. The decrease in total current assets was mainly due to the decrease in inventories, trade receivables and cash and bank deposits. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 0.75 times (31 December 2019: approximately 1.14 times) as at 31 December 2020.

The Group recorded deficiency in assets of approximately HK$10,887,000 as at 31 December 2020 (31 December 2019: equity approximately HK$9,505,000), which was mainly attributable to the operation loss of the year.

As detailed in note 2.1 to the consolidated financial statements, the Company has undertaken the following measures to improve its liquidity:

(i) the Company has obtained a letter of undertaking from Mr. Qin Bohan ("**Mr. Qin**"), an executive director of the Company, that he would not demand for repayment of the amount due to him of HK$8,000,000 as at 31 December 2020 until the Company is in a position to do so;

(ii) subsequent to the end of the reporting period from 1 January 2020 to 31 December 2020 (the "**Reporting Period**"), on 26 March 2021, the Company and Mr. Qin entered into another loan agreement, pursuant to which, Mr. Qin granted an unsecured interest-free loan facility up to RMB30,000,000 (equivalent to approximately HK$35,750,000) for a term of two years, which has been fully drawn down by the Company on 26 March 2021;

(iii) the Company and Mr. Zhao Jingfei ("**Mr. Zhao**"), an executive director, Chairman and the ultimate controlling shareholder of the Company, entered into a loan facility agreement on 27 May 2020, pursuant to which, Mr. Zhao granted an unsecured interest-free loan facility up to HK$20,000,000 to the Company for a term of two years, none of which has been utilised as at the end of the reporting period and the date of this report; and

(iv) the Company has obtained a letter of support from Mr. Zhao confirming his willingness to further provide for adequate financial resources as is necessary to enable the Group both to meet its financial obligations as and when they fall due and to carry on its business for at least 24 months from 31 December 2020.

Inventories and trade receivables

The Group recorded total inventories of approximately HK$11,265,000 as at 31 December 2020 (31 December 2019: approximately HK$13,301,000) and the inventory turnover days remained at similar level of 148 days as at 31 December 2020 and 150 days as at 31 December 2019 respectively in view of the unsatisfactory sales demand amidst the COVID-19 pandemic.

The Group had trade receivables of approximately HK$9,833,000 as at 31 December 2020 (31 December 2019: approximately HK$11,643,000) and the debtor turnover days increased from 69 days to 90 days due to the COVID-19 pandemic has turned the business environment more stringent.

GEARING RATIO

The Group did not have any bank borrowings as at 31 December 2019 and 2020.

As at 31 December 2020, the Group had no bank facilities. The gearing ratio, representing the Group's total interest bearing borrowings divided by its total equity, at 31 December 2020 and 2019 was nil as the Group had no interest bearing borrowings for both years.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held as at 31 December 2020 and 31 December 2019, respectively.

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2020.

TREASURY POLICY

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in HK$, USD and RMB. Transactions of the Group are mainly denominated in HK$, USD and RMB. As HK$ is pegged to USD, the Group does not expect any significant movements in the USD/HK$ exchange rate. In this regard, the Group is not exposed to significant currency risk arising from USD. The fluctuations in the RMB's value against other currencies will create foreign currency translation gains or losses and may have a significant impact on the Group's business, financial condition and results. 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 taking approximate measures to mitigate significant foreign currency exposure should the need arise.

CHARGES ON ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2020, time deposits at a bank of approximately HK$430,000 (2019: HK$429,000) are pledged to a bank to secure a bank guarantee given in favour of a landlord in lieu of rental deposits.

The Group had no significant contracted capital commitments and contingent liabilities as at 31 December 2020 and 31 December 2019.

EVENT AFTER THE REPORTING PERIOD

Details of the event occurring after the reporting period are set out in note 31 to the consolidated financial statements for the year ended 31 December 2020.

LITIGATION

The Group had no material litigation, arbitration or claim of material importance in which the Company is engaged or pending or which was threatened against the Company as at 31 December 2020 and 31 December 2019.

HUMAN RESOURCES

As at 31 December 2020, the Group employed 169 employees (2019: 165). 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 defined contribution plans, medical scheme and other applicable social insurance as required by the applicable laws and regulations. Apart from regular on-the-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.

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

EXECUTIVE DIRECTORS

Mr. Zhao Jingfei, aged 31, has been appointed as an executive Director and chairman of the Board (the "**Chairman**") on 22 July 2019. He obtained a bachelor's degree in economics from Wuhan Sports University in 2013. Since graduation, Mr. Zhao has been assisting in the management of his family business as well as accumulating other working and investment experience in the PRC, which includes financial and apparel businesses. In addition, from January 2015 to January 2019, Mr. Zhao worked in Hubei Hengji Business Co., Ltd* (湖北亨基商貿有限公司) ("**Hubei Hengji**"), a manufacturing and processing company of apparel, with his last position as the operations manager. During his years working in Hubei Hengji, Mr. Zhao was primarily responsible for the procurement of garments and the introduction of brands.

Mr. Fan Xin, aged 38, has been appointed as an executive Director and authorised representative of the Company on 22 July 2019. He obtained a New Zealand Diploma in Business (Level 6) from New Zealand Academy of Studies in 2008. Mr. Fan was a part-time researcher in the Securities Research Institute of Fudan University* (復旦大學證券研究所) from March 2013 to December 2013. He was a general manager in Beijing Sinan Think Tank Economics Research Co., Ltd.* (北京司南車智庫經濟學研究有限公司). He has been an executive director of Yinglian Technology Co., Ltd.* (鷹鏈科技有限公司) since February 2018. He has also been the general manager of Lijiang Airlines Investment Co., Ltd.* (麗江航空投資有限公司) since December 2018.

Mr. Qin Bohan, aged 25, has been appointed as an executive Director on 9 September 2019. He was the assistant to the general manager of Tangcheng (Beijing) Finance and Taxation Service Co., Ltd.* (唐誠 (北京) 財税服務有限公司) from February 2015 to October 2017. He has been the general manager of Beijing Zhongmin Huisheng Technology Co., Ltd.* (北京中民匯生科技有限公司) since December 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Han Yu, aged 48, was appointed as an independent non-executive Director on 9 September 2019. She obtained a master's degree in management majoring in accounting from Central University of Finance and Economics in 2008. Ms. Han has over 10 years' experience in accounting and financial management. She was the vice chief financial officer of Beijing Dinghan Technology Group Co., Ltd., a company listed on Growth Enterprise Market of Shenzhen Stock Exchange (Stock Code: 300011) from June 2008 to October 2012. She was the chief financial officer of Changshu Poly Theatre Management Co., Ltd.* (常熟市保利大劇院管理有限公司) from November 2012 to May 2016. She has been the chief financial officer of Shenzhen Qianhai Hanya Trading Company Limited* (深圳前海瀚亞貿易有限責任公司) since November 2016.

Ms. Jia Lixin, aged 31, was appointed as an independent non-executive Director on 9 September 2019. She graduated from the Hull University with a degree of Bachelor of Arts in Business and Management in 2012. She also obtained a degree of Master of Science in International Business from the Coventry University in 2013. Ms. Jia has been the general manager of Yichang Zaowei Information Technology Consulting Co., Ltd.* (宜昌早為信息技術諮詢有限公司) since March 2017.

Mr. Rong Yi, aged 63, was appointed as an independent non-executive Director on 9 September 2019. He was the chairman and general manager of Jiangsu Wuxi Rongxin Industry Development Co., Ltd.* (江蘇無錫榮信實業發展有限公司) from 1996 to August 2019. Mr. Rong was a director of the board of directors of Jiangnan University from 1997 to 2006. He was a member of the eighth and ninth committees of the Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference from 1998 to 2008. He was a council member of the second council of Jiangsu Glorious Business Promotion Association* (江蘇省光彩事業促進會) from 2003 to 2005. He was an industry style supervisor* (行風監督員) of the Jiangsu Administration for Industry and Commerce from September 2006 to September 2008.

COMPANY SECRETARY

Mr. Chan Tsang Mo, aged 37, has been appointed as the company secretary of the Company on 28 February 2018. Mr. Chan is a director of Synergy Morton Corporate Services Limited, a professional firm providing corporate secretarial and advisory services. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and holds a degree in Bachelor of Business Administration in Accounting from the City University of Hong Kong. Mr. Chan has over 10 years of experience in the field of accounting and financial management.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is important to the success of the Company. The Company is committed to attaining good standard of corporate governance practices in order to enhance shareholders' value and safeguard the interests of shareholders.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Company has complied with the Code Provisions as set out in the CG Code during the year ended 31 December 2020 except for the Code Provision C.2.5 in respect of having an internal audit function (as disclosed in the paragraph headed "Internal Controls and Risk Management" in this corporate government report).

The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Group's control environment and processes.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (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 year ended 31 December 2020.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic directions and financial performance. The management was delegated authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to Remuneration Committee, Audit Committee and Nomination Committee.

The Board currently consists of three executive Directors and three independent non-executive Directors. Their brief biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 11 to 12 of this annual report. There is no relationship, including financial, business, family or other material/relevant relationships among the Board members.

The Board conducts meeting on a regular basis at approximately quarterly intervals and on an ad hoc basis, as required by business needs.

During the year ended 31 December 2020, three Board meetings were held by the Company. The individual attendance record of each Director at the meetings of the Board and annual general meeting of the Company during the year ended 31 December 2020 is as follows:

	Number of Board meetings attended/ eligible to attend	Annual general meeting held on 22 June 2020 attended
Executive Directors		
Mr. Zhao Jingfei (Chairman)	3/3	1/1
Mr. Fan Xin (Chief Executive Officer)	3/3	1/1
Mr. Qin Bohan	3/3	1/1
Independent Non-executive Directors		
Ms. Han Yu	3/3	1/1
Ms. Jia Lixin	3/3	1/1
Mr. Rong Yi	3/3	1/1

NON-EXECUTIVE DIRECTORS

All current independent non-executive Directors are appointed for a specific term of three years, renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of appointment until terminated in accordance with the provisions under the appointment and are also subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Company's articles of associations (the "**Articles**").

In compliance with the requirements set out in Rule 3.10(1) of the Listing Rules, the Board consists of three independent non-executive Directors during the year under review. One of them, namely Ms. Han Yu, possesses appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. During the year under review and as of the date of this report, the number of independent non-executive Directors represents at least one-third of the Board which is in compliance with Rule 3.10A of the Listing Rules.

The Company has received from each of the independent non-executive Directors an annual written confirmation of his/her independence as required under Rule 3.13 of the Listing Rules. The Company, based on such confirmations, considers all independent non-executive Directors are independent.

DIRECTORS' INSURANCE COVER OF LEGAL ACTION

Under the Code Provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. During the year ended 31 December 2020, the Company arranged appropriate insurance cover for Directors' and officers' liabilities.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to provision A.6.5 of the CG Code, all the Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and update all Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and to enhance their awareness of good corporate governance practices.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

During the year ended 31 December 2020, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Attended Seminars or Briefing/ Read Materials
Executive Directors	
Mr. Zhao Jingfei (Chairman)	✓
Mr. Fan Xin	✓
Mr. Qin Bohan	✓
Independent Non-executive Directors	
Ms. Han Yu	✓
Ms. Jia Lixin	✓
Mr. Rong Yi	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In compliance with Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Group are separated and performed by different individuals, namely Mr. Zhao Jingfei and Mr. Fan Xin, respectively.

Mr. Zhao Jingfei is responsible for leading the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. Mr. Fan Xin is responsible for the day-to-day management of the Group's business, recommending strategies to the Board, and determining and implementing operational decisions. The Company considered that the division of responsibilities between the chairman and chief executive officer is clearly established.

OTHER COMMITTEES

There are three committees established under the Board, namely Audit Committee, Remuneration Committee and Nomination Committee.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Ms. Han Yu, Ms. Jia Lixin and Mr. Rong Yi. The composition of the Audit Committee meets the requirements of Rule 3.21 of the Listing Rules. On 31 December 2018, the Board adopted a set of the revised terms of reference of the Audit Committee in line with the Listing Rules requirement in relation to the Audit Committees' roles and functions, the risk management and internal control. The revised term of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

During the year ended 31 December 2020, five audit committee meetings were held by the Company. Individual attendance of each committee member at the meetings is as follows:

	Number of meeting attended/ eligible to attend
Independent Non-executive Directors	
Ms. Han Yu (Committee Chairlady)	5/5
Ms. Jia Lixin	5/5
Mr. Rong Yi	5/5

The major roles and functions of the Audit Committee are as follows:

- to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- to review and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;

- to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

- to monitor the integrity of the Company's financial statements and the annual report and accounts and interim report and, if prepare for publication, quarterly reports and to review significant financial reporting judgments contained in them. In reviewing these reports and accounts of the Company before submission to the Board, the Audit Committee shall focus particularly on:

  - any changes in financial reporting and accounting policies and practices;
  - major judgmental areas;
  - significant adjustments resulting from audit;
  - the going concern assumptions and any qualifications;
  - compliance with accounting standards; and
  - compliance with the Listing Rules, the applicable rules and legal requirements in relation to financial reporting.

- to liaise with the Board and senior management and meet at least twice a year, with external auditor, and to consider any significant or unusual items that are, or may need to be, reflected in the annual report and accounts and interim report, and to give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or external auditor of the Company;

- to review the financial controls, internal control and risk management systems of the Company;

- to discuss the risk management and internal control systems with management of the Company to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

- to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;

- to review the group's financial and accounting policies and practices;

- to review the management letter of the external auditor, any material queries raised by the external auditor to management of the Company about the accounting records, financial accounts or systems of control and the response of management of the Company;

- to ensure that the Board will provide a timely response to the issues raised in the management letter of the external auditor;

- to review arrangements for employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions; and

- to act as the key representative body for overseeing the Company's relations with external auditor.

During the year under review, the Audit Committee has reviewed with the Group's management the principles and practices adopted by the Group, discussed internal control, risk management and financial reporting matters, including a review of the unaudited consolidated financial statements of the Company for the six months ended 30 June 2020 and audited consolidated financial statements of the Company for the year ended 31 December 2019.

AUDITOR'S REMUNERATION

For the year ended 31 December 2020, the fees paid/payable to the Group's auditor, Ascenda Cachet CPA Limited, are set out as follows:

Nature of services	Amount HK$'000
Audit Services	780
Non-audit Services	100

The non-audit services were related to agreed-upon procedures on certain financial information.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Rong Yi, Ms. Han Yu and Ms. Jia Lixin and one executive Director, namely Mr. Fan Xin. The term of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

The Remuneration Committee meets at least once a year and the Remuneration Committee will meet on other occasion when required.

The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual Directors and senior management.

During the year ended 31 December 2020, two remuneration committee meeting were held to review and determine the annual remuneration packages of the Directors. Individual attendance of each committee members at the meetings is as follows:

	Number of meetings attended/eligible to attend
Independent Non-executive Directors	
Mr. Rong Yi (Committee Chairman)	2/2
Ms. Han Yu	2/2
Ms. Jia Lixin	2/2
Executive Directors	
Mr. Fan Xin	2/2

The major roles and functions of the Remuneration Committee are as follows:

- to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

- to review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives;

- to make recommendations to the Board on the remuneration packages of individual Directors and senior management. The remuneration package should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

- to review and approve the compensation payable to Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

NOMINATION COMMITTEE

The Nomination Committee comprises three independent non-executive Directors, namely Mr. Rong Yi, Ms. Han Yu and Ms. Jia Lixin and one executive Director, namely Mr. Zhao Jingfei. On 31 December 2018, the Board adopted a set of the revised terms of reference of the Nomination Committee in line with the Listing Rules requirement in relation to board diversity effective from 1 January 2019. The revised term of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

The Nomination Committee meets at least once a year and the Nomination Committee will meet on other occasion when required.

During the year ended 31 December 2020, one nomination committee meeting was held to recommend the re-appointment of the Directors standing for re-election at the annual general meeting of the Company, to assess the independence of the independent non-executive Directors and to review and assess the board diversity policy (the "**Board Diversity Policy**") to ensure its effectiveness and considered that the Group has achieved the effectiveness of the Board Diversity Policy during the year ended 31 December 2020. Individual attendance of each committee member at the meeting is as follows:

	Number of meeting attended/ eligible to attend
Independent Non-executive Directors	
Ms. Han Yu	1/1
Ms. Jia Lixin	1/1
Mr. Rong Yi	1/1
Executive Directors	
Mr. Zhao Jingfei (Committee Chairman)	1/1

The major roles and functions of the Nomination Committee are as follows:

- to review the structure, size and composition (including the gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- to implement and review the Board Diversity Policy;

- develop, review and disclose the policy for nomination of Directors;

- to assess the independence of independent non-executive Directors; and

- to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors, in particular, the Chairman and the CEO.

