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

2021
INTERIM 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 ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

LEGAL ADVISER 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

	Six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Operating results		
Revenue	**25,440**	16,445
Gross profit	**7,895**	4,220
Gross profit margin	**31.0%**	25.7%
Loss before tax	**8,660**	6,966
Loss for the period	**8,660**	6,966
Loss per share	**HK2.26 cents**	HK1.82 cents

	As at 30 June 2021	As at 31 December 2020
	Unaudited	Audited
	HK$'000	*HK$'000*
Total assets	**44,325**	32,092
Cash and cash equivalents	**945**	2,280
Deficiency in assets attributable to equity shareholders of the Company	**(19,012)**	(10,887)
Business performance ratios		
Current ratio	**0.60**	0.75
Quick ratio	**0.42**	0.45

The Board (the "**Board**") of Directors (the "**Directors**") of China International Development Corporation Limited (the "**Company**") hereby announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2021, together with the comparative figures for 2020, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
Revenue	*5*	**25,440**	16,445
Cost of sales		**(17,545)**	(12,225)
Gross profit		**7,895**	4,220
Other income and gains		**104**	815
Selling and distribution costs		**(3,460)**	(1,723)
Administrative and other operating expenses		**(12,304)**	(10,106)
Impairment of trade receivables		**(22)**	—
Finance costs	*6*	**(873)**	(172)
Loss before tax	*7*	**(8,660)**	(6,966)
Income tax expense	*8*	**—**	—
Loss for the period attributable to owners of the Company		**(8,660)**	(6,966)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
— Exchange differences arising on translation of operations outside Hong Kong		**(473)**	(657)
Other comprehensive income for the period		**(473)**	(657)
Total comprehensive income for the period attributable to owners of the Company		**(9,133)**	(7,623)
Loss per share attributable to owners of the Company			
— Basic and diluted	*10*	**HK(2.26) cents**	HK(1.82) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	**As at 30 June 2021 Unaudited *HK$'000***	As at 31 December 2020 Audited *HK$'000*
Non-current assets			
Property, plant and equipment	*11*	**4,352**	233
Deposits paid		**1,698**	1,677
Right-of-use assets	*12*	**10,593**	1,853
Total non-current assets		**16,643**	3,763
Current assets			
Inventories		**8,327**	11,265
Trade receivables	*13*	**12,478**	9,833
Prepayments, deposits and other receivables		**5,411**	3,532
Due from former fellow subsidiaries		**8**	8
Due from a related company		**—**	543
Tax recoverable		**513**	438
Pledged time deposit	*14*	**—**	430
Cash and cash equivalents		**945**	2,280
Total current assets		**27,682**	28,329
Current liabilities			
Trade payables	*15*	**4,089**	2,746
Other payables and accruals		**10,873**	7,561
Due to a related company		**1,468**	—
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	*16*	**8,000**	8,000
Loan from ultimate controlling shareholder	*17*	**2,226**	—
Lease liabilities	*12*	**5,648**	5,523
Total current liabilities		**46,328**	37,854