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an independent non-executive Director, the Company's needs and other relevant statutory requirements and regulations. During the year under review, six new Directors were recommended by the Nomination Committee and were appointed by the Board. All of the newly appointed Directors were selected via the selection process described above.

BOARD DIVERSITY POLICY

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Company has adopted a set of revised Board Diversity Policy on 31 December 2018 setting out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. A summary of Board Diversity Policy, together with the measureable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board.

Measurable Objectives

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

Monitoring and Reporting

The Nomination Committee will disclose the composition of the Board annually in the corporate governance report and monitor the implementation of the Board Diversity Policy. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises four Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterized by significant diversity, whether considered in terms of gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

DIVIDEND POLICY

The Board adopted a dividend policy on 31 December 2018. The Board has the discretion to declare and distribute dividends to the shareholders of the Company. Any declaration of final dividends for the year will be subject to the approval of the Company's shareholders. The Board shall take into account the financial position, cashflow situation, business conditions and strategies, current and future operations and earnings, capital requirements and expenditure plans, interests of shareholders, prevailing economic environment, any restrictions on payment of dividends of the Group and any other factors or conditions that the Board may consider relevant when considering the declaration and payment of dividends.

CORPORATE GOVERNANCE FUNCTIONS

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board at the Board meeting held on 21 March 2012 and is in compliance with paragraph D.3.1 of the CG Code. During the year ended 31 December 2020, the Board has discussed the corporate governance matters including a review of the corporate governance report for the year ended 31 December 2020.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Company and ensure those consolidated financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured the timely publication of the consolidated financial statements of the Company.

The Directors' responsibilities in preparing the consolidated financial statements and the auditor's responsibilities are set out in the Independent Auditor's Report on pages 57 to 65 of this annual report.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for maintaining an effective system of internal control to safeguard shareholders' investment and the Company's assets. The internal control system is designed to provide reasonable assurance on the effectiveness and efficiency of operations, to safeguard assets against unauthorised use or disposition and to maintain proper accounting records for producing reliable financial information. The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: to identify ownership of risks, business objectives and risks that could affect the achievement of objectives;

- Evaluation: to analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly; and

- Management: to consider the risk responses and to ensure effective communication to the Board and on-going monitoring of the residual risks.

Under Code Provision C.2.5 of the CG Code, the Group should have an internal audit function. The Group has reviewed the need for an internal audit department annually. Given the Group's simple operating structure, the management is of the opinion that instead of setting up an internal audit department, it would be more cost effective to engage an independent external professional party to review on annual basis the internal control systems and measures of the Group and report to the Audit Committee members. The review covered the adequacy of resources, staff qualifications and experience, training programs, budget, internal audit, financial reporting functions and Listing Rules compliance. Major risk factors and recommendations were presented to the Audit Committee members for their consideration. Appropriate actions have been implemented accordingly to enhance the internal control system of the Group.

In order to maintain a high standard of corporate governance, the Company engaged an independent external consultant with professional staff in possession of relevant expertise to conduct an independent annual review of the risk management systems of the Group during the year. The report has been reviewed and approved by the Board and the Audit Committee. Appropriate actions have been implemented accordingly to enhance the risk management of the Group.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

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

- Confidentiality covenants will be in place when the Group enters into significant negotiations. In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, is likely to be in possession of inside information in relation to the Company, are required to comply with the Model Code.

The Board has conducted a review of the effectiveness of the internal control systems of the Group for the year ended 31 December 2020. The Board considers that the existing risk management and internal control systems of the Group are in place and effective.

CORPORATE COMMUNICATION

The Company endeavours to maintain good investor relationship with shareholders and potential investors by way of annual general meeting, publication of interim and annual reports on the websites of the Company and the Stock Exchange, and timely press releases on the Company's website. A shareholder's communication policy was adopted by the Board on 21 March 2012 aiming at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company.

Shareholders are encouraged to attend the annual general meeting for which a notice would be served properly. The Chairman and/or Directors are available to answer questions on the Group's business at the general meeting. At the general meeting, separate resolutions are proposed on each substantial and separate issue such as the election of individual Directors and re-appointment of auditor.

Under the Code Provision E.1.2 of the CG Code, the Chairman should attend the annual general meeting and should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. During the year ended 31 December 2020, Mr. Zhao Jingfei (chairman of the Board at the time of annual general meeting) attended the annual general meeting of the Company held on 22 June 2020.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's head office and principal place of business in Hong Kong at Level 26, 39 Queen's Road Central, Central, Hong Kong.

SHAREHOLDERS' RIGHT

Procedures for Shareholders to Convene an Extraordinary General Meeting

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "**Requisitionists**") (as the case may be) pursuant to article 58 of the Articles. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the Company's head office and principal place of business in Hong Kong at Level 26, 39 Queen's Road Central, Central, Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals at the general meeting of the Company by sending the same to the Company at the head office of the Company in Hong Kong.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to the Articles, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the general meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such extraordinary general meeting, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for putting forward Proposals at a general meeting

A shareholder shall make a written requisition to the Board or the company secretary at the Company's head office and principal place of business at Level 26, 39 Queen's Road Central, Central, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at the general meeting regarding any specified transaction/business and its supporting documents.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the company secretary at the Company's head office and principal place of business at Level 26, 39 Queen's Road Central, Central, Hong Kong or send email to cosec@hkmorton.com.

Shareholders may also make enquiries with the Board at the general meeting of the Company.

COMPANY SECRETARY

Mr. Chan Tsang Mo was appointed as the company secretary of the Company. The company secretary is responsible to the Board for ensuring that Board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and has regard to them when making decisions. The company secretary is also responsible for advising the Board on the Group's compliance with the continuing obligations of the Listing Rules, The Codes on Takeovers and Mergers and Share Buy-backs, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations. During the year ended 31 December 2020, Mr. Chan undertook not less than 15 hours of professional training to update his skills and knowledge.

CONSTITUTIONAL DOCUMENTS

During the year under review, there was no change in the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

China International Development Corporation Limited (hereafter referred to as the "**Company**" or "**we**") and its subsidiaries (together, the "**Group**") is pleased to present its fifth Environmental, Social and Governance Report (the "**ESG Report**" or the "**Report**") for the year ended 31 December 2020 to provide an overview of the Group's management of significant issues affecting the operation, including environmental, social and governance ("**ESG**") issues.

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

Environmental and social responsibilities are viewed as the Group's core commitment to environment, internal workplace and external community, and an integral part of the Group's practice to create value for stakeholders.

REPORTING PERIOD

The Report illustrates the Group's initiative and performance regarding the environmental and social aspects during the Reporting Period.

REPORTING SCOPE

The scope of this Report is consistent with that of our fourth ESG report published last year, which focuses on the retail business in Hong Kong and manufacture operation in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the Report.

REPORTING BASIS

This Report is prepared in accordance with the disclosure obligations under the "Environmental, Social and Governance Reporting Guide" ("**ESG Guide**") as set out in Appendix 27 of the Listing Rules and the "comply or explain" provisions contained therein. The purpose is to allow all stakeholders to learn more about the Group's progress and development direction in respect of operation and sustainable development. Certain key performance indicator ("**KPIs**"), which is considered as material by the Group are disclosed during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs.

A complete index is appended in the last chapter hereof for reading this Report in accordance with the ESG Guide.

EXPLANATIONS ON DATA

Financial data in the Report are extracted from the 2020 annual report. Other data are extracted from the Company's internal management system and statistics, and partly comprise of data from previous years. Hong Kong dollars is used in this Report as its functional currency. The intensity disclosed for the Reporting Period was calculated by dividing the amount of the emission/waste/resources consumption by the Group's revenue of approximately 39.77 million for the year ended 31 December 2020.

CONFIRMATION AND APPROVAL

The information contained herein is sourced from official documents and statistics of the Group, and management and operation information collected in accordance with the Group's systems. This Report has been confirmed and approved by the Board of the Company.

OPINIONS AND FEEDBACK FROM STAKEHOLDERS

The Group attaches great importance to valuable opinions from all stakeholders. If you are in any doubt or have any opinion or recommendation about the content or form of reporting of this Report, you are welcome to contact the Group by the following means:

Address: Level 26, 39 Queen's Road Central, Central, Hong Kong
Telephone: (852) 2329 3678
Fax: (852) 2359 3323
Email: project264@hkmorton.com

STAKEHOLDERS ENGAGEMENT AND MATERIALITY

Stakeholder engagement is a key success factor in formulating our environmental and social strategy, defining our objectives, assessing materiality, and establishing policies. The Group has identified key stakeholders that are important to the Group's business and established various channels for communication. Through various communication channels, we collect stakeholders' opinions to understand their expectations for the Company's sustainable development, formulate measures to respond to stakeholders and use the opinions.

Stakeholder	Expectation	Communication channel	Measures
Government	— To comply with laws — Proper tax payment — Promote regional economic development and employment	— On-site inspections and checks — Research and discussion through work conferences, work reports preparation and submission for approval — Public information disclosed in Stock Exchange, such as: interim reports, annual reports, and announcements — Company website — Compliance control	— Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation (if any), and actively undertook social responsibilities.

Stakeholder	Expectation	Communication channel	Measures
Shareholders and Investors	— Return on investment — Information disclosure and transparency — Protection of interests and fair treatment of shareholders — Business risk management	— Annual general meeting and other shareholder meetings — Public information disclosed in Stock Exchange, such as: interim reports, annual report and announcements — Meeting with investors and analysts — Company website	— Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/ circulars and periodic reports in the year. — Carried out different forms of investor activities with an aim to improve investors' recognition. Disclosed company contact details on website and in reports and ensured all communication channels available and effective.
Employees	— Safeguard rights and interests of employees — Working environment — Career development opportunities — Health and safety — Self-actualization	— Regular meetings — Training, seminars and briefing sessions — Intranet and emails — Annual performance appraisal	— Provided a healthy and safe working environment; developed a fair mechanism for promotion; cared for employees by helping those in need, organizing employee activities and providing trainings
Customers	— Safe and high-quality products — Stable relationship — Information transparency — Integrity — Business ethics	— Company website, brochures, public information disclosed in Stock Exchange, such as: interim reports, annual reports and announcements — Email and customer service hotline — Feedback and report — Regular meetings — International Certification	— Strengthened quality management to ensure stable service quality, entered into long-term strategic cooperation agreements and obtained international certifications from professional institutions.

Stakeholder	Expectation	Communication channel	Measures
Suppliers/Partners	— Long-term partnership — Honest cooperation — Fair and open — Information resources sharing for material customization — Risk reduction	— Business meetings, supplier conferences, phone calls and interviews — Regular meetings — Review and assessment — Tendering process — Email, circulars and manual — Company website	— Invited tenders publicly to select the best suppliers and contractors, performed contracts obligation according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors.
Peer/ Industry associations	— Experience sharing — Corporations — Fair competition	— Industry conferences — Site visit — Publicity of standards — Trainings — Seminars	— Stuck to fair play, cooperated with peer to realize win-win results, shared experiences and attended different seminars of the industry so as to promote sustainable development of the industry.
Market regulator	— Compliance with the law and regulations — Information disclosures	— Information disclosure — Reports — Consulting	— Complied with regulatory requirements in a strict manner, disclosed and reported real information in a timely and accurate manner according to law.
Public and communities	— Community involvement — Social responsibilities — Employment promotion — Transparent information	— Voluntary work — Charity and social investment — Media conference — Company website	— Gave priority to local people seeking jobs from the Company so as to promote community building and development; protected the communities' ecological environment, and provided timely compensation and assistance. — Issued promote and accurate information.

Based on the stakeholder engagement, we have identified issues with significant environmental and social impact and issues concerning stakeholders. The results of materiality assessment prioritised stakeholder inputs and made us focused on the material aspects for actions, achievement and reporting. Through the materiality analysis, the Group identified "Prevention of bribery, extortion, fraud and money laundering", "Anti-corruption policies and whistle-blowing procedures", "Employee development and training" and "use of resources" as issues of high importance, priced the risks and opportunities hidden behind these mater and elaborated more under different sections of this ESG Report. We present below the relevant and required disclosure.

A. ENVIRONMENTAL ASPECTS

Sustainable development is to protect our existing natural resources for future generations. As we become increasingly connected with our environment, the Group recognises our desire for clean environment and our responsibility as a corporate citizen, to demonstrate the Group's commitment to sustainable development and compliance with laws and regulations relating to environmental protection, we are constantly striving to innovate, to minimising its environmental impact from daily operation, developing a long-term mechanism and relevant policies of environmental protection and energy saving to build a resource-saving and environment-friendly enterprise.

During the Reporting Period, there was no incident of non-compliance with relevant environmental laws and regulations relating to air and greenhouse gas, emissions, discharge into water and land, and generation of hazardous and non-hazardous waste that have a significant impact on the Group. The Group also confirmed that during the Reporting Period, our business operation had not encountered any punishment by respective governmental authorities due to violation of the above laws and regulations.

A1: EMISSIONS

Exhaust Emission

The Group strictly complies with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Air Pollution Control Ordinance (《空氣污染管制條例》), Waste Disposal Ordinance (《廢物處置條例》), the Law of the People's Republic of China on Environmental Noise Pollution Prevention (《中華人民共和國環境噪聲污染防治法》), the Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》), Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Decision of the State Council on Several Issues Concerning Environmental Protection (《國務院關於環境保護若干問題的決定》) and other applicable environmental laws and regulations, as the Group contains the intensity and total volume of its exhaust gas and greenhouse gas emissions from daily operations within the maximum limit allowed by the state.

As the Group uses natural gas as its main fuel consumption, the exhaust emission of the Group mainly derives from the fuels used by vehicles. During the Reporting Period, the Group consumed an aggregate of approximately 4,861 litres of petrol for vehicles with the driving mileage of approximately 29,171 kilometres in total.

To reduce unnecessary exhaust emissions, we encourage employees to take public transport as much as possible when visiting customers and only use Group's vehicles in special cases. Meanwhile, the Group encourages employees to take electric public transport whenever possible for external meetings or activities and reduce the use of private cars. For nearby activities, the Group encourages employees to walk instead of riding a vehicle.

The Group also strictly complies with relevant national laws and regulations, the Group has adopted water spray, ultraviolet ("**UV**") photolysis and activated carbon absorption equipment to effectively absorb and collect benzene and other exhaust gas produced by organic solvents. Consequently, the amount of benzene, methylbenzene and dimethylbenzene and total Volatile Organic Compounds ("**VOCs**") volume emitted by the Group during the Reporting Period was within the air pollutant limits allowed by the government of Guangdong Province.

During the Reporting Period, exhaust emissions were as follows:

KPI A1.1: Exhaust Emissions	
Type of Exhaust	**Amount of Emissions (kg)**
Nitrogen Oxides	25.82
Sulphur Oxides	0.07
Particulate Matter	2.47

Greenhouse Gas Emissions

There is consensus that human activity is causing climate change. The warming climate has significant negative impact on human health. The Group is committed to take sustainable, long-term actions to manage the carbon footprint of our own operations.

The elevated greenhouse gas ("**GHG**") concentrations in the atmosphere has resulted in increased atmospheric heat retention and rising global average temperatures. As the contribution of the Group's carbon footprint came from sources such as purchased electricity, business travel and vehicles, we continue to work on reducing travel and consolidating office space, encourage the employees to conduct conference calls or video conferences instead of face-to-face meetings, in addition, we also arrange commuter vehicles for our employees to reduce indirect greenhouse gas emissions from transportation, as well as develop ing energy saving policies (as mentioned in the section "Use of Resources") to reduce the GHG emission by reducing energy consumption in the business operation.

This Report focuses on emissions of equivalent GHG emission and includes Scope 1, which are direct emissions from the stationary and mobile combustion owned by the Group; Scope 2, which is indirect emission generated by consumption of purchased electricity by the Group and Scope 3, which is indirect emission from air business trips by employees of the Group. As a result of the COVID-19 pandemic (the "**Pandemic**"), there is no air business trips of employee incurred for the Reporting Period.

During the Reporting Period, greenhouse gas emissions were as follows:

KPI A1.2: GHG Emission		
Type of GHG emissions	**Amount of Emission (Tonnes)**	**Intensity* (Tonnes/ Revenue of HK$ million)**
Scope 1 — Direct emissions	26.25	0.66
Scope 2 — Energy indirect emissions	502.96	12.65
Total	529.21	13.31

Waste Management

With the scarcity of resources and energy, countries around the world are paying more attention to waste recycling. The Group is also aware of the importance of reducing waste to the company's development. Waste management is imperative to the well-being of staffs, the environment and in most cases your own profits.