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	**As at 30 June 2021 Unaudited *HK$'000***	As at 31 December 2020 Audited *HK$'000*
Net current liabilities		**(18,646)**	(9,525)
Total assets less current liabilities		**(2,003)**	(5,762)
Non-current liabilities			
Loan from ultimate controlling shareholder	*17*	**7,282**	3,262
Lease liabilities	*12*	**9,727**	1,863
Total non-current liabilities		**17,009**	5,125
Net liabilities		**(19,012)**	(10,887)
Deficiency in assets attributable to owners of the Company			
Share capital	*18*	**3,827**	3,827
Reserves		**(22,839)**	(14,714)
Total deficiency in assets		**(19,012)**	(10,887)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Share capital Unaudited *HK$'000*	Share premium Unaudited *HK$'000*	Capital reserve Unaudited *HK$'000*	Translation reserve Unaudited *HK$'000*	Statutory and discretionary reserve Unaudited *HK$'000*	Accumulated losses Unaudited *HK$'000*	Total Unaudited *HK$'000*
At 1 January 2020	3,827	77,760	—	1,546	5,249	(78,877)	9,505
Total comprehensive income for the period	—	—	—	(657)	—	(6,966)	(7,623)
At 30 June 2020	3,827	77,760	—	889	5,249	(85,843)	1,882
At 1 January 2021	**3,827**	**77,760**	**389**	**2,523**	**5,249**	**(100,635)**	**(10,887)**
Total comprehensive income for the period	**–**	**–**	**–**	**(473)**	**–**	**(8,660)**	**(9,133)**
Interest-free loan provided by ultimate controlling shareholder *(note 17)*	**–**	**–**	**1,008**	**–**	**–**	**–**	**1,008**
At 30 June 2021	**3,827**	**77,760**	**1,397**	**2,050**	**5,249**	**(109,295)**	**(19,012)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Net cash used in operating activities	**(5,230)**	(1,313)
Net cash (used in)/from investing activities	**(294)**	36
Net cash from/(used in) financing activities	**4,409**	(1,986)
Net decrease in cash and cash equivalents	**(1,115)**	(3,263)
Cash and cash equivalents at the beginning of the period	**2,280**	15,470
Effect of foreign exchange rate changes on cash and cash equivalents	**(220)**	123
Cash and cash equivalents at the end of the period	**945**	12,330

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

The Group is principally engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories. In June 2020, the Group 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.

In the opinion of the directors (the "**Directors**") of the Company, Waterfront Holding Group Co., Ltd. ("**Waterfront**"), a company incorporated in the British Virgin Islands (the "**BVI**") with limited liability, is the Company's holding company, which is ultimately controlled by Mr. Zhao Jingfei ("**Mr. Zhao**"), an executive director and chairman of the Company. The registered office of Waterfront is located at Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, BVI.

The unaudited condensed interim consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of a majority number of operating subsidiaries in the Group and all values are rounded to the nearest thousand except when otherwise indicated. The unaudited condensed interim consolidated financial statements, which have not been audited, have been approved and authorised for issue by the board (the "**Board**") of Directors on 30 August 2021.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The preparation of the unaudited condensed interim consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The unaudited condensed interim consolidated financial statements contain condensed interim consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the consolidated financial statements for the year ended 31 December 2020 (the "**2020 Annual Financial Statements**"). The unaudited condensed interim consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), and should be read in conjunction with the 2020 Annual Financial Statements.

(b) Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis.

2. BASIS OF PREPARATION *(CONTINUED)*

(c) Going concern basis

The Group (i) incurred a loss of approximately HK$8,660,000 for the six months ended 30 June 2021 and had net current liabilities and deficiency in assets of approximately HK$18,646,000 and HK$19,012,000, respectively, as at 30 June 2021; and (ii) had cash and cash equivalents of approximately HK$945,000 only to meet its financial obligations as at 30 June 2021. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In view of the above circumstances, the Directors have prepared a cash flow forecast of the Group and are satisfied that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for at least 12 months from 30 June 2021 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 30 June 2021 until the Company is in a position to do so;

(ii) subsequent to the end of the reporting period, on 28 August 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 HK$30,000,000 to the Company for a term of two years, none of which has been utilised as at the date of approving these unaudited condensed interim consolidated financial statements;

(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 approving these unaudited condensed interim consolidated financial statements;

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION *(CONTINUED)*

(c) Going concern basis *(Continued)*

(iv) the Company has obtained a letter of support from Mr. Zhao confirming that he would not demand for repayment of the loan and amount due to him in aggregate principal amount of approximately HK$10,908,000 as at 30 June 2021 until the Company is in a position to do so. Mr. Zhao has also confirmed his willingness to further provide for adequate financial resources as is necessary to enable the Group both to meet its financial obligation as and when they fall due and to carrying on its business for at least 24 months from 30 June 2021.

These unaudited condensed interim consolidated financial statements do not include any adjustments 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.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2020 Annual Financial Statements, except for the accounting policy changes that are required to be adopted in the financial statements for the year ending 31 December 2021. Details of these changes in accounting policies are set out below.

3. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

3.1 New and amended standards adopted by the Group

The Group has adopted the following new and revised HKFRSs (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for these unaudited condensed interim consolidated financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

The nature and impact of the revised HKFRSs are described below:

(a) 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 risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities 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.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

3.1 New and amended standards adopted by the Group *(Continued)*

(a) *(Continued)*

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 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.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic.

3. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

3.1 New and amended standards adopted by the Group *(Continued)*

The application of the amendments in the current period had no significant impact on these condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2021.

3.2 New standards and amendments to standards issued but not yet effective for the accounting period beginning on 1 January 2021 and not early adopted by the Group

		Effective for accounting periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Conceptual Framework for Financial Reporting	1 January 2022
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
HKFRS 17 (Amendments)	Insurance contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

3.2 New standards and amendments to standards issued but not yet effective for the accounting period beginning on 1 January 2021 and not early adopted by the Group *(Continued)*

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

4. ESTIMATES

The preparation of the unaudited condensed interim consolidated financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the carrying amounts of assets and liabilities, income and expense that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing the unaudited condensed interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2020 Annual Financial Statements.

5. REVENUE AND 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.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker (the "**CODM**") 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 reportable segments:

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' result that is used by the CODM for assessment of segment performance.

	Manufacturing business		Retail business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2021	2020	**2021**	2020	**2021**	2020
	Unaudited	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**21,327**	14,667	**4,113**	1,778	**25,440**	16,445
Inter-segment revenue	**159**	—	**–**	207	**159**	207
Reportable segment revenue *(Note (i))*	**21,486**	14,667	**4,113**	1,985	**25,599**	16,652
Reportable segment loss	**(4,163)**	(3,631)	**(2,170)**	(673)	**(6,333)**	(4,304)
Interest income					**1**	39
Unallocated corporate expenses *(Note (ii))*					**(2,328)**	(2,701)
Loss before tax					**(8,660)**	(6,966)
Income tax expense					**–**	—
Loss for the period					**(8,660)**	(6,966)

5. REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

	Manufacturing business		Retail business		Total	
	As at 30 June 2021 Unaudited *HK$'000*	As at 31 December 2020 Audited *HK$'000*	**As at 30 June 2021 Unaudited *HK$'000***	As at 31 December 2020 Audited *HK$'000*	**As at 30 June 2021 Unaudited *HK$'000***	As at 31 December 2020 Audited *HK$'000*
Reportable segment assets	**36,725**	25,260	**6,513**	4,551	**43,238**	29,811
Due from former fellow subsidiaries					**8**	8
Due from a related company					**–**	543
Tax recoverable					**513**	438
Other unallocated corporate assets *(Note (iii))*					**566**	1,292
Consolidated total assets					**44,325**	32,092
Reportable segment liabilities	**22,658**	9,000	**4,603**	5,499	**27,261**	14,499
Due to a related company					**1,468**	—
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					**9,508**	3,262
Unallocated corporate liabilities *(Note (iv))*					**3,076**	3,194
Consolidated total liabilities					**63,337**	42,979

Notes:

(i) Revenue from manufacturing business and retail business is recognised at a point in time when the control of the products has been passed to customers.

(ii) The amount represented unallocated corporate expenses that are not allocated to operating segments, including professional fees, directors' emoluments, staff costs, foreign exchange loss and other head office expenses.

(iii) The amount represented unallocated deposits paid, other receivables and cash and cash equivalents.

(iv) The amount represented unallocated deposits received, accrued head office professional fees and staff costs and lease liabilities.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Interest on lease liabilities	**698**	172
Imputed interest on loan from ultimate controlling shareholder *(note 17)*	**175**	—
	873	172

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Cost of inventories recognised as expenses	**17,545**	12,225
Depreciation of property, plant and equipment *(note (i))*	**60**	66
Depreciation of right-of-use assets *(note (ii))*	**2,377**	2,007
Foreign exchange (gains)/loss, net	**914**	(227)
Short term lease expenses	**1,349**	661
Staff costs (excluding Directors' emoluments) *(note (iii))*	**9,772**	8,676
Impairment of trade receivables	**22**	—
Impairment loss on property, plant and equipment	**51**	—
Impairment loss on right-of-use assets	**819**	—
Write-down of inventories, net (included in cost of sales)	**690**	—
Government subsidies *(note (iv))*	**—**	(240)
Interest income	**(1)**	(39)

7. LOSS BEFORE TAX *(CONTINUED)*

Notes:

(i) Included in depreciation of property, plant and equipment were (i) approximately HK$10,000 (six months ended 30 June 2020: HK$24,000) being depreciation included in the cost of inventories; and (ii) approximately HK$21,000 (six months ended 30 June 2020: Nil) being depreciation included in the selling and distribution costs in the condensed consolidated statement of profit or loss and other comprehensive income.

(ii) Included in depreciation of right-of-use assets were (i) approximately HK$1,278,000 (six months ended 30 June 2020: HK$1,058,000) being depreciation included in the cost of inventories; and (ii) approximately HK$36,000 (six months ended 30 June 2020: Nil) being depreciation included in the selling and distribution costs in the condensed consolidated statement of profit or loss and other comprehensive income.

(iii) Included in staff costs were (i) approximately HK$3,082,000 (six months ended 30 June 2020: HK$3,049,000) being direct labour costs included in the cost of inventories; and (ii) approximately HK$772,000 (six months ended 30 June 2020: HK$844,000) being salaries included in the selling and distribution costs in the condensed consolidated statement of profit or loss and other comprehensive income.

(iv) The Group received government's subsidies of HK$240,000 during the six months ended 30 June 2020 (six months ended 30 June 2021: Nil) in respect of COVID-19 pandemic subsidies in Hong Kong. There were no unfulfilled conditions or contingencies attaching to these government grants.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8. 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 in PRC has been made 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 for both periods.

Additional tax assessments

In February 2018 and March 2019, the Hong Kong Inland Revenue Department (the "**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 of 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 has been 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.

8. INCOME TAX EXPENSE *(CONTINUED)*

In 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. Objection against these additional assessments has been duly lodged by the Relevant Subsidiaries and a tax reserve certificate of HK$72,500 was purchased by the Group for conditional holdover of the AA2015.

The Group has sought assistance and advices from tax specialists in handling the tax audit. Up to the date of approval of these unaudited condensed interim consolidated financial statements, 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 the 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 unaudited condensed interim consolidated financial statements for the periods ended 30 June 2021 and 2020.

9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 and 30 June 2020.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss for the period of HK$8,660,000 (six months ended 30 June 2020: HK$6,966,000) attributable to owners of the Company and the weighted average number of 382,704,000 (six months ended 30 June 2020: 382,704,000) ordinary shares in issue during the six months ended 30 June 2021.

For the six months ended 30 June 2021 and 30 June 2020, diluted loss per share is equal to the basic loss per share for the respective periods as there is no potential dilutive ordinary share in issue for the six months ended 30 June 2021 and 30 June 2020.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment amounted to approximately HK$4,222,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: HK$3,000), while no disposal of property, plant and equipment was recorded for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

As at 30 June 2021, the Directors considered that there were impairment indicators on certain of the property, plant and equipment (including leasehold improvements) (the "**Retail PPE**") and right-of-use assets (note 12) (the "**Retail ROA**") because of the substantial loss incurred by its Leather Retail Business during the six months ended 30 June 2021. Accordingly, an impairment loss on the Retail PPE and the Retail ROA of approximately HK$51,000 (six months ended 30 June 2020: Nil) and HK$819,000 (six months ended 30 June 2020: Nil) (note 12), respectively, was recognised in the condensed consolidated statement of profit or loss for the six months ended 30 June 2021.

12. LEASES

During the six months ended 30 June 2021, the Group entered into certain new lease agreements for factory and retail shop premises for terms ranging from 5 months to 5 years (six months ended 30 June 2020: a new lease agreement for office premises for a term of 2 years). The Group applied the short-term lease recognition exemption to leases of retail shops that have a lease term of 12 months or less from the commencement date. Right-of-use assets and lease liabilities amounting to approximately HK$11,913,000 and HK$11,874,000, respectively, were initially recognised for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK$1,499,000 respectively).