Emissions from the Group's operation of manufacture of leather products mainly include waste paint residue, waste wipes and gloves, waste can and other industrial waste. The Group strictly follows relevant environmental laws and regulations and submits relevant information to the Solid Waste Management Information Platform (《廣東省固體廢物管理信息平台》) pursuant to statutory requirements.

Industrial wastes produced from the Group's manufacturing processes were disposed of by professional institutions which hold the Permit for Operation of Dangerous Wastes (《危險廢物經營許可證》) issued by the local environmental authorities and the relevant qualifications. These institutions have the required qualifications to collect, store, handle and dispose of wastes. Their vehicles for transferring industrial waste, and the weight and packaging of industrial waste are also under stringent control.

The Group emphasises the effective use of water and has adopted several prevention measures: oily sewage produced by the kitchen of the Group is treated through the sedimentation basin with grease and residue trap. Fecal wastewater is treated by three graded septic tanks. Paint residue at water curtain booth is cleaned and undergoes sedimentation regularly. The Group strictly complies with national requirements on discharge of industrial wastewater as it centralises its industrial painting wastewater generated from production process to professional institution for treatment, and declare its sewage discharge. The third-party institution responsible for the treatment of the Group's industrial wastewater holds the Permit for Pollutant Discharge issued by the Ministry of Environmental Protection, and keeps detailed record of transport weight, routes and dates of each treatment of industrial wastewater, in order to prevent secondary pollution during the transferring and treatment of industrial wastewater.

During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations related to environmental protection, the wastes generated by the Group are as follows:

KPI A1.4: Wastes		
Type of Wastes Generation	**Amount (Tonnes)**	**Intensity (Tonnes/ Revenue of HK$ million)**
Hazardous waste	0.15	0.004
Non-hazardous waste	22	0.553

A2: USE OF RESOURCES

The Group places high priority on the efficient use of resources. The major resources used by the Group are electricity, water, and paper. The Group strives to improve the efficient use of natural resources, such as minimising waste/emissions and implementing effective recycling program. During the Reporting Period, the Group has complied with relevant laws and regulations in relation to the use of energy.

Electricity

The Group acknowledges the importance of electricity and energy saving and the fact that reducing electricity consumption will indirectly reduce greenhouse gas emissions. Therefore, the Group encourages various energy saving measures, including:

- switching off lights, computers, fans and other electronic appliances when they are not in use;
- set idle automatically mode for computers;
- replacing lighting tools of low energy-efficiency with LED and energy-saving lights;
- posting electricity saving slogan on the working areas;
- Maintain indoor temperature at an energy-efficient level 24-26 degree Celsius.

Energy consumption by the Group during the Reporting Period is set out below:

KPI A2.1 Energy Consumption		
Type of energy	**Energy consumed (kWh)**	**Intensity* (kWh/Revenue of HK$ million)**
Electricity purchased	638,732	16,060.65

Water

Water is essential to our business and we have approached water management accordingly. Across our system, we are reducing the amount of water we use during the production processes. We post water saving tips in the restroom and pantry to remind staff of their water use behaviours. The Group did not encounter any problems in sourcing water that is fit for purpose.

During the Reporting Period, the water consumption of the Group is as follows:

KPI A2.2 Water Consumption	
Water consumed (m^3)	**Intensity* (m^3/Revenue of HK$ million)**
25,723	646.79

Paper and packaging material

Reduction in paper use indirectly reduces the overall GHG emission. The Group has been taking the following steps to reduce paper consumption:

- advocate the use of email to reduce the use of paper;
- use multiple office software for online work to reduce the paper usage and delivery;
- reduce the use of paper by printing or photocopying on both sides of paper, where applicable;
- print within budget, approval should be obtained if printing over the budget;
- encourage the employee to use suitable font size/shrinkage mode to minimise pages, if possible. Besides, electronic media is recommended for circulation/communication, to minimise using paper.

In order to perform our commitment to environment protection, the Group chooses green package materials which are harmless to human health, protective to the ecological environment and can be recycled and reused. The main packaging material used were paper boxes and plastic bags. During the Reporting Period, the Group consumed approximately 45,212 square inchs paper boxes and approximately 5,743 pounds plastic bags.

The Group will keep recording its resource consumption for reviewing effectiveness of its conservation measures in the future and formulating more specific improvement measures and objectives.

A3: THE ENVIRONMENT AND NATURAL RESOURCES

Recognising that environmental protection is an important obligation of global enterprises, the Group complies with all applicable environmental laws and regulations and make great efforts to reduce consumption of resources and energy. The Group regularly assesses its environmental risks incurred from operations, review its environmental practices and adopt necessary preventive or improvement measures. The Group communicates with its suppliers and business partners to better understand their environmental policies and procures and purchase more environmental equipment. Leveraging on the policies mentioned in the sections headed "Emissions" and "Use of Resources" above, the Group will continue to implement environment-friendly practices in the Group's operation in order to enhance environmental sustainability.

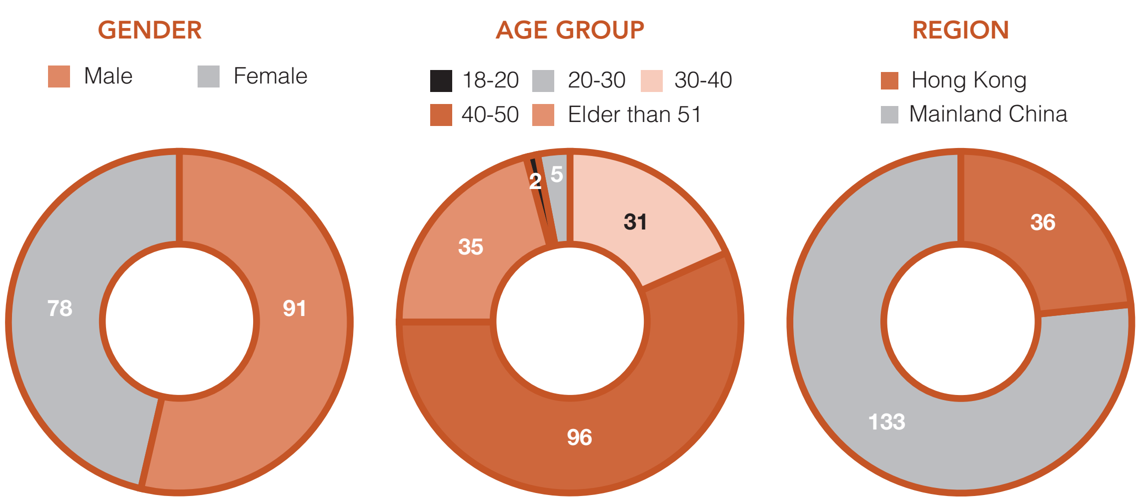
SOCIAL ASPECTS

B1: EMPLOYMENT

We believe that the employees are the most important and valuable assets of the Group. We put great emphasis on the protection of the legitimate rights and interests of all employees. During the Reporting Period, the Group strictly complied with labour legislations and related regulations in the PRC and Hong Kong. The Group was not involved in any confirmed violation relating to employment that have a significant impact on the Group.

We are committed to be an ideal employer of choice and providing a healthy working environment where our employees can thrive. We have established an effective system of employment policies, including equal recruitment policy, equal promotion policy, work-life balance policy, compensation policy, remuneration and allowance policy, dismissal and retirement policy, anti-discrimination policy, diversity policy, employee welfare and benefit policy. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group.

As at 31 December 2020, the Group had a total of 169 employees, all of them are full-time employees, with the employee structure as follows:



Talent Acquisition and Retention

Our staff is the cornerstone of our corporate operation and development, therefore, we have a fair and equitable talent selection system, which undergoes optimisation from time to time for talent recruitment. We have formulated annual recruitment plans and generally recruit our employees through campus recruiting and placing advertisements in the open market with reference to factors such as experience, qualifications and expertise required for our business operations. In general, our Group determines employee's remuneration based on each employee's qualifications, position and seniority and remuneration policies established by us. Our Group has designed an appraisal system to assess the performance of our employees, which forms the basis of our decisions with respect to salary adjustments, bonuses and promotions. We believe that the above arrangement can maintain good relationship with our employee.

Remuneration and Benefits

We offer reasonable and competitive salary and benefits to staff. Employees are awarded a salary adjustment and promotion based on their job performance as well as progress achievement and the results of performance appraisal. We make timely contribution to social insurances (i.e., pension, medical insurance, unemployment insurance, maternity insurance, and occupational injury insurance) and the housing fund (五險一金), mandatory provident fund and employees' compensation insurance in strict accordance with the Social Security Law of the People's Republic of China and the Labour Law of the People's Republic of China, Mandatory Provident Fund Schemes Ordinance of Hong Kong and Employees' Compensation Ordinance of Hong Kong.

Equal Opportunities and Diversity

The Group is committed to providing a fair and equitable workplace where all individuals are treated equally in every aspect of their work or employment. Candidates and employees have equal opportunities to employment, remuneration and promotion. We will not conduct or tolerate discrimination or harassment against individuals on the basis of age, gender, race, marital status, religion healthy status or any legally protected ground or on any other ground which we consider inappropriate and unacceptable.

We also place high value on female employees' career development by ensuring that they have the same promotion opportunities as male staff. We also comply with the requirements of the Law on the Protection of Women's Rights and Interests of the People's Republic of China, which stipulates that female employees are entitled to basic salary and their employment contracts will not be released or terminated, without cause, during their pregnancy, maternity leave or breastfeeding period.

Dismissal Policy

With regards to the policies relating to dismissal of employees, if an employee has committed serious misconduct and fails to improve in spite of repeated warnings, his/her supervisor and the senior management of the Company will have a thorough internal discussion and allow the employee to answer and explain before the dismissal is announced. The reasons for the dismissal will be conveyed to the employee clearly. The dismissal procedure must be in accordance to applicable laws and regulations as well.

Staff Communication

We appreciate the significance of communication with and care for our employees. We believe that maintaining a close relationship with our staff allows us to better understand their needs. Besides employee orientation with introduction of corporate system, culture and other information, we are willing to listen to our employees about their daily work condition, working environment and personal career development, with a view to properly adjusting our internal resources and policies. The Group also regularly organises staff activities to facilitate interaction among them and enhance their sense of belonging.

Working Hours and Rest Periods

The Group has formulated its policy based on local employment laws including the Provisions of the State Council on Employees' Working Hours (《國務院關於職工工作時間的規定》) to determine working hours and rest periods for employees. Specially, the Group has installed the attendance management system that could keep monitoring its employee's working hours and compensate those wo work overtime with extra pay or additional days off. In addition to basic paid annual leave and statutory holidays, the employees are also entitled to leave benefits such as marriage leave, maternity leave and compassionate leave etc.

B2: HEALTH AND SAFETY

The Group is committed to ensuring a sound and safe working environment for our employees to prevent injury and illness, in compliance with all relevant legislation. People are crucial to the sustainable development of our Group. We manage the safety of the office in accordance with relevant occupational health and safety laws and regulations. We strive for the highest standards of safety and health performance by taking into consideration of all possible precautionary measures to achieve a zero-incident working environment.

The Group strictly implements various labour protection, safe production and fire prevention rules, and regularly coordinates safety check for factory, including:

- Carrying out daily patrol of production facility to ensure that employees wear protective gear properly, and keeping record for review;
- Organising regular training on usage of protective gear to raise employees' awareness;
- Establishing Safety Organisational Structure for clear division of labour and minimising impact caused by accidents;
- Halting production when emergency and unsafe situation takes place;
- Producing statistics for serious factory incidents and making preventive measures based on the monthly statistics; handling fire, chemical leakage, serious safety and health incidents at factory in accordance with Emergency Preparation Contingency Procedure, and calling for meeting for review;
- Performing regular check on machineries;

- Organising safety production contest to encourage employees to make reasonable suggestion and share experience from different departments;

- Organising regular fire drill, providing emergency and first-aid skill training; checking fire hydrant regularly and repairing, maintaining and replacing old and obsolete equipment; and

- Solidifying theoretical knowledge base of medics and employees of specialty work procedures on a monthly basis.

The employees responsible for specialty work, such as electricians, instrument calibration staff, etc., are required to obtain certification recognised by the national government in order to perform job duties. The Group's employees are required to:

- Carry out regular maintenance and repair on machineries to ensure safety;

- Switch off power when repairing electric appliances and hoisting safety signs of power outage and repair whilst assigning staff to secure the area and prevent others from electric shock; and

- Ensure that electronic appliances and wire are in compliance with national safety requirement and have good insulation.

In addition, the Group stresses the importance of hygiene of work environment and promotes safety and hygiene awareness among employees. Garbage is not allowed to be left at factory overnight and the Group hires professional firms for pest and ant control.

For safety of chemical warehouse, the Group strictly complies with national standards relating to design and installation of electronic appliances, as well as national safety regulations of electronic appliances at explosive and hazardous area. For instance, the Group uses explosion-proof lighting tools at chemical warehouse; uses non-flammable PVC pipes to protect electricity wire at warehouse; installs separate switch box outside warehouse; prohibits the use of electric furnace, electric motor and other machines.

During the Reporting Period, there were no work-related fatalities/injuries and no severe or lethal industrial accident and no lost days due to work injury recorded by the Group. We will continue to foster greater safety awareness amongst our employees through series of on-the-job training.

B3: DEVELOPMENT AND TRAINING

The Group recognises the importance of training for the development of our employees as well as our Group. The Group has established Monthly Training Planning to conduct periodic training to our employees regarding the requirements of their job duties. All employees must comply with the codes and policies and obtain required knowledge and techniques for their positions.

The Group focuses on growing together with its employees and provides new joiners, current employees and management with training on professional skills so as to enhance competitiveness. The Group also encourages employees to self-learn and improve during spare time. Our human resources department provides newly-joined front-line employees with job training, covering corporate system, factory regulations, fire safety, equipment usage safety, in order to help new employees understand the corporate culture and requirements of relevant positions within the Group, and familiarise with the work environment and job duties. The Group also organized employee to attend external trainings and provide internal trainings as company policy require.

During the Period, the Group provided employees with various training programs to improve work performance and kept record of the participants of each session, including but not limited to:

- Working hour control, management awareness, client sit visit training, anti-terrorism training, company discipline;
- Products introduction, product development;
- Proper use of protective gear/identifying of work procedure risks, hygienic, healthy and safe environment;
- Safety awareness training, first aid training;
- Production safety and 7S (Seiri, Seiton, Seiso, Seikeetus, Shisuke, Safety, Speed/Saving) management, material management, handling of survey metres, chemical material usage and keeping;
- Quality control awareness and measures;
- Fundamental financial knowledge and skills;
- Internal three-level documentation training; and
- Client management.

During the Reporting Period, the Group had 117 person-times of our trainings, total training hours are 480 hours. Statistics of trainings by position are as follows:

Positions	Trained person-times	Training hours
Senior management	4	30
Administrative staff	7	70
Others	106	380
Total	117	480

B4: LABOUR STANDARDS

The Group is fully aware that child labour and forced labour violate fundamental human rights and also pose threat to sustainable social and economic development. The Group strictly complies with the Labour Law of the PRC, the Labour Contract Law of the PRC, Employment Ordinance of Hong Kong and other relevant labour laws and regulations in Hong Kong. The Group prohibits the use of child labour and forced labour. Employment contracts and other records, documenting all relevant details of the employees (including age) are maintained properly for verification by relevant statutory body upon request.

During the Reporting Period, the Group has complied with policies and relevant laws and regulations regarding prevention of child labour or forced labour.

B5: SUPPLY CHAIN MANAGEMENT

The Group works closely with its suppliers who are committed to high quality, environmental, health and safety standards. As part of our commitment to environmental protection, product quality and social responsibility, we recognised the great importance of supply chain management and formulated internal policies and guidelines and selection of external suppliers.

Our suppliers are mainly located in Dongguan, and nearby cities, such as Shenzhen, Guangzhou, Qingyuan and Huizhou, in order to minimise the transportation cost and carbon emission from transportation. The Group has erected a designated procurement department with designated officers. Suppliers are sorted by their delivery quality, after-sales service, production scale, production capability and other indicators. Coupled with the Group's business needs, the Group will undertake integrated assessment on suppliers and rank their integrated capabilities from A to D, with those getting higher scores amongst the priority list; whilst limiting or even stopping procurement from suppliers which score low to ensure quality of raw materials. Our Procurement Department will fill out Procurement Forms based on requirements and purchase the materials needed from eligible suppliers on the list.

Thus, we believe that during the Reporting Period, there are no significant environmental and social risks for our management decision on supply chain management.

B6: PRODUCT RESPONSIBILITY

Quality Assurance

The Group endeavours to offer high-quality products and services. We are committed to improve our product quality, attract new customer and strengthen the relationship with existing customers. The Group established the stringent quality assurance standards and inspection management procedures. The standards and procedures are reviewed periodically as well. Products are made in strict accordance with clients' requirements to ensure quality. Our quality assurance department will fill out the source material inspection report for any faulty and unqualified raw materials, suggest preventive measures based on actual circumstances and instruct the procurement department for recall from suppliers.