As detailed in note 11, the Group performed an impairment assessment on the Retail ROA and an impairment loss of approximately HK$819,000 (six months ended 30 June 2020: Nil) was recognised in the condensed consolidated statement of profit or loss during the six months ended 30 June 2021.

13. TRADE RECEIVABLES

	As at 30 June 2021	As at 31 December 2020
	Unaudited	Audited
	HK$'000	*HK$'000*
Trade receivables	**13,623**	10,956
Less: Impairment loss	**(1,145)**	(1,123)
Net carrying amounts	**12,478**	9,833

No credit term is granted to customers from the Group's retail business. Customers in the manufacturing segment are generally granted with credit terms of 30 to 90 days from the invoice date. The ageing analysis of trade receivables based on the invoice date (net of impairment loss) at the end of reporting period is as follows:

	As at 30 June 2021	As at 31 December 2020
	Unaudited	Audited
	HK$'000	*HK$'000*
Less than 30 days	**4,730**	5,453
31–60 days	**5,194**	3,679
61–90 days	**2,441**	685
91–120 days	**—**	11
121–365 days	**113**	1
More than 365 days	**—**	4
	12,478	9,833

The carrying amounts of trade receivables approximated to their fair values.

13. TRADE RECEIVABLES *(CONTINUED)*

The following table provides information about the Group's exposure to credit risk and the loss allowance for expected credit loss ("**ECLs**") for trade receivables as at 30 June 2021:

	Expected loss rate *(%)*	**Gross carrying amount** ***HK$'000***	**Loss allowance** ***HK$'000***	**Net carrying amount** ***HK$'000***
Current (not past due)	**0.08%**	**12,299**	**(10)**	**12,289**
1–30 days past due	**0.09%**	**76**	**—**	**76**
31–60 days past due	**9.14%**	**124**	**(11)**	**113**
61–90 days past due	**11.56%**	**—**	**—**	**—**
91–365 days past due	**77.76%**	**1**	**(1)**	**—**
Over 365 days past due	**100%**	**1,123**	**(1,123)**	**—**
		13,623	**(1,145)**	**12,478**

The following table provides information about the Group's exposure to credit risk and the loss allowance for ECLs for trade receivables as at 31 December 2020:

	Expected loss rate *(%)*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Net carrying amount *HK$'000*
Current (not past due)	0.03%	9,819	(4)	9,815
1–30 days past due	0.09%	13	—	13
31–60 days past due	9.18%	—	—	—
61–90 days past due	11.55%	1	—	1
91–365 days past due	78.87%	4	—	4
Over 365 days past due	100%	1,119	(1,119)	—
		10,956	(1,123)	9,833

Expected credit losses are measured by using a provision matrix. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating). The calculation reflects the historical 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.

13. TRADE RECEIVABLES *(CONTINUED)*

Movement in the loss allowance account in respect of trade receivables during the period is as follows:

	Six months ended 30 June 2021 Unaudited *HK$'000*	Year ended 31 December 2020 Audited *HK$'000*
Beginning of the period/year	**1,123**	947
Provision for impairment loss	**22**	176
Balance at end of period/year	**1,145**	1,123

14. PLEDGED TIME DEPOSIT

As at 31 December 2020, time deposit at a bank of approximately HK$430,000 was pledged to a bank to secure a bank guarantee given in favour of a landlord in lieu of rental deposit. The pledged time deposit was released upon the expiry of the relevant tenancy during the period.

15. TRADE PAYABLES

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

	As at 30 June 2021 Unaudited *HK$'000*	As at 31 December 2020 Audited *HK$'000*
Less than 30 days	**947**	1,185
31–60 days	**1,599**	349
61–90 days	**935**	867
91–120 days	**251**	2
121–365 days	**5**	2
More than 365 days	**352**	341
	4,089	2,746

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

16. 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 until the Company is in a position to do so.

17. LOAN FROM ULTIMATE CONTROLLING SHAREHOLDER

	Six months ended 30 June 2021 Unaudited *HK$'000*	Year ended 31 December 2020 Audited *HK$'000*
Beginning of the period/year	**3,262**	—
Loan agreement entered with ultimate controlling shareholder		
Principal amount	**7,630**	3,374
Notional interest saving arising from the interest-free loan	**(1,008)**	(389)
	9,884	2,985
Imputed interest charged	**175**	93
Repayment	**(536)**	—
Exchange realignment	**(15)**	184
Balance at end of period/year	**9,508**	3,262
Less: Current portion	**(2,226)**	—
Non-current portion	**7,282**	3,262

17. LOAN FROM ULTIMATE CONTROLLING SHAREHOLDER *(CONTINUED)*

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 of 6%. During the Period, the loan was partially settled by RMB490,000 (equivalent to approximately HK$536,000).

On 13 January 2021, the Group entered into a loan agreement with Mr. Zhao, pursuant to which, Mr. Zhao granted an unsecured interest-free loan of HK$1,000,000 to the Group, which is repayable on or before 12 January 2022.

On 15 March 2021, the Group entered into a loan agreement with Mr. Zhao, pursuant to which, Mr. Zhao granted an unsecured interest-free loan of RMB1,000,000 (equivalent to approximately HK$1,201,000) to the Group, which is repayable on or before 15 March 2023. As at the grant date, the loan was revalued to its present value of approximately RMB813,000 (equivalent to approximately HK$977,000) and this amount is carried as non-current liabilities at amortised cost, using an effective interest of 10%.

On 22 April 2021, the Group entered into a loan agreement with Mr. Zhao, pursuant to which, Mr. Zhao granted an unsecured interest-free loan of RMB500,000 (equivalent to approximately HK$601,000) to the Group, which is repayable on or before 22 April 2023. As at the grant date, the loan was revalued to its present value of approximately RMB407,000 (equivalent to approximately HK$489,000) and this amount is carried as non-current liabilities at amortised cost, using an effective interest of 10%.

17. LOAN FROM ULTIMATE CONTROLLING SHAREHOLDER *(CONTINUED)*

On 7 May 2021, the Group entered into a loan agreement with Mr. Zhao, pursuant to which, Mr. Zhao granted an unsecured interest-free loan of RMB500,000 (equivalent to approximately HK$601,000) to the Group, which is repayable on or before 7 May 2023. As at the grant date, the loan was revalued to its present value of approximately RMB407,000 (equivalent to approximately HK$489,000) and this amount is carried as non-current liabilities at amortised cost, using an effective interest of 10%.

On 3 June 2021, the Group entered into a loan agreement with Mr. Zhao, pursuant to which, Mr. Zhao granted an unsecured interest-free loan of RMB2,500,000 (equivalent to approximately HK$3,003,000) to the Group, which is repayable on or before 3 June 2023. As at the grant date, the loan was revalued to its present value of approximately RMB2,034,000 (equivalent to approximately HK$2,442,000) and this amount is carried as non-current liabilities at amortised cost, using an effective interest of 10%.

On 15 June 2021, the Group entered into a loan agreement with Mr. Zhao, pursuant to which, Mr. Zhao granted an unsecured interest-free loan of HK$100,000 to the Group, which is repayable on or before 14 June 2022.

On 30 June 2021, the Group entered into a loan agreement with Mr. Zhao, pursuant to which, Mr. Zhao granted an unsecured interest-free loan of HK$1,126,000 to the Group, which is repayable on or before 29 June 2022.

18. SHARE CAPITAL

Authorised and issued share capital

	Number of shares *(in thousands)*	Amount *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2020 (audited) and 30 June 2021 (unaudited)	**2,000,000**	20,000
Issued and fully paid:		
At 31 December 2020 (audited) and 30 June 2021 (unaudited)	**382,704**	3,827

19. CONTINGENT LIABILITIES

There were no significant contingent liabilities as at 30 June 2021 and 31 December 2020.