The Group's retail outlets in Hong Kong offer high-quality products and services to customers. Our Employee Manual states that employees shall maintain a customer-first attitude to serve customers in an enthusiastic and polite manner. We believe that customers' feedback is vital to improving our service quality. We also have a comprehensive complaint-handling and recall mechanism. Upon receiving customer complaints, our customer service officers will keep a record and immediately respond to them with follow-up measures. All complaints are investigated and reviewed in a serious manner.

During the Reporting Period, there is no products and services related complaints received and there is no product recall for health and safety problems.

Product Responsibility

Ensuring customer satisfaction with our products and services is a priority for the Group. We place importance on the quality standard of our products and services to achieve sustainable growth of our business. We are committed to ensure compliance with the laws and regulations relating to product health and safety, labelling and privacy matters including the Product Quality Law of the PRC and the Hong Kong Personal Data (Privacy) Ordinance. Policies about product quality and safety as well as compliance with laws and regulations have been clearly stated to the employees and suppliers. During the Reporting Period, we had no violation record on relevant laws and regulations that have a significant impact on the Group relating to product responsibility issues.

Privacy Protection

The Group takes privacy issues of our customers, internal employees, data, and external partners and suppliers very seriously. We have established confidentiality guidelines in order to demonstrate our firm commitment to privacy issue. The customers' information should not be revealed to anyone other than staff who are in the normal course of conducting duties and responsibilities. Disclosure of customers' confidential information to unauthorised personnel is prohibited and could result in disciplinary action, up to and including termination of employment.

B7: ANTI-CORRUPTION

Our Group believes the integrity and commitment of our employees are our critical factors to success. The Group has implemented "Anti-fraud, Anti-Corruption and Anti-Commercial Bribery Management Policy" with its formulation of Anti-business Corruption Regulation based on the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Prevention of Bribery Ordinance (《防止賄賂條例》) (Cap. 201 of the Laws of Hong Kong) and other national or regional laws and regulations to set out our commitment to preventing all forms of corrupt practices. Employees are required and have the responsibility to conduct themselves with integrity in an ethical and proper manner. Payments or acceptance of any kickbacks from external parties is strictly prohibited. The Group takes disciplinary action to combat against any violation of the Group's regulation. We also have the same expectations for our suppliers and other business partners.

The Group endeavours to prevent any non-compliance to relevant laws. To enhance corporate governance, the Group sets up Audit Committee and engages external lawyers and auditors to review and provide opinions on the company's financial report and other compliance issues. Besides complying with the requirement to the corporate governance of listing companies enforced by the Stock Exchange, we constantly review the effectiveness of our internal control measures to enhance governance level.

Whistle-Blowing Policy

The Group sets up report channel to encourage employees to raise concerns about suspected misconduct, malpractice or irregularities in confidence. All reported cases are promptly and thoroughly investigated by the Group's the Audit Committee and the Board while the confidentiality is respected in order to protect individuals. If there is sufficient evidence to suggest that a case of possible corruption exists, the case will be reported to the relevant local authorities.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, extortion, fraud and money laundering.

B8: COMMUNITY INVESTMENT

The Group attaches high importance to corporate social responsibilities and has formulated the Guideline for Social Responsibilities which promotes the caring of community. The Group strives to develop long-term relationship with our stakeholders and seek to make contributions to programmes that have a positive impact on community development. During the Reporting Period, the Group encouraged its employees to spend their spare time on community activities at their community and get to know the community. While the Group participated in various charity activities during the year, it will continue to take part in other activities to give back to society and help the needy, including organising activities and joining those held by other organisations.

INDEX TO THE STOCK EXCHANGE OF HONG KONG LIMITED'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

Subject areas, aspects, general disclosures and KPIs		Section	Page
Environmental			
A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	"Emissions"	31-34
KPI A1.1	The types of emissions and respective emissions data.	"Emissions"	32
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Emissions"	33
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Emissions"	34
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Emissions"	34
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	"Emissions" and "Use of Resources"	31-35
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and septs taken to achieve them.	"Emissions"	33
A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	"Use of Resources"	34-35
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	"Use of Resources"	34
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	"Use of Resources"	35
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	"Use of Resources"	34-35
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	"Use of Resources"	35
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	"Use of Resources"	35
A3: The Environment and Natural Resources			
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	"The Environment and Natural Resources"	36
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	"Emissions" and "Use of Resources"	36

Subject areas, aspects, general disclosures and KPIs		Section	Page
Environmental			
A4: Climate Change (Note 1)			
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	"To be disclosed in the following year"	N/A
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	"To be disclosed in the following year"	N/A
Social (Note 2)			
Employment and Labour Practices			
B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.	"Employment"	36-38
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	"Employment"	36
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	"To be disclosed in the following year"	N/A
B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to providing a safe working environment and protecting employees from occupational hazards.	"Health and Safety"	38-39
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	"To be disclosed in the following year"	N/A
KPI B2.2	Lost days due to work injury.	"Health and Safety"	39
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	"Health and Safety"	38-39
B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	"Development and Training"	40-41
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	"To be disclosed in the following year"	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	"To be disclosed in the following year"	N/A

Subject areas, aspects, general disclosures and KPIs		Section	Page
Social (Note 2)			
Employment and Labour Practices			
B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to preventing child and forced labour.	"Labour Standards"	41
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	"Labour Standards"	41
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	"Labour Standards"	41
Operating Practices			
B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	"Supply Chain Management"	41
KPI B5.1	Number of suppliers by geographical region.	"To be disclosed in the following year"	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	"Supply Chain Management"	41
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, how they are implemented and monitored.	"Supply Chain Management"	41
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, how they are implemented and monitored.	"Supply Chain Management"	41
B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	"Product Responsibility"	42
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	"Product Responsibility"	42
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	"Product Responsibility"	42
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	"To be disclosed in the following year"	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	"Product Responsibility"	42
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	"Product Responsibility"	42

Subject areas, aspects, general disclosures and KPIs		Section	Page
Operating Practices			
B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to bribery, extortion, fraud and money laundering.	"Anti-Corruption"	43
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	"Anti-Corruption"	43
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	"Anti-Corruption"	43
KPI B7.3	Description of anti-corruption training provided to directors and staff.	"To be disclosed in the following year"	N/A
Community			
B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	"Community Investment"	43
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	"Community Investment"	43
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	"To be disclosed in the following year"	N/A

Notes:

1. Pursuant to Consultation Conclusions: Review of The Environmental, Social And Governance Reporting Guide and Related Listing Rules, this section is required to implement for financial year commencing on or after 1 July 2020 only.

2. Pursuant to Appendix 27 of the Listing Rules, KPIs in this section are recommended disclosures only.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Company for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 1 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on pages 4 to 7 and pages 8 to 10 of this annual report respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including market risk, credit risk, and liquidity risk. The financial risk management policies and practices of the Group are shown in note 30 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

The Group also commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as re-deployment of office furniture as far as possible, encourage use of recycled paper for printing and copying, double-sided printing and copying, reduce energy consumption by switching off idle lightings, air conditioning and electrical appliances.

For the year ended 31 December 2020, the Group was not subject to any environmental penalty. Details of the environmental, social and governance performance of the Group are set out in the environment, social and governance report which will be published on both the websites of the Company and the Stock Exchange no later than three months after the publication of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 December 2020, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers and other stakeholders to meet its immediate and long-term goals.

During the year ended 31 December 2020, there was no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

PERMITTED INDEMNITY

During the year ended 31 December 2020, the Company has arranged appropriate insurance cover for Directors' and officers' liabilities.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 66 to 135 of this annual report.

The Directors do not recommend any payment of final dividend to shareholders for the year ended 31 December 2020.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in note 25 to the consolidated financial statements and in the consolidated statement of changes in equity on page 68 of this annual report, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

No distributable reserves of the Company at 31 December 2020. Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the memorandum and articles of association of the Company and no distribution or dividend may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's memorandum and articles of association and there was no restriction against such rights under the laws of the Cayman Islands.

BANK LOANS AND OVERDRAFTS

The Group did not have bank loans and overdrafts as at 31 December 2020.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 136 of this Annual Report.

PURCHASE, SALE OR REDEMPTION 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 year ended 31 December 2020.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors of the Group are set out on pages 11 to 12 of this Annual Report.

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this report were:

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

In accordance with Article 86(3) of the Company's Articles, Mr. Fan Xin and Mr. Rong Yi shall retire from office in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Details of service agreements or letters of appointment entered into by the Company with the Directors are as follows:

Each of the current executive Directors entered into service agreement with the Company for a term of three years and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

Each of the current independent non-executive Directors entered into a letter of appointment with the Company for an initial term of three years and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

Save as aforesaid, no Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the highest paid individuals of the Group are set out in note 8 to the consolidated financial statements.

EMOLUMENT POLICY

The emoluments of the Directors are recommended by the Remuneration Committee for the Board approval, having regard to the Company's operating results, individual performance and comparable market statistics.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or substantial shareholders of the Company or their respective close associates (as defined in the Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, during the year ended 31 December 2020 and up to the date of this annual report.

DIRECTORS' MATERIAL INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries, holding companies and fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period under review.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors as independent.

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

As at 31 December 2020, 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 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 contained in the Listing Rules, were as follows:

SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION

(I) Interest in the Company

Long positions in 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 (Note)	287,024,406	75.00

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..

(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 31 December 2020, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as known to the Directors, as at 31 December 2020, the following persons (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest and/or short position in the Shares, the underlying Shares or debentures of the Company which were required to be 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	287,024,406	75.00

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest and/or short position in the Shares, the underlying Shares or debentures of the Company which were required to be 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 2020 and 31 December 2020 and no share option of the Company was granted, exercised, lapsed or cancelled during the year under review.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended 31 December 2020 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2020, the Company has not entered any equity-linked agreements, and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year under review attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	10.6%
— five largest suppliers combined	37.9%
Sales	
— the largest customer	51.7%
— five largest customers combined	77.1%

None of the Directors, their close associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers stated above.

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and Code Provisions set out in 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 year ended 31 December 2020 except for the deviation from the Code Provision C.2.5 in respect of having the internal audit function. Details are set out in the section headed "Corporate Governance Report" on pages 13 to 26 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Company established an 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. The audit committee currently comprises Ms. Han Yu (Committee Chairlady), Ms. Jia Lixin and Mr. Rong Yi. The Audit Committee has reviewed and discussed with the management and the external auditor the financial reporting matters including the annual results for the year ended 31 December 2020.

SUBSIDIARIES

Particulars of Company's subsidiaries as at 31 December 2020 are set out in note 1 to the consolidated financial statements.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this annual report, there were (i) no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries nor (ii) any contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries during the year ended 31 December 2020.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2020, the Group did not enter into any transactions which need to be disclosed as connected transactions or continuing connected transactions pursuant to Chapter 14A of the Listing Rules.

Details of the related party transactions of the Group are set out in note 26 to the consolidated financial statements. These related party transactions did not constitute connected transactions or continuing connected transactions pursuant to Chapter 14A of the Listing Rules.

CHARITABLE DONATIONS

No charitable or other donations were made by the Group during the year ended 31 December 2020.

RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Company's securities.

AUDITOR

The consolidated financial statements of the Company for the years ended 31 December 2019 were audited by BDO Limited ("**BDO**"). On 11 August 2020, BDO resigned as the auditor of the Company.

The Board, with the recommendation from the Audit Committee, has resolved to appoint Ascenda Cachet CPA Limited ("**Ascenda**") as the new auditor of the Company with effect from 11 August 2020 to fill the casual vacancy following the resignation of BDO and to hold office until the conclusion of the next annual general meeting of the Company. There have been no other changes to the auditor during the preceding three years.

Ascenda will retire in the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ascenda as the auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhao Jingfei
Chairman

Hong Kong, 30 March 2021

TO THE MEMBERS OF CHINA INTERNATIONAL DEVELOPMENT CORPORATION LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China International Development Corporation Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 66 to 135, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by HKICPA. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosures concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements which indicates that (i) the Group incurred a substantial loss of approximately HK$21,758,000 during the year and had net current liabilities and deficiency in assets of approximately HK$9,525,000 and HK$10,887,000, respectively, as at 31 December 2020; and (ii) the Group had cash and cash equivalents of approximately of HK$2,280,000 only to meet its financial obligations as at 31 December 2020. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the abovementioned, the consolidated financial statements have been prepared by the directors of the Company (the "**Directors**") on the basis that the Group will continue to operate as a going concern, the validity of which depends upon the implementation of the following measures:

(i) the Company has obtained a letter of undertaking from Mr. Qin Bohan ("**Mr. Qin**"), an executive director of the Company, that he would not demand for repayment of the amount due to him of HK$8,000,000 as at 31 December 2020 until the Company is in a position to do so;

(ii) subsequent to the end of the reporting period on 26 March 2021, the Company and Mr. Qin entered into another loan agreement, pursuant to which, Mr. Qin granted an unsecured interest-free loan facility up to RMB30,000,000 (equivalent to approximately HK$35,750,000) for a term of two years, which has been fully drawn down by the Company as at the date of this report;

(iii) the Company and Mr. Zhao Jingfei ("**Mr. Zhao**"), an executive director, chairman and the ultimate controlling shareholder of the Company, entered into a loan facility agreement on 27 May 2020, pursuant to which, Mr. Zhao granted an unsecured interest-free loan facility up to HK$20,000,000 to the Company for a term of two years, none of which has been utilised as at the end of the reporting period and the date of this report; and

(iv) the Company has obtained a letter of support from Mr. Zhao confirming his willingness to further provide for adequate financial resources as is necessary to enable the Group both to meet its financial obligations as and when they fall due and to carry on its business for at least 24 months from 31 December 2020.

The consolidated financial statements do not include any adjustment that would result from a failure to obtain such funding and undertaking 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, adjustment would have been made to restate the value of assets to the recoverable amounts and to provide for further liabilities which might arise. We consider that the fundamental uncertainty has been properly disclosed in the consolidated financial statements. Our report is not qualified in respect of the fundamental uncertainty relating to the going concern basis.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

1. *Impairment assessment of the Group's property, plant and equipment*

Reference is made to notes 2.4(d) and 3 to the consolidated financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, respectively and note 12 of the consolidated financial statements for further information.

The Key Audit Matter	How our audit was addressed in the Key Audit Matter
The Group has property, plant and equipment (the "**Retail PPE**") in relation to its leather retail business with cost of approximately HK$3,304,000 which had been fully depreciated and impaired as at 31 December 2020. For the purpose of impairment assessment of the Retail PPE, the Directors determine the recoverable amount of the Retail PPE with reference to a valuation (the "**VIU Valuation**") of the cash generating unit of the leather retail business prepared by an independent valuer (the "**Valuer**"), which was based on a cashflow forecast with management's assumptions. Significant management judgement and estimation was used to determine the key assumptions underlying the cashflow forecast and the VIU Valuation, including the growth rates, gross profit margin, discount rate and future business plan. For the above reasons, we identified the impairment assessment of the property, plant and equipment as a key audit matter. With reference to the cashflow forecast and the VIU Valuation, the Group provided an impairment on property, plant and equipment of approximately HK$1,545,000 during the year.	Our procedures in relation to management's assessment of the impairment of the Retail PPE of the Group included: — Discussing with management and/or the Valuer to understand the basis of valuation approach and methodology, which is prepared based on the cashflow forecast; — Challenging the management and/or the Valuer on the adoption of the assumptions and estimations in the cashflow forecast and the VIU Valuation; — Evaluating the independence, professionalism and accuracy of the work performed by the Valuer; — Evaluating the reasonableness and appropriateness of the cashflow forecast and the VIU Valuation and the assumptions, information and parameters used in the models, including the growth rates, gross profit margin, discount rate and future business plan used by the management in assessing the recoverable amount of the Retail PPE; and — Recalculating the provision of the impairment of Retail PPE, and assessing the sufficiency of the impairment as at 31 December 2020.

2. *Impairment assessment of the Group's right-of-use assets*

Reference is made to notes 2.4(e) and 3 to the consolidated financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, respectively and note 22(a) of the consolidated financial statements for further information.

The Key Audit Matter

The carrying amount of the Group's right-of-use assets was approximately HK$1,853,000 (net of impairment of HK$7,425,000) as at 31 December 2020.

For the purpose of impairment assessment of the right-of-use assets, the Directors determine the recoverable amount of the right-of-use assets with reference to the VIU Valuation and the cashflow forecasts based on the management's assumptions. Significant management judgement and estimation was used to determine the key assumptions underlying the cashflow forecasts and the VIU Valuation, including the growth rates, gross profit margin, discount rate and future business plan.

For the above reasons, we identified the impairment assessment of the right-of-use assets as a key audit matter.

With reference to the cashflow forecasts and the VIU Valuation, the Group provided an impairment on right-of-use assets of approximately HK$4,502,000 during the year.

How our audit was addressed in the Key Audit Matter

Our procedures in relation to management's assessment of the impairment of the Group's right-of-use assets included:

— Discussing with management and/or the Valuer to understand the basis of valuation approach and methodology, which is prepared based on the cashflow forecasts;

— Challenging the management and/or the Valuer on the adoption of the assumptions and estimations in the cashflow forecasts and the VIU Valuation;

— Evaluating the independence, professionalism and accuracy of the work performed by the Valuer;

— Evaluating the reasonableness and appropriateness of the cashflow forecasts and the VIU Valuation and the assumptions, information and parameters used in the models, including growth rates, gross profit margin, discount rate and future business plan used by the management in assessing the recoverable amount of the right-of-use assets; and

— Recalculating the provision of the impairment of right-of-use assets, and assessing the sufficiency of the impairment as at 31 December 2020.

3. *Provision for inventories*

Reference is made to notes 2.4(h) and 3 of the consolidated financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, respectively and note 13 of the consolidated financial statements for further information.

The Key Audit Matter	How our audit was addressed in the Key Audit Matter
The carrying amount of the Group's inventories was approximately HK$11,265,000 as at 31 December 2020. For the purpose of assessment of the provision of inventories, the Directors performed an assessment (the "**Inventories Provision Assessment**") to determine the net realisable value of the inventories based on the management's assumptions. Significant management judgement and estimation was used to determine the key assumptions underlying the Inventories Provision Assessment, including (i) provision of obsolete or slow-moving inventories at each period end, (ii) condition and ageing of inventories; and (iii) sales pattern and estimated selling prices in the ordinary course of business less estimated costs to completion. For the above reasons, we identified the determination of the provision for inventories as a key audit matter. Based on the Inventories Provision Assessment, the Group recognised a write down of inventories to its net realisable value of approximately HK$614,000 during the year.	Our procedures in relation to management's assessment of the provision for inventories included: — Discussing with management to understand the basis of approach and methodology of the Inventories Provision Assessment; — Challenging the management on the adoption of the assumptions and estimations in the Inventories Provision Assessment; — Identifying aged and/or damaged inventories during the physical inventory count; — Obtaining the inventory ageing analysis; — Testing on a sample basis, the accuracy of the ageing profile of inventory items by checking to the underlying procurement correspondence and invoices; — Testing on a sample basis, the net realisable value of selected inventory items by comparing the carrying amount of the inventory items against their selling price subsequent to the year end or closest to year end; and — Recalculating the provision for inventories and assessing the sufficiency of the provision as at 31 December 2020.

4. Loss allowance for impairment of trade receivables

Reference is made to notes 2.4(f) and 3 of the consolidated financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, respectively and note 14 of the consolidated financial statements for further information.

The Key Audit Matter	How our audit was addressed in the Key Audit Matter
The carrying amount of the Group's trade receivables was approximately HK$9,833,000 (net of impairment of HK$1,123,000) as at 31 December 2020. The Group has applied the simplified approach for determining the expected credit loss ("**ECL**") on trade receivables, which are assessed individually for customers which are credit impaired and collectively using a provision matrix. For the purpose of impairment assessment of the trade receivables, the Directors engaged the Valuer to perform a valuation (the "**ECL Valuation**") regarding ECL allowance for impairment of trade receivables based on management's assumptions. Significant management judgement and estimation was used to determine the key assumptions underlying the ECL Valuation, including (i) the historical observed default rates; and (ii) the selection and use of reasonable and supportable forward-looking information without undue cost or effort in the ECL Valuation. The Group calibrates the maturing to adjusting the historical credit loss experience with forward-looking information. For the above reasons, we identified the ECL allowance for impairment of trade receivables as a key audit matter. Based on the ECL Valuation, the Group provided ECL allowance for impairment of trade receivables of approximately HK$176,000 for the year.	Our procedures in relation to management's assessment of the ECL allowance for impairment of trade receivables included: — Discussing with management and Valuer to understand the basis of approach and methodology of the ECL Valuation; — Challenging the management and Valuer on the adoption of the assumptions and estimations in the ECL Valuation; — Evaluating the independence, professionalism and accuracy of the work performed by the Valuer; — Evaluating the reasonableness and appropriateness of the ECL Valuation and the assumptions, information and parameters used in the model, including the historical observed default rates and forward-looking factors; — Checking the information used by management and Valuer to develop the provision matrix including ageing analysis of trade receivables, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices; — Checking settlements subsequent to the end of the reporting period relating to the trade receivables as at 31 December 2020 on a sample basis; and — Recalculating the ECL allowance for impairment of trade receivables on trade receivables, and assessing the sufficiency of the ECL allowance as at 31 December 2020.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement director on the audit resulting in this independent auditor's report is Chan Chi Yuen.

Ascenda Cachet CPA Limited
Certified Public Accountants
Chan Chi Yuen
Practising Certificate Number P02671

Hong Kong
30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020 HK$'000**	2019 HK$'000
Revenue	5	**39,771**	61,202
Cost of sales		**(27,837)**	(32,415)
Gross profit		**11,934**	28,787
Other income and gains	5	**2,772**	518
Selling and distribution costs		**(4,358)**	(12,171)
Administrative and other operating expenses		**(25,155)**	(31,799)
Impairment of other receivables	15	**(192)**	-
(Impairment)/Reversal of impairment of trade receivables	14	**(176)**	25
Impairment of property, plant and equipment	12	**(1,545)**	(234)
Impairment of right-of-use assets	22(a)	**(4,502)**	(2,923)
Finance costs	6	**(536)**	(528)
Loss before tax	7	**(21,758)**	(18,325)
Income tax expense	9	**—**	(2)
Loss for the year attributable to owners of the Company		**(21,758)**	(18,327)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translation of operations outside Hong Kong		**977**	(225)
Other comprehensive income for the year		**977**	(225)
Total comprehensive income for the year attributable to owners of the Company		**(20,781)**	(18,552)
Loss per share attributable to owners of the Company			
— Basic and diluted	11	**HK(5.7) cents**	HK(4.8) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment	12	**233**	307
Deposits paid	15	**1,677**	1,198
Right-of-use assets	22(a)	**1,853**	4,241
Total non-current assets		**3,763**	5,746
Current assets			
Inventories	13	**11,265**	13,301
Trade receivables	14	**9,833**	11,643
Prepayments, deposits and other receivables	15	**3,532**	2,209
Due from former fellow subsidiaries	19	**8**	8
Due from a related company	20	**543**	—
Tax recoverable		**438**	265
Pledged time deposit	16	**430**	429
Cash and cash equivalents	17	**2,280**	15,041
Total current assets		**28,329**	42,896
Current liabilities			
Trade payables	18	**2,746**	2,963
Other payables and accruals		**7,561**	7,105
Due to former fellow subsidiaries	19	**8,171**	8,171
Due to a former intermediate holding company	19	**5,590**	5,590
Due to a director	19	**263**	—
Loan from a director	21	**8,000**	8,000
Lease liabilities	22(b)	**5,523**	5,781
Total current liabilities		**37,854**	37,610
Net current (liabilities)/assets		**(9,525)**	5,286
Total assets less current liabilities		**(5,762)**	11,032
Non-current liabilities			
Loan from ultimate controlling shareholder	23	**3,262**	—
Lease liabilities	22(b)	**1,863**	1,527
Total non-current liabilities		**5,125**	1,527
Net (liabilities)/assets		**(10,887)**	9,505
(Deficiency in assets)/Equity attributable to owners of the Company			
Share capital	24	**3,827**	3,827
Reserves		**(14,714)**	5,678
Total (deficiency in assets)/equity		**(10,887)**	9,505

On behalf of the Board

Zhao Jingfei
Executive Director

Fan Xin
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital HK$'000 (note 24)	Share premium HK$'000 (note 25(i))	Capital reserve HK$'000 (note 25(iv))	Translation reserve HK$'000 (note 25(ii))	Statutory and discretionary reserves HK$'000 (note 25(iii))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2019	3,827	77,760	–	1,771	5,249	(60,550)	28,057
Loss for the year	–	–	–	–	–	(18,327)	(18,327)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	(225)	–	–	(225)
Total comprehensive income for the year	–	–	–	(225)	–	(18,327)	(18,552)
At 31 December 2019 and 1 January 2020	3,827	77,760	–	1,546	5,249	(78,877)	9,505
Loss for the year	–	–	–	–	–	(21,758)	(21,758)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	977	–	–	977
Total comprehensive income for the year	–	–	–	977	–	(21,758)	(20,781)
Interest-free loan provided by ultimate controlling shareholder	–	–	389	–	–	–	389
At 31 December 2020	3,827	77,760	389	2,523	5,249	(100,635)	(10,887)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
Loss before tax		**(21,758)**	(18,325)
Adjustments for:			
Interest income	5	**(48)**	(205)
Finance costs	6	**536**	528
Depreciation of property, plant and equipment	12	**146**	500
Depreciation of right-of-use assets	22(a)	**4,993**	5,643
Impairment of property, plant and equipment	12	**1,545**	234
Impairment of right-of-use assets	22(a)	**4,502**	2,923
Gain on disposal of property, plant and equipment	12	**—**	(31)
Impairment/(Reversal of impairment) of trade receivables, net	14	**176**	(25)
Write-down/(Write-back) of inventories	13	**614**	(1,973)
Impairment of other receivables	15	**192**	—
Write back of other payables	5	**(80)**	—
Operating loss before working capital changes		**(9,182)**	(10,731)
Increase in deposits paid		**(479)**	(614)
Decrease in inventories		**1,422**	2,591
Decrease/(Increase) in trade receivables		**1,634**	(4,544)
(Increase)/Decrease in prepayments, deposits and other receivables		**(1,586)**	1,749
(Decrease)/Increase in trade payables		**(372)**	352
Increase/(Decrease) in other payables and accruals		**268**	(911)
Cash used in operations		**(8,295)**	(12,108)
Income tax paid		**—**	(2)
Net cash used in operating activities		**(8,295)**	(12,110)

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Cash flows from investing activities			
Additions of property, plant and equipment	12	**(1,609)**	(1,156)
Proceeds from disposal of property, plant and equipment	12	**—**	653
Increase in amount due from a related company		**(513)**	—
Increase in pledged time deposit		**(1)**	(429)
Interest received		**48**	205
Net cash used in investing activities		**(2,075)**	(727)
Cash flows from financing activities	28(b)		
Advances from a director		**263**	8,000
Loan from ultimate controlling shareholder		**3,374**	—
Repayment of principal portion of lease liabilities	22(b)	**(6,850)**	(5,257)
Repayment of interest portion of lease liabilities	22(b)	**(443)**	(528)
Net cash (used in)/from financing activities		**(3,656)**	2,215
Net decrease in cash and cash equivalents		**(14,026)**	(10,622)
Cash and cash equivalents at beginning of year		**15,041**	25,729
Effect of exchange rate changes on cash and cash equivalents		**1,265**	(66)
Cash and cash equivalents at end of year			
Represented by cash and bank balances	17	**2,280**	15,041

31 December 2020

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 laws 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 was located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in (i) manufacturing and distribution of leather products; and (ii) retail of fashion apparel, footwear and leather accessories. During the year, the Group has obtained the relevant permit to plant industrial hemp in the Mainland China (the "**PRC**") and extended its business into the industrial hemp planting and production of hemp fabric products.

The directors of the Company (the "**Directors**") 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, PO Box 905, Quastisky Building, Road Town, Tortola, BVI.

Information about subsidiaries

Details of the Company's subsidiaries as at 31 December 2020 are as follows:

Name	Place of incorporation or establishment/ operations	Issued share capital/Paid-up registered capital	Attributable equity interest held by the Company# Directly	Attributable equity interest held by the Company# Indirectly	Principal activities
Chanco International Holding Limited (note (c))	The BVI/ Hong Kong	Ordinary shares USD1,000	100%	–	Investment holding
Sun Ray Manufactory, Limited	Hong Kong	Non-voting deferred shares HK$6 Ordinary shares HK$2	–	100%	Trading of leather products
Elite Leatherware Company Limited	Hong Kong	Ordinary shares HK$10,000	–	100%	Trading of leather products and retail of leather accessories
Talent Union Development Limited (note (c))	The BVI/ Hong Kong	Ordinary shares USD8	–	100%	Investment holding
東莞藝聯皮具有限公司 Dongguan Ngai Luen Leather Goods Company Limited (notes (a)&(c))	The PRC	Paid up registered capital HK$5,600,000	–	100%	Manufacturing and trading of leather products

1. GENERAL (CONTINUED)

Information about subsidiaries (Continued)

Name	Place of incorporation or establishment/ operations	Issued share capital/paid-up registered capital	Attributable equity interest held by the Company# Directly	Indirectly	Principal activities
東莞思捷皮具有限公司 Dongguan Sze Cheik Leather Goods Company Limited (note (c))	The PRC	Paid up registered capital HK$5,000,000	–	100%	Manufacturing and trading of leather products
雲南貴素商貿有限公司 (note (c))	The PRC	Registered capital HK$21,768,600 Paid up capital Nil	–	100%	Investment holding
雲南貴素生物科技有限公司 (note (c))	The PRC	Registered capital RMB19,880,000 Paid up capital Nil	–	100%	Industrial hemp planting and hemp fabric product productions
內蒙古恒鋭企業運營管理有限公司 (notes (b)&(c))	The PRC	Registered capital RMB2,000,000 Paid up capital Nil	–	100% (2019: Nil)	Logistics and warehouse operations
Amid Success Holdings Limited (note (c))	The BVI/ Hong Kong	Ordinary shares USD1	–	100%	Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary shares HK$1	–	100%	Retail of fashion apparel, footwear and leather accessories
Elite Ascent Investments Limited (note (c))	The BVI	Ordinary shares USD1	100%	–	Inactive
Grandeur Smart Enterprises Limited (note (c))	The BVI	Ordinary shares USD1,000	100%	–	Inactive

Note: (a) These subsidiaries are wholly foreign-owned enterprises established in the PRC.

(b) These subsidiaries were newly incorporated during the year ended 31 December 2020.

(c) Ascenda Cachet CPA Limited is not the statutory auditor of these subsidiaries.

\# All the percentages of equity attributable to the Company remain unchanged with the previous year except when otherwise indicated.

None of the subsidiaries had any debt securities subsisting at the end of respective reporting periods or at any time during the year.

2.1 BASIS OF PREPARATION

Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong. The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities (the "**Listing Rules**") of the Stock Exchange. They have been prepared under the historical cost convention. These consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the majority number of operating subsidiaries in the Group and all values are rounded to the nearest thousand except when otherwise indicated.

The Group (i) incurred a substantial loss of approximately HK$21,758,000 for the year and had net current liabilities and deficiency in assets of approximately HK$9,525,000 and HK$10,887,000, respectively, as at 31 December 2020; and (ii) had cash and cash equivalents of approximately HK$2,280,000 only to meet its financial obligations as at 31 December 2020. 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.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis because 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 31 December 2020 after taking into account of the following measures:

(i) the Company has obtained a letter of undertaking from Mr. Qin Bohan ("**Mr. Qin**"), an executive director of the Company, that he would not demand for repayment of the amount due to him of HK$8,000,000 as at 31 December 2020 until the Company is in a position to do so;

(ii) subsequent to the end of the reporting period, on 26 March 2021, the Company and Mr. Qin entered into another loan agreement, pursuant to which, Mr. Qin granted an unsecured interest-free loan facility up to RMB30,000,000 (equivalent to approximately HK$35,750,000) for a term of two years, which has been fully drawn down by the Company as at the date of this report;

(iii) the Company and Mr. Zhao entered into a loan facility agreement on 27 May 2020, pursuant to which, Mr. Zhao granted an interest-free and unsecured loan facility up to HK$20,000,000 to the Company for a term of two years, none of which has been utilised as at the end of the reporting period and the date of this report; and

(iv) the Company has obtained a letter of support from Mr. Zhao confirming his willingness to further provide for adequate financial resources as is necessary to enable the Group both to meet its financial obligations as and when they fall due and to carry on its business for at least 24 months from 31 December 2020.

2.1 BASIS OF PREPARATION (Continued)

Basis of preparation (Continued)

The consolidated financial statements do not include any adjustment that would result from a failure to obtain such funding and undertaking 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 and to provide for further liabilities which might arise.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the current year's consolidated financial statements.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendment to HKFRS 16	Covid-19-Related Rent Concessions (early adopted)
Amendments to HKAS 1 and HKAS 8	Definition of Material

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any significant impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any significant impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$525,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 17	Insurance Contracts[3, 6]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3, 5]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK (IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK (IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's consolidated financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES

(a) Fair value measurement

The Group measures its derivatives at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, derivatives, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Related parties

A party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value using reducing balance method at the following principal annual rates:

Plant and machinery	30%
Furniture and fixtures	10%–20%
Leasehold improvements	Annual rates as determined by shorter of expected useful lives and the unexpired period of the leases
Motor vehicles	30%

The annual rates, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases

The Group assesses at contract inception whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange of consideration.

Group as a lessee

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases which at the commencement date have a lease term no more than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. Depreciation is calculated using the shorter of the lease terms and the estimated useful lives of the assets on a straight-line basis

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases (Continued)

Group as a lessee (Continued)

Lease liability (Continued)

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Group as a lessor

When the Group acts as a lessor, it classifies at least inception (or when there is a lease modification) each of its leases as wither an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income and gains in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to the statement of profit of loss so as to provide a constant periodic rate of charge over the lease terms.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investments and other financial assets (Continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in consolidated statement of comprehensive income. Upon derecognition, the cumulative fair value change recognised in consolidated statement of comprehensive income is recycled to the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investments and other financial assets (Continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statement of profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investments and other financial assets (Continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group assesses the internal and external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset to be in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Investments and other financial assets (Continued)*

General approach (Continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for accounts receivable and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For account receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) *Financial liabilities*

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, amounts due to former fellow subsidiaries, a former intermediate holding company and a director and loan from a director and ultimate controlling shareholder.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. The net fair value gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the consolidated statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial liabilities (Continued)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(j) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

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

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Revenue recognition (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

i. Sale of goods

Revenue from sale of leather products is recognised when the customers have obtained control of the goods, being when the goods are delivered to the respective customers' specific locations and have been accepted by customers. For retail of fashion apparel, footwear and leather accessories, revenue is recognised when the customer has taken possession of and accepted the goods. The corresponding trade receivable or cash received are recognised in the financial statements as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. There is generally only one performance obligation. Invoices are usually payable within 30 to 90 days for sale of leather products. For certain customers such as new customers, deposits paid in advance are required before goods are delivered. No credit term is granted to customers from retail of fashion apparel, footwear and leather accessories and cash or credit card payment is required upon goods received by customers.

The Group's contracts with customers from the sale of leather products and retail of fashion apparel, footwear and leather accessories generally do not provide customers a right of return (a right to exchange another product or right to refund in cash). In addition, return of defective products seldom occurs as goods sold to customers generally meet the objective specifications required by customers or the customers have accepted the goods when they have taken possession of the goods and made payments. Any necessary costs incurred in replacement or rectification of defective goods sold are insignificant to the consolidated financial statements. No warranty is provided by the Group for goods sold to customers.

The Group gives certain discount on selling price to those customers from retail business who have accumulated a specific amount of purchases from the Group within a specific period of time. The period of entitlement of discount is generally one year. Based on the Group's historical experience and the estimate of the customers who will be eligible to utilise this discount, the financial impact on the consolidated financial statements is insignificant.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Revenue recognition (Continued)

ii. Interest income

Interest income is recognised as it accrues using the effective interest method.

iii. Dividend income

Dividend income is recognised when the right to receive the dividend is established.

(k) Income taxes

Income taxes for the period comprise current tax and deferred tax. Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Income taxes (Continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income tax levied by the same taxable entity on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(l) Foreign currency

These financial statements are presented in Hong Kong dollars ("**HK$**"), which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK$ at the exchange rates prevailing at the end of the reporting period and their consolidated statements of profit or loss are translated into HK$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in consolidated statement of comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Foreign currency (Continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

(m) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the period when the employees render the related service.

(ii) Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Group's consolidated financial statements requires 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 amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provision are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. The Group recognises liabilities for anticipated tax audit issues based on estimates on whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Write-down of inventories

Management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write down inventories to their net realisable values. Where the subsequent estimated net realisable value of inventories differ from the original estimate, a material write-down or reversal of write-down may arise.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty (Continued)

Impairment loss on trade receivables

The assessment of impairment losses on financial assets measured at amortised cost is performed based on expected credit losses model as detailed in the accounting policies and note 2.4(f) to the consolidated financial statements. The Group uses judgements and estimates, and makes assumptions and selects inputs as considered appropriate in performing the impairment assessment. Any change in the estimates, assumptions and inputs adopted in the assessment would increase or decrease the impairment losses for the year and affect the Group's net asset value.

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 14 to the consolidated financial statements, respectively.

Impairment loss on other receivables

The Group assesses impairment of other receivables based on an estimate of the recoverability of these receivables. Impairment is applied to other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of other receivables under HKFRS 9 requires the use of estimates and judgement.

The Group uses judgement in making assumptions and selecting the inputs to its ECLs calculation, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty (Continued)

Estimation of the incremental borrowing rate for leasing

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The management of the Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are test for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainty (Continued)

Going concern basis

As disclosed in note 2.1 to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into account of all relevant available information about the future of the Group, including cash flow forecast of the Group. Such forecast about the future inherently involve various assumptions and uncertainties. Actual results could differ significantly and hence render the adoption of going concern basis not appropriate.

4. OPERATING SEGMENT INFORMATION

The principal activities of the Group consisted of (i) manufacturing and distribution of leather products; and (ii) retail of fashion apparel, footwear and leather accessories. Upon obtaining the relevant permit in June 2020, the Group extended its business into 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 was still in a preliminary development stage and had not built its scale during the year.

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

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 segments:

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

The Group's chairman, who is the chief operating decision maker, monitors the results of the Group's operating segments separately for the purpose of making decisions 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 head office and 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. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(a) *Reportable segments*

	Leather Manufacturing Business		Leather Retail Business		Total	
	2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
Revenue from external customers	**36,743**	50,190	**3,028**	11,012	**39,771**	61,202
Inter-segment revenue	**104**	1,935	**797**	–	**901**	1,935
Reportable segment revenue	**3,975**	52,125	**3,825**	11,012	**4,600**	63,137
Reportable segment (loss)/profit	**(4,828)**	3,128	**(7,286)**	(9,275)	**(12,114)**	(6,147)
Depreciation of property, plant and equipment	**70**	275	**76**	225	**146**	500
Depreciation of right-of-use assets	**3,975**	4,020	**625**	1,623	**4,600**	5,643
Finance cost	**316**	452	**176**	76	**492**	528
Impairment of property, plant and equipment and right-of-use assets	**–**	–	**4,674**	3,157	**4,674**	3,157
Write down/(Write back) of inventories	**244**	(2,142)	**370**	169	**614**	(1,973)
Additions to non-current assets *(note)*	**1,502**	810	**5,361**	4,892	**6,863**	5,702
Reportable segment assets	**25,260**	41,062	**4,551**	5,234	**29,811**	46,296
Reportable segment liabilities	**9,000**	11,177	**5,499**	3,825	**14,499**	15,002

Note: Including additions of property, plant and equipment and right-of-use assets.

(b) *Reconciliation of reportable segment revenue, loss, assets and liabilities*

	2020 HK$'000	2019 HK$'000
Revenue		
Reportable segment revenue	**40,672**	63,137
Elimination of inter-segment revenue	**(901)**	(1,935)
Consolidated revenue	**39,771**	61,202
Loss before tax		
Reportable segment loss	**(12,114)**	(6,147)
Elimination of inter-segment losses	**419**	355
Interest income	**48**	205
Unallocated corporate expenses *(note (i))*	**(10,111)**	(12,738)
Consolidated loss before tax	**(21,758)**	(18,325)
Depreciation of property, plant and equipment		
Reportable segment depreciation	**146**	500
Depreciation of unallocated property, plant and equipment	**–**	–
Consolidated depreciation of property, plant and equipment	**146**	500

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(b) *Reconciliation of reportable segment revenue, loss, assets and liabilities (Continued)*

	2020 HK$'000	2019 HK$'000
Depreciation of right-of-use assets		
Reportable segment depreciation	**4,600**	5,643
Depreciation of unallocated right-of-use assets	**393**	—
Consolidated depreciation of right-of-use assets	**4,993**	5,643
Finance costs		
Reportable segment finance cost	**492**	528
Interest on unallocated lease liabilities	**44**	—
Consolidated finance costs	**536**	528
Impairment of property, plant and equipment and right-of-use assets		
Reportable segment impairment	**4,674**	3,157
Unallocated impairment of property, plant and equipment and right-of-use assets	**1,373**	—
Consolidated impairment of property, plant and equipment and right-of-use assets	**6,047**	3,157
Additions to non-current assets *(note (ii))*		
Reportable segment additions	**6,863**	5,702
Unallocated additions to non-current assets	**1,765**	—
Consolidated additions to non-current assets	**8,628**	5,702
Assets		
Reportable segment assets	**29,811**	46,296
Due from former fellow subsidiaries	**8**	8
Due from a related company	**543**	—
Tax recoverable	**438**	265
Unallocated corporate assets	**1,292**	2,073
Consolidated total assets	**32,092**	48,642
Liabilities		
Reportable segment liabilities	**14,499**	15,002
Due to former fellow subsidiaries	**8,171**	8,171
Due to a former intermediate holding company	**5,590**	5,590
Due to a director	**263**	—
Loan from a director	**8,000**	8,000
Loan from ultimate controlling shareholder	**3,262**	—
Unallocated corporate liabilities	**3,194**	2,374
Consolidated total liabilities	**42,979**	39,137

Notes:

(i) 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.

(ii) Including additions of property, plant and equipment and right-of-use assets.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(c) Geographical information

The following table provides an analysis of the Group's revenue from external customers and non-current assets, i.e. property, plant and equipment, deposits paid and right-of-use assets.

	Revenue from external customers (note)		Non-current assets	
	2020	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (place of domicile)	**6,304**	13,511	**2,726**	988
Europe	**8,229**	10,134	**—**	—
The PRC	**14**	1,566	**1,037**	4,758
United States of America	**22,707**	28,095	**—**	—
Other countries	**2,517**	7,896	**—**	—
Total	**39,771**	61,202	**3,763**	5,746

Note: Revenues are attributed to countries on the basis of the customers' location.

(d) Information about major customers

Revenue from a customer that contributing over 10% of the total revenue of the Group is as follow:

	2020	2019
	HK$'000	HK$'000
Customer A*	**20,578**	26,380
Customer B*	**4,284**	N/A#
	24,862	26,380

* Customer arising from the Leather Manufacturing Business segment.

\# The corresponding revenue from such customer did not contribute 10% or more of the Group's total revenue for the year ended 31 December 2019.

The Group's customer base is highly concentrated. Revenue may significantly decline if the Group was to lose one or more of its significant customers. The Group seeks to diversify the Group's product portfolio and widen the customer base stream to reduce the concentration risk.

5. REVENUE, OTHER INCOME AND GAINS

The principal activities of the Group are manufacturing and distribution of leather products, and retail of fashion apparel, footwear and leather accessories. During the year, the Group has extended its business into the industrial hemp plantation and production of hemp fabric products, which is still in a preliminary development stage and no revenue has been generated.

An analysis of revenue is as follows:

	2020 **HK$'000**	2019 HK$'000
Revenue from contracts with customers		
Sale of goods		
Manufacturing and distribution of leather products	**36,743**	50,190
Retail of fashion apparel, footwear and leather accessories	**3,028**	11,012
	39,771	61,202

(i) *Disaggregated revenue information*

	2020 **HK$'000**	2019 HK$'000
Timing of revenue recognition		
Manufacturing and distribution of leather products recognised when control of goods is transferred	**36,743**	50,190
Retail of fashion apparel, footwear and leather accessories when control of goods is transferred	**3,028**	11,012
Goods transferred at a point in time	**39,771**	61,202

(ii) *Performance obligations*

Information about the Group's performance obligation is summarised below:

Sale of leather products

The performance obligation is satisfied upon the delivery of the leather products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Retail of fashion apparel, footwear and leather accessories

The revenue arising from retail business is recognised when the customers obtain control of the products and immediate cash or credit card payment is normally required.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

(iii) Contract liabilities

The payment in advance received from customers before delivery of goods gives rise to contract liabilities. The contract liabilities are expected to be recognised as revenue within one year from date of inception of respective contracts. The movements of the contract liabilities are set out below:

	2020 **HK$'000**	2019 HK$'000
Movements in contract liabilities		
Balance as at 1 January	**146**	283
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(146)**	(283)
Increase in contract liabilities as a result of receipts in advance from customers during the year	**420**	146
Balance as at 31 December	**420**	146

Other income and gains

	2020 **HK$'000**	2019 HK$'000
Exchange gain	**—**	79
Gain on disposal of property, plant and equipment	**—**	31
Interest income (note 7)	**48**	205
Rent concessions from landlords, as direct consequence from COVID-19 pandemic (note 22(b))	**525**	—
Government subsidies*	**1,584**	—
Write back of other payables	**80**	—
Sundries income	**535**	203
	2,772	518

* The Group received unconditional government's subsidies of HK$1,584,000 during the year ended 31 December 2020 in respect of COVID-19 pandemic subsidies in Hong Kong. There were no unfulfilled conditions or contingencies attaching to these government grants.

6. FINANCE COSTS

	2020 **HK$'000**	2019 HK$'000
Interest on lease liabilities (note 22(b))	**443**	528
Imputed interest on loan from ultimate controlling shareholder	**93**	—
	536	528

7. LOSS BEFORE TAX

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

	2020 HK$'000	2019 HK$'000
Auditor's remuneration		
— Audit and other assurance related services	**880**	860
Cost of inventories (notes (i), (ii) & (iii))	**27,837**	32,415
Employee costs, excluding directors' emoluments (note (i))		
— Salaries, allowance and other benefits	**17,212**	25,817
— Defined contribution plans	**575**	517
	17,787	26,334
Depreciation of property, plant and equipment (note 12) & (note (ii))	**146**	500
Depreciation of right-of-use assets (note 22(a)) & (note (iii))	**4,993**	5,643
Impairment loss on property, plant and equipment (note 12)	**1,545**	234
Impairment loss on right-of-use assets (note 22(a))	**4,502**	2,923
Gain on disposal of property, plant and equipment	**—**	(31)
Impairment/(Reversal of impairment) of trade receivables (note 14)	**176**	(25)
Impairment of other receivables (note 15)	**192**	—
Write down/(Write back) of inventories (included in cost of sales) (note 13)	**614**	(1,973)
Provision for termination of a tenancy agreement	**—**	446
Foreign exchange losses/(gains), net	**629**	(79)
Write back of other payables	**(80)**	—
Interest income (note 5)	**(48)**	(205)

Notes:

(i) Included in employee costs were (i) approximately HK$5,950,000 (2019: HK$5,167,000) being direct labour costs included in the cost of inventories; and (ii) approximately HK$1,573,000 (2019: HK$3,529,000) being salaries included in the selling and distribution costs in the consolidated statement of profit or loss and other comprehensive income.

(ii) Included in depreciation of property, plant and equipment were (i) approximately HK$18,000 (2019: HK$28,000) being the depreciation included in the cost of inventories; and (ii) approximately HK$67,000 (2019: HK$216,000) being the depreciation included in the selling and distribution costs in the consolidated statement of profit or loss and other comprehensive income.

(iii) Included in depreciation of right-of-use assets were (i) approximately HK$2,093,000 (2019: HK$2,115,000) being the depreciation included in the cost of inventories; and (ii) approximately HK$626,000 (2019: HK$1,623,000) being the depreciation included in the selling and distribution costs in the consolidated statement of profit or loss and other comprehensive income.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) *Directors' emoluments*

Details of directors' emoluments for the year ended 31 December 2020 are as follows:

	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Retirement benefits scheme contribution HK$'000	Total HK$'000
Year ended 31 December 2020				
Executive directors:				
Zhao Jingfei	**90**	**–**	**–**	**90**
Fan Xin	**195**	**–**	**–**	**195**
Qin Bohan	**195**	**–**	**–**	**195**
Independent non-executive directors:				
Han Yu	**120**	**–**	**–**	**120**
Jia Lixin	**120**	**–**	**–**	**120**
Rong Yi	**120**	**–**	**–**	**120**
Total	**840**	**–**	**–**	**840**

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) *Directors' emoluments (Continued)*

Details of directors' emoluments for the year ended 31 December 2019 are as follows:

	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Retirement benefits scheme contribution HK$'000	Total HK$'000
Year ended 31 December 2019				
Executive directors:				
Zhao Jingfei (Appointed on 22 July 2019)	–	–	–	–
Fan Xin (Appointed on 22 July 2019)	160	–	–	160
Qin Bohan (Appointed on 9 September 2019)	120	–	–	120
Wang Wei (Resigned on 22 July 2019)	402	–	–	402
Independent non-executive directors:				
Han Yu (Appointed on 9 September 2019)	40	–	–	40
Jia Lixin (Appointed on 9 September 2019)	40	–	–	40
Rong Yi (Appointed on 9 September 2019)	40	–	–	40
Wong Kwun Ho (Resigned on 9 September 2019)	133	–	–	133
Chong Man Hung Jeffrey (Resigned on 9 September 2019)	133	–	–	133
Liang Jianhai (Resigned on 9 September 2019)	133	–	–	133
Total	1,201	–	–	1,201

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) *Five highest paid individuals*

Of the five individuals with the highest emoluments in the Group, none (2019: none) is director of the Company whose emoluments are included in the disclosures in note 8(a) above. The emoluments of the remaining five (2019: five) individuals are as follows:

	2020 **HK$'000**	2019 HK$'000
Salaries, allowances and benefits in kind	**2,802**	6,059
Retirement benefits scheme contributions	**97**	53
	2,899	6,112

The emoluments of the top five (2019: five) individuals were within the following bands:

	2020	2019
Nil to HK$1,000,000	**5**	2
HK$1,000,001 to HK$1,500,000	**–**	3

During the years ended 31 December 2020 and 2019, no emolument was paid to the directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

(c) The emoluments paid or payable to members of senior management (including directors) were within the following bands:

	2020	2019
Nil to HK$1,000,000	**9**	9

9. INCOME TAX EXPENSE

Hong Kong Profits Tax is taxed at the statutory rate of 16.5%. For subsidiaries operating in the PRC, the Corporate Income Tax ("**CIT**") is taxed at the statutory rate of 25%. No provision for Hong Kong Profits Tax or CIT has been provided as the Group did not generate any assessable profits arising in Hong Kong and the PRC or has available tax losses brought forward from prior years to offset the assessable profits generated during the years ended 31 December 2020 and 2019.

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the countries in which the Group are domiciled to the tax expense at effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to effective tax rates, are as follows:

	2020		2019	
	HK$'000	**%**	HK$'000	%
Loss before tax	**(21,758)**		(18,325)	
Tax at the statutory tax rate of 16.5%	**(3,590)**	**16.5**	(3,024)	16.5
Tax effect of different tax rates of subsidiaries operating in other jurisdiction	**(791)**	**3.6**	185	(1)
Tax effect of expenses not deductible	**2,619**	**(12.0)**	3,161	(17.2)
Tax effect of income not taxable	**(136)**	**0.6**	(487)	2.7
Tax effect of tax losses not recognised	**1,912**	**(8.8)**	1,498	(8.2)
Tax effect of utilisation of tax losses not previously recognised	**(411)**	**1.9**	(1,059)	5.8
Tax effect of deductible temporary differences not recognised	**397**	**(1.8)**	(274)	1.4
Under provision in previous year	**–**	**–**	2	–
Tax charge at the Group's effective rate	**–**	**–**	2	–

As at 31 December 2020, the Group had unused tax losses of approximately HK$80,746,000 (2019: HK$80,455,000) and other deductible temporary differences of approximately HK$5,293,000 (2019: HK$2,897,000). The unused tax losses and other deductible temporary differences of approximately HK$69,128,000 (2019: HK$68,919,000) and HK$5,293,000 (2019: $2,897,000), respectively, can be carried forward indefinitely, while the remaining unused tax losses of approximately HK$11,618,000 (2019: $11,536,000) will expire in five years from the respective date of incurrence. Deferred tax assets have not been recognised in relation to such unused tax losses and deductible temporary differences due to unpredictability of future profit streams.

9. INCOME TAX EXPENSE (CONTINUED)

As at 31 December 2020, no deferred tax liability has been recognised on temporary difference in relation to the undistributed earnings of approximately HK$11,661,000 (31 December 2019: HK$11,113,000) of a subsidiary in the PRC because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not be reversed in the foreseeable future.

The Group did not have other material unrecognised deferred tax assets and liabilities at the end of respective reporting periods.

Additional tax assessments

In February 2018 and March 2019, the Hong Kong Inland Revenue Department ("**IRD**") initiated a tax audit on certain subsidiaries (the "**Relevant Subsidiaries**") of the Company with additional assessments (the "**AA2012**") of Hong Kong Profits Tax amounting to HK$648,000 raised for the year of assessment 2011/12. Objection against these additional assessments were duly lodged and the AA2012 were held over by IRD unconditionally.

In March 2019, IRD issued additional assessments (the "**AA2013**") of Hong Kong Profits Tax amounting to HK$485,000 for the year of assessment 2012/13 to the Relevant Subsidiaries. Objection against these additional assessments has been duly lodged and the AA2013 were held over by IRD unconditionally.

In January 2020, IRD issued additional assessments (the "**AA2014**") of Hong Kong Profits Tax amounting to HK$465,000 for the year of assessment 2013/14 to the Relevant Subsidiaries. Objection against these additional assessments were duly lodged by the Relevant Subsidiaries and a tax reserve certificate of HK$155,000 was purchased by the Group for conditional holdover of the AA2014.

Subsequent to the end of the reporting period on 8 March 2021, IRD further issued additional assessments (the "**AA2015**") of Hong Kong Profits Tax amounting to HK$435,000 for the year of assessment 2014/15 to the Relevant Subsidiaries. As at the date of this report, the objection against these additional assessments has not yet been lodged by the Relevant Subsidiaries.

The Group has sought assistance and advices from tax specialists in handling the tax audit. Up to the date of this report, the tax audit initiated by IRD was still at a preliminary stage pending fact-finding and the outcome of which cannot be readily ascertained with reasonable certainty. Nevertheless, the Directors have performed an assessment based on existing facts and circumstances, and considered that the Relevant Subsidiaries have properly prepared and filed their Hong Kong Profits Tax returns in compliance with the Inland Revenue Ordinance. Accordingly, no additional provision for Hong Kong Profits Tax was considered necessary by the Directors to be made in the consolidated financial statements for the years ended 31 December 2019 and 2020.

10. DIVIDEND

The Directors do not recommend the payment of any dividend for the years ended 31 December 2020 and 2019.

11. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of Company of approximately HK$21,758,000 (2019: approximately HK$18,327,000) and the number of ordinary shares of 382,704,000 (2019: 382,704,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2020 and 2019 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during these years.

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2020	7,278	5,564	10,996	700	24,538
Additions	3	–	1,606	–	1,609
Write off	–	(12)	–	–	(12)
Exchange realignment	165	11	–	49	225
At 31 December 2020	7,446	5,563	12,602	749	26,360
Accumulated depreciation and impairment					
At 1 January 2020	7,216	5,434	10,931	650	24,231
Depreciation (note 7)	20	32	79	15	146
Eliminated upon write off	–	(12)	–	–	(12)
Exchange realignment	162	8	–	47	217
Impairment loss provided for the year (note 7)	–	6	1,539	–	1,545
At 31 December 2020	7,398	5,468	12,549	712	26,127
Net carrying amounts					
At 31 December 2020	48	95	53	37	233

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2019	7,287	5,600	11,753	2,063	26,703
Additions	19	48	320	769	1,156
Disposal	–	(82)	(1,077)	(2,124)	(3,283)
Exchange realignment	(28)	(2)	–	(8)	(38)
At 31 December 2019	7,278	5,564	10,996	700	24,538
Accumulated depreciation and impairment					
At 1 January 2019	7,218	5,451	11,570	1,958	26,197
Depreciation (note 7)	27	44	227	202	500
Eliminated on disposals	–	(83)	(1,076)	(1,502)	(2,661)
Exchange realignment	(29)	(2)	–	(8)	(39)
Impairment loss provided for the year (note 7)	–	24	210	–	234
At 31 December 2019	7,216	5,434	10,931	650	24,231
Net carrying amounts					
At 31 December 2019	62	130	65	50	307

Note:

As at 31 December 2019 and 2020, the Directors considered that there were impairment indicators on certain of the property, plant and equipment (including furniture and fixtures and leasehold improvements) (the "**Retail PPE**") and right-of-use assets (note 22(a)) (the "**Retail ROA**") because of the substantial loss incurred by its Leather Retail Business during the years ended 31 December 2019 and 2020. Accordingly, the relevant items of the Retail PPE and Retail ROA of the Leather Retail Business are grouped together which constitute a cash generating unit (the "**Retail CGU**") for the purpose of the impairment assessment.

For the year ended 31 December 2020, the Directors engaged an independent valuer with recognised qualifications and experiences to determine the value in use of the Retail CGU by using the discounted cash flow projections for a period covered from 2021 to 2025. The key assumptions used in the calculation of the value in use including growth rate of 10%, terminal growth rate of 3%, gross profit margin of 53% and discount rate of 12%.

For the year ended 31 December 2019, the value in use of the Retail CGU was determined by the Directors using the discounted cash flow projections from the latest financial budgets covering their respective lease terms. The key assumptions used in the calculation of the value in use including growth rate of 0%, gross profit margin of 65% and discount rate of 7%.

The growth rates and gross profit margin within the forecast periods are estimated by the Directors after having taken into consideration of the past performance of the Retail CGU, industry growth forecasts and future business plan of the Group. In view of the carrying amount of the Retail PPE together with the Retail ROA was higher than the recoverable amount of the Retail CGU, an impairment loss on the Retail PPE and the Retail ROA of approximately HK$1,545,000 and HK$3,129,000 (note 22(a) (2019: HK$234,000 and HK$2,923,000)), respectively, was recognised in the consolidated statement of profit or loss during the year.

13. INVENTORIES

	2020	2019
	HK$'000	HK$'000
Raw materials	**6,000**	6,034
Work in progress	**1,522**	1,269
Finished goods	**3,743**	5,998
	11,265	13,301

There was a write-down of inventories to its net realisable value of approximately of HK$614,000 for the year ended 31 December 2020 which was mainly due to the decrease in the estimated net realisable value of certain slow moving inventories with reference to the latest selling price or usage.

A reversal of write-down of inventories to its net realisable value of approximately of HK$1,973,000 for the year ended 31 December 2019 was mainly due to the utilisation of certain written-down raw materials for production of finished goods which were sold above their carrying amounts.

14. TRADE RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	**10,956**	12,590
Less: Impairment loss	**(1,123)**	(947)
Net carrying amounts	**9,833**	11,643

No credit term is granted to customers of the Leather Retail Business. The amount of the trade receivables represented the trade receivables from its customers arising from the Leather Manufacturing Business, whose are generally granted with credit terms of 30 to 90 days from the date of invoice.

The ageing analysis of trade receivables (net of impairment loss) at the end of the reporting period, based on invoice date, is as follows:

	2020 HK$'000	2019 HK$'000
Less than 30 days	**5,453**	1,294
31 to 60 days	**3,679**	8,909
61 to 90 days	**685**	937
91 to 120 days	**11**	288
121 to 365 days	**1**	95
More than 365 days	**4**	120
	9,833	11,643

14. TRADE RECEIVABLES (CONTINUED)

The movements in the loss allowance for expected credit loss of trade receivables during the years are as follows:

	2020 HK$'000	2019 HK$'000
At 1 January	**947**	972
Provision for/(Reversal of) impairment loss (note 7)	**176**	(25)
At 31 December	**1,123**	947

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. 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 debts recovery rate, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

		Past due					
	Current HK$'000	1-30 days HK$'000	31-60 days HK$'000	61-90 days HK$'000	91-365 days HK$'000	Over 365 days HK$'000	Total HK$'000
As at 31 December 2020							
Expected credit loss rate	**0.03%**	**0.09%**	**9.18%**	**11.55%**	**78.87%**	**100%**	**–**
Gross carrying amount	**9,819**	**13**	**–**	**1**	**4**	**1,119**	**10,956**
Expected credit losses	**(4)**	**–**	**–**	**–**	**–**	**(1,119)**	**(1,123)**
Net carrying amount	**9,815**	**13**	**–**	**1**	**4**	**–**	**9,833**
As at 31 December 2019							
Expected credit loss rate	0.4%	1%	3%	4%	N/A	88%	–
Gross carrying amount	9,309	1,861	323	99	–	998	12,590
Expected credit losses	(35)	(22)	(9)	(4)	–	(877)	(947)
Net carrying amount	9,274	1,839	314	95	–	121	11,643

The increase in the allowance for credit loss to HK$1,123,000 was mainly due to the increase in trade receivables which were past due for over 365 days (2019: decrease to HK$947,000 as a result of the decrease in trade receivables which were past due for over 365 days).

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Prepayments	**884**	682
Rental, utility and other deposits	**3,104**	2,232
Other receivables	**1,413**	493
	5,401	3,407
Less: Impairment loss on other receivables	**(192)**	—
	5,209	3,407
Less: Rental deposits classified as non-current portion	**(1,677)**	(1,198)
Current portion	**3,532**	2,209

The movements in the loss allowance for the impairment of other receivables during the reporting period are as follows:

	2020 HK$'000	2019 HK$'000
At 1 January	**—**	—
Provision for impairment loss (note 7)	**192**	—
At 31 December	**192**	—

In determining the ECL for other receivables, the Group has made individual assessment on the recoverability of other receivables based on historical settlement records, past experience and forward-looking information.

16. PLEDGED TIME DEPOSIT

As at 31 December 2020, time deposits at a bank of approximately HK$430,000 (2019: HK$429,000) are pledged to a bank to secure a bank guarantee given in favour of a landlord in lieu of rental deposits.

17. CASH AND CASH EQUIVALENTS

	2020 HK$'000	2019 HK$'000
Cash and bank balances	**2,280**	15,041

The cash and bank balances that were deposited in bank accounts maintained in the PRC and denominated in Renminbi ("**RMB**") were not freely convertible into other currencies and were subject to exchange controls in the PRC. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulation, the Group and the Company are permitted to exchange RMB for other currencies through bank authorised to conduct foreign exchange business.

18. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 HK$'000	2019 HK$'000
Less than 30 days	**1,185**	939
31 to 60 days	**349**	1,239
61 to 90 days	**867**	147
91 to 120 days	**2**	—
121 to 365 days	**2**	202
Over 365 days	**341**	436
	2,746	2,963

19. DUE FROM/(TO) FORMER FELLOW SUBSIDIARIES, A FORMER INTERMEDIATE HOLDING COMPANY AND A DIRECTOR

The amounts due from/(to) former fellow subsidiaries and a former intermediate holding company are unsecured, interest-free and have no fixed terms of repayment.

The amount due to a director, namely Mr. Zhao, amounting to HK$263,000, is unsecured, interest-free and has no fixed terms of repayment.

20. DUE FROM A RELATED COMPANY

Particulars of amount due from a related company disclosed pursuant to Section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

31 December 2020

	31 December 2020 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2020 HK$'000
Related company			
北京盛聚祥經貿有限公司	543	1,156	–

The amount due from a related company is unsecured, interest-free and has no fixed terms of repayment.

31 December 2020

21. LOAN FROM A DIRECTOR

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

22. LEASES

The Group as a lessee

The Group has lease contracts for office premises, retail shops, manufacturing plant used in its operations and parcels of farmland used in industrial hemp planting business. The leases are negotiated for terms ranging from 1 to 5 years.

The leases for the retail shops contain variable lease payment terms that are based on the Group's turnover generated from the retail shops. There are also minimum annual base rental arrangements for these leases.

(a) Right-of-use assets

The carrying amount of the Group's right-of-use assets and the movements during the year are as follows:

	Head office premises HK$'000	Retail shops and dismantling cost HK$'000	Manufacturing plants and office premises HK$'000	Total HK$'000
At 1 January 2019	–	–	8,285	8,285
Additions	–	4,546	–	4,546
Depreciation (note 7 & 22(c))	–	(1,623)	(4,020)	(5,643)
Impairment loss provided for the year (note 7 & 22(c))	–	(2,923)	–	(2,923)
Exchange realignment	–	–	(24)	(24)
At 31 December 2019 and 1 January 2020	**–**	**–**	**4,241**	**4,241**
Additions	**1,766**	**3,754**	**1,499**	**7,019**
Depreciation (note 7 & 22(c))	**(393)**	**(625)**	**(3,975)**	**(4,993)**
Impairment loss provided for the year (note 7 & 22(c))	**(1,373)**	**(3,129)**	**–**	**(4,502)**
Exchange realignment	**–**	**–**	**88**	**88**
At 31 December 2020	**–**	**–**	**1,853**	**1,853**

22. LEASES (Continued)

The Group as a lessee (Continued)

(a) Right-of-use assets (Continued)

As detailed in note 12 to the consolidated financial statements, the Group performed an impairment assessment on the right-of-use assets of the retail shops (i.e. the **Retail ROA**) which constitute the Retail CGU with impairment loss of approximately HK$3,129,000 (2019: HK$2,923,000) recognised in the consolidated statement of profit or loss during the year.

In addition, the Directors further performed an impairment assessment on the right-of-use asset (the "**Corporate ROA**") which was used by Group as corporate head office. 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 its lease terms. The key assumptions used in the calculation of the value in use including growth rate of 8.8 to 10%, gross profit margin of 49 to 53% and discount rate of 12%. The growth rates and gross profit margin within the forecast periods are estimated by the Directors after having taken into consideration of the past performance of the Group, industry growth forecasts and future business plan of the Group. In view of the carrying amount of the Corporate ROA was higher than the recoverable amount, an impairment loss on the Corporate ROA of approximately HK$1,373,000 was recognised in the consolidated statement of profit or loss during the year.

22. LEASES (CONTINUED)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January	**7,308**	8,285
Additions	**6,835**	4,306
Interest expenses (note 6)	**443**	528
Payments of lease liabilities	**(6,768)**	(5,785)
Rent concessions from landlords, as direct consequence from COVID-19 pandemic (note 5)	**(525)**	–
Exchange realignment	**93**	(26)
Carrying amount at 31 December	**7,386**	7,308
Analysed into:		
Current portion	**5,523**	5,781
Non-current portion	**1,863**	1,527
	7,386	7,308

(c) The amounts recognised in the consolidated statement of profit or loss and comprehensive income in relation to leases are as follows:

	2020 HK$'000	2019 HK$'000
Interest on lease liabilities (note 6)	**443**	528
Depreciation charge of right-of-use assets (note 22(a))	**4,993**	5,643
Expenses relating to short-term leases and other leases with remaining lease terms ended on or before 31 December	**1,761**	4,053
Variable lease payments not included in the measurement of lease liabilities	**–**	10
Rent concessions from landlords, as direct consequence from COVID-19 pandemic (note 5)	**(525)**	–
Impairment of right-of-use assets (note 22(a))	**4,502**	2,923
	11,174	13,157

23. LOAN FROM ULTIMATE CONTROLLING SHAREHOLDER

	2020 HK$'000
Balance as at 1 January	**–**
Loan agreement entered with ultimate controlling shareholder	
Principal amount	**3,374**
Changes of fair value at date of inception	**(389)**
	2,985
Imputed interest charged	**93**
Exchange realignment	**184**
Balance as at 31 December	**3,262**

On 29 June 2020, the Group entered into a loan agreement with Mr. Zhao, pursuant to which, Mr. Zhao granted an unsecured interest-free loan of RMB3,000,000 (equivalent to approximately HK$3,374,000) to the Group, which is repayable on or before 30 June 2022. As at the grant date, the loan was revalued to its present value of approximately RMB2,654,000 (equivalent to approximately HK$2,985,000) and this amount is carried as non-current liabilities at amortised cost, using an effective interest rate of 6%.

24. SHARE CAPITAL

Authorised and issued share capital

	Number of shares	Amount HK$'000
Authorised:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 (Ordinary shares of HK$0.01 each)	**2,000,000,000**	20,000
Issued and fully paid:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 (Ordinary shares of HK$0.01 each)	**382,704,000**	3,827

25. RESERVES

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 68 of the consolidated financial statements.

(i) Share premium

The share premium account of the Company includes premium arising from the new issue of shares in the current and prior years netted of share issue expenses.

Under section 34 of the Companies Law of the Cayman Islands, the share premium account is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

(ii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2.4(l) to the consolidated financial statements.

(iii) Statutory and discretionary reserves

The statutory and discretionary reserves are non-distributable and the transfers to these reserves are determined by the Directors and in accordance with the relevant laws and regulations of the People's Republic of China (the "**PRC**"). These reserves can be used to offset accumulated losses, expand the scale of production and business and increase capital of the subsidiaries in the PRC upon approval from the relevant authorities.

25. RESERVES (CONTINUED)

(iv) Capital reserve

The capital reserve is the difference between the principal amount and the present value of the interest-free loan from ultimate controlling shareholder at the date of inception.

26. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related party during the year:

Compensation of key management personnel of the Group:

	2020 **HK$'000**	2019 HK$'000
Short-term benefits	**1,725**	5,770
Post-employment benefits	**28**	—
Total compensation paid to key management personnel	**1,753**	5,770

Further details of directors' and the chief executive's emoluments are included in note 8 to the consolidated financial statements.

27. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) *Major non-cash transactions*

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$7,019,000 (2019: HK$4,546,000) and HK$6,835,000 (2019: HK$4,306,000), respectively, in respect of lease arrangements for retail shops and office premises.

(b) Reconciliation of liabilities arising from financing activities during the years ended 31 December 2020 and 2019:

	Due to former fellow subsidiaries HK$'000	Due to a former intermediate holding company HK$'000	Loan from ultimate controlling shareholder HK$'000	Due to a director HK$'000	Loan from a director HK$'000	Lease liabilities (Note 22(b)) HK$'000	Total HK$'000
At 1 January 2019	8,171	5,590	–	–	–	8,285	22,046
Changes from cash flows:							
– Advances from a director	–	–	–	–	8,000	–	8,000
– Repayment of principal portion of lease liabilities	–	–	–	–	–	(5,257)	(5,257)
– Repayment of interest portion of lease liabilities	–	–	–	–	–	(528)	(528)
	–	–	–	–	8,000	(5,785)	2,215
New lease	–	–	–	–	–	4,306	4,306
Accretion of interest recognised during the year	–	–	–	–	–	528	528
Exchange realignment	–	–	–	–	–	(26)	(26)
	–	–	–	–	–	4,808	4,808
At 31 December 2019 and 1 January 2020	8,171	5,590	–	–	8,000	7,308	29,069
Changes from cash flows:							
– Loan from ultimate controlling shareholder	–	–	3,374	–	–	–	3,374
– Expenses paid on behalf	–	–	–	263	–	–	263
– Repayment of principal portion of lease liabilities	–	–	–	–	–	(6,850)	(6,850)
– Repayment of interest portion of lease liabilities	–	–	–	–	–	(443)	(443)
	–	–	3,374	263	–	(7,293)	(3,656)
New leases	–	–	–	–	–	6,835	6,835
Accretion of interest recognised during the year	–	–	93	–	–	443	536
Capital reserve arose from interest-free loan provided by ultimate controlling shareholder	–	–	(389)	–	–	–	(389)
Exchange realignment	–	–	184	–	–	93	277
	–	–	(112)	–	–	7,371	7,259
At 31 December 2020	8,171	5,590	3,262	263	8,000	7,386	32,672

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Financial assets at amortised cost	
	2020	2019
	HK$'000	HK$'000
Trade receivables	**9,833**	11,643
Prepayments, deposits and other receivables	**4,325**	2,725
Due from former fellow subsidiaries	**8**	8
Due from a related company	**543**	—
Pledged time deposit	**430**	429
Cash and cash equivalents	**2,280**	15,041
	17,419	29,846

Financial liabilities

	Financial liabilities at amortised cost	
	2020	2019
	HK$'000	HK$'000
Trade payables	**2,746**	2,963
Other payables and accruals	**7,561**	7,105
Due to former fellow subsidiaries	**8,171**	8,171
Due to a former intermediate holding company	**5,590**	5,590
Due to a director	**263**	—
Loan from a director	**8,000**	8,000
Loan from ultimate controlling shareholder	**3,262**	—
	35,593	31,829

30. FINANCIAL RISK MANAGEMENT

The Group is exposed to various kinds of risks in its operation and financial instruments. The Group's risk management objectives and policies mainly focused on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as follows:

(i) Currency risk

The Group has foreign currency sales and purchases, mainly denominated in USD and RMB, which expose the Group to currency risk. Certain financial assets and liabilities of the group entities are also denominated in USD and RMB other than their respective functional currency. As HK$ is pegged to USD, the relevant group entities do not expect any significant movements in the USD/HK$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of RMB to HK$, with all other variables held constant, of the Group's loss before tax.

	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in loss before tax** HK$'000
31 December 2020		
If RMB strengthens against HK$	**5**	**3**
If RMB weakens against HK$	**(5)**	**(3)**
31 December 2019		
If RMB strengthens against HK$	5	4
If RMB weakens against HK$	(5)	(4)

The Group currently does not have a foreign currency hedging policy. However, management monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group's exposure to cash flow interest rate risk is mainly attributable to its interest-bearing bank deposits. The interest rate of bank deposits is subject to changes as determined by banks. The Group currently does not have an interest rate hedging policy and will consider to enter into interest rate hedging should the need arise.

At the end of respective reporting periods, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have insignificant impact on the loss for the year or other components of equity of the Group at the end of respective reporting periods.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Credit risk

The Group's credit risk is primarily attributable to trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from former fellow subsidiaries and a related company, pledged time deposit and cash and bank balances, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. All the pledged time deposit and cash and bank balances were made with financial institutions with high-credit quality.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2020 and 2019. The amounts presented are gross carrying amounts for financial assets.

At at 31 December 2020

	12-month ECLs	Lifetime ECLs			
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables *	–	–	–	10,956	10,956
Financial assets included in prepayments, deposits and other receivables					
— normal **	4,325	–	–	–	4,325
— doubtful**	–	192	–	–	192
Due from former fellow subsidiaries	8	–	–	–	8
Due from a related company	543	–	–	–	543
Pledged time deposit	430	–	–	–	430
Cash and cash equivalents					
— Not yet past due	2,280	–	–	–	2,280
	7,586	192	–	10,956	18,734

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Credit risk (Continued)

At at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables *	—	—	—	12,590	12,590
Financial assets included in prepayments deposits and other receivables — normal **	2,725	—	—	—	2,725
Due from former fellow subsidiaries	8	—	—	—	8
Pledged time deposit	429	—	—	—	429
Cash and cash equivalents — Not yet past due	15,041	—	—	—	15,041
	18,203	—	—	12,590	30,793

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 14 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The maturity profile of the financial liabilities of the Group at the end of each of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2020

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 2 years HK$'000	Total HK$'000
Trade payables	2,704	42	–	–	2,746
Other payables and accrual	7,561	–	–	–	7,561
Due to former fellow subsidiaries	8,171	–	–	–	8,171
Due to a former intermediate holding company	5,590	–	–	–	5,590
Due to a director	263	–	–	–	263
Loan from a director	8,000	–	–	–	8,000
Loan from ultimate controlling shareholder	–	–	–	3,575	3,575
Lease liabilities	–	2,555	3,327	1,919	7,801
	32,289	2,597	3,327	5,494	43,707

31 December 2019

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 2 years HK$'000	Total HK$'000
Trade payables	2,839	124	–	–	2,963
Other payables and accrual	7,105	–	–	–	7,105
Due to former fellow subsidiaries	8,171	–	–	–	8,171
Due to a former intermediate holding company	5,590	–	–	–	5,590
Loan from a director	8,000	–	–	–	8,000
Lease liabilities	–	1,630	4,390	1,537	7,557
	31,705	1,754	4,390	1,537	39,386

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Liquidity risk (Continued)

(i) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by the total (deficiency in assets)/equity plus net debt. Net debt includes trade payables, other payables and accruals, amounts due to former fellow subsidiaries, a former intermediate holding company and a director, loan from a director and ultimate controlling shareholder and lease liabilities, less cash and cash equivalents. Capital includes (deficiency in assets)/equity attributable to equity holders of the Company. The Group does not disclose the gearing ratio as at 31 December 2020 as the Group was in a net deficiency in assets position as at that date. The gearing ratios as at the end of the reporting periods were as follows:

	2020 **HK$'000**	2019 HK$'000
Trade payables	**2,746**	2,963
Other payables and accruals	**7,561**	7,105
Due to former fellow subsidiaries	**8,171**	8,171
Due to a former intermediate holding company	**5,590**	5,590
Due to a director	**263**	—
Loan from a director	**8,000**	8,000
Loan from ultimate controlling shareholder	**3,262**	—
Lease liabilities	**7,386**	7,308
Less: Cash and cash equivalents	**(2,280)**	(15,041)
Net debt	**40,699**	24,096
Total (deficiency in assets)/equity	**(10,887)**	9,505
Total (deficiency in assets)/equity and net debt	**29,812**	33,601
Gearing ratio	**N/A**	72%

31. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group has the following material events:

(i) On 6 January 2021, an indirect wholly-owned subsidiary of the Company (as lessee) entered into a tenancy agreement (the "**Tenancy Agreement**") with an independent third party (as lessor) in respect of the lease of a factory premises in the PRC for a period from 1 January 2021 to 31 December 2025. The monthly rent payable during the term is RMB200,000 (equivalent to approximately HK$240,000) to RMB242,000 (equivalent to approximately HK$290,000), and the total rent payable under the Tenancy Agreement is approximately RMB12.6 million (equivalent to approximately HK$15.1 million), exclusive of service fee, taxes and utility charges.

(ii) as detailed in note 2.1(ii) to the consolidated financial statements, on 26 March 2021, the Company and Mr. Qin entered into another loan agreement regarding the loan facility up to RMB30,000,000 (equivalent to approximately HK$35,750,000) to the Company for a term of two years.

31 December 2020

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 HK$'000	2019 HK$'000
Non-current assets		
Investments in subsidiaries	**26,808**	31,663
Rental deposits	**330**	—
Total non-current assets	**27,138**	31,663
Current assets		
Prepayment, deposits and other receivables	**361**	821
Due from former fellow subsidiaries	**8**	8
Cash and cash equivalents	**385**	1,165
Total current assets	**754**	1,994
Current liabilities		
Other payables and accruals	**1,746**	2,374
Due to a subsidiary	**11,392**	5,107
Due to former fellow subsidiaries	**8,171**	8,171
Due to a former intermediate holding company	**5,590**	5,590
Due to a director	**263**	—
Loan from a director	**8,000**	8,000
Lease liabilities	**1,260**	—
Total current liabilities	**36,422**	29,242
Net current liabilities	**(35,668)**	(27,248)
Total assets less current liabilities	**(8,530)**	4,415
Non-current liability		
Lease liabilities	**110**	—
Total non-current liability	**110**	—
Net (liabilities)/assets	**(8,640)**	4,415
(Deficiency in assets)/Equity		
Share capital (note 24)	**3,827**	3,827
Reserves	**(12,467)**	588
Total (deficiency in assets)/equity	**(8,640)**	4,415

On behalf of the Board

Zhao Jingfei
Executive Director

Fan Xin
Executive Director

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share Premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2019	**125,931**	**(105,046)**	20,885
Loss and total comprehensive income for the year	**—**	**(20,297)**	(20,297)
At 31 December 2019 and 1 January 2020	**125,931**	**(125,343)**	**588**
Loss and total comprehensive income for the year	**—**	**(13,055)**	**(13,055)**
At 31 December 2020	**125,931**	**(138,398)**	**(12,467)**

33. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 30 March 2021.

FIVE YEAR FINANCIAL SUMMARY

31 December 2020

A summary of the published results, assets and liabilities of the Group for the last five financial periods is set out as follows:

	Year ended 31 December 2020 HK$'000	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000	Nine month ended 31 December 2016 HK$'000
Results					
Loss for the year/period	**(21,758)**	(18,327)	(31,466)	(14,225)	(10,795)

			As at December		
	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Assets and liabilities					
Total assets	**32,092**	48,642	52,230	87,639	79,735
Total liabilities	**(42,979)**	(39,137)	(24,173)	(26,113)	(29,076)
Total (deficiency in assets)/ equity	**(10,887)**	9,505	28,057	61,526	50,659

GLOSSARY

In this annual report, unless the context otherwise requires, the following terms shall have the following meanings:

"Audit Committee"	means	the audit committee of the Company
"Board"	means	the Board of Directors
"CG Code"	means	code on corporate governance practices as set out in Appendix 14 to the Listing Rules
"Company"	means	China International Development Corporation Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands on 12 April 2002 and the Shares of which are listed on the Main Board of the Stock Exchange
"Director(s)"	means	the Director(s) of the Company
"Group"	means	the Company and its subsidiaries
"HK$" and "HK cents"	means	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	means	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	means	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	means	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
"Model Code"	means	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	means	the nomination committee of the Company
"OEM"	means	original equipment manufacturer or manufacturing
"PRC"	means	the People's Republic of China excluding, for the purpose of this report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"RMB"	means	Renminbi, the lawful currency of the PRC
"Remuneration Committee"	means	the remuneration committee of the Company
"Share(s)"	means	share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	means	holder(s) of issued Share(s)
"Stock Exchange"	means	The Stock Exchange of Hong Kong Limited
"USD"	means	United States dollars, the lawful currency of the United States of America
"USA"	means	the United States of America

* The English translation of the Chinese name(s), where indicated, is included for information purposes only, and should not be regarded as the official English name(s) of such Chinese name(s).