20. CAPITAL COMMITMENTS

Details of the capital commitments at the end of the reporting period are as follows:

	As at 30 June 2021 Unaudited ***HK$'000***	As at 31 December 2020 Audited *HK$'000*
Contracted for but not provided		
— leasehold improvements	**1,501**	—
— plant and machinery	**129**	—
	1,630	—

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21. RELATED PARTY BALANCES AND TRANSACTIONS

Details of balances and transactions with related parties are disclosed elsewhere in the unaudited condensed interim consolidated financial statements.

Compensation of key management personnel

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

	Six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Short-term benefits	**630**	729
Post employment benefits	**—**	15
	630	744

22. COMPARATIVE AMOUNTS

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

For the six months ended 30 June 2021, the Group's revenue increased by approximately 54.7% from approximately HK$16,445,000 for the six months ended 30 June 2020 to approximately HK$25,440,000. Gross profit increased by approximately 87.1% from approximately HK$4,220,000 for the six months ended 30 June 2020 to approximately HK$7,895,000 for the six months ended 30 June 2021. The gross profit margin of the Group increased from approximately 25.7% for the six months ended 30 June 2020 to approximately 31.0% for the six months ended 30 June 2021. The increase in revenue and gross profit was a result of the improvement of its manufacturing business segment and the retail segment and the recovery of the economic activities in worldwide with the COVID-19 pandemic under better control during the six months ended 30 June 2021.

Other income and gains decreased by 87.2% from approximately HK$815,000 for the six months ended 30 June 2020 to approximately HK$104,000 for the six months ended 30 June 2021. The decrease was mainly attributable to the government subsidies in relation to the ongoing COVID-19 pandemic for the six months ended 30 June 2020.

Selling and distribution costs increased by approximately 100.8% from approximately HK$1,723,000 for the six months ended 30 June 2020 to approximately HK$3,460,000 for the six months ended 30 June 2021. The significant increase was primarily due to (i) the opening of two more retail shops in the fourth quarter of 2020, which incurred the extra expenses of shop rental and human resource and (ii) there was extra costs in selling and distribution for developing the PRC domestic retail business during the six months ended 30 June 2021.

Administrative and other operating expenses increased by approximately 21.7% from approximately HK$10,106,000 for the six months ended 30 June 2020 to approximately HK$12,304,000 for the six months ended 30 June 2021. This is mainly due to the increase in the exchange loss and impairment of right-of-use assets in the retail business segment during the six months ended 30 June 2021.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK$8,660,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK$6,966,000). Loss per share for the six months ended 30 June 2021 was HK2.26 cents (six months ended 30 June 2020: HK1.82 cents).

BUSINESS REVIEW

During the six months ended 30 June 2021, the manufacturing and retail business segments accounted for approximately 83.8% (six months ended 30 June 2020: approximately 89.2%) and approximately 16.2% (six months ended 30 June 2020: approximately 10.8%) of the total revenue of the Group, respectively.

MANUFACTURING BUSINESS

For the six months ended 30 June 2021, the Group's revenue from its manufacturing business from external customers increased by 45.4% from approximately HK$14,667,000 for the six months ended 30 June 2020 to approximately HK$21,327,000. This was mainly due to the outbreak of COVID-19 pandemic during the six months ended June 2020, 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. With the widespread vaccination of vaccines, the economy has gradually recovered and the demand for products in overseas markets has also increased during the six months ended 30 June 2021.

Revenue analysis by geographic location:

	Six months ended 30 June			
	2021		2020	
	Unaudited		Unaudited	
	HK$'000	***%***	*HK$'000*	*%*
United States	**13,160**	**61.7**	7,423	50.6
Europe	**3,083**	**14.4**	3,282	22.4
Hong Kong	**2,294**	**10.8**	436	3.0
PRC	**—**	**—**	40	0.3
Others	**2,790**	**13.1**	3,486	23.7
	21,327	**100**	14,667	100

Revenue analysis by product category:

	Six months ended 30 June			
	2021		2020	
	Unaudited		Unaudited	
	HK$'000	***%***	*HK$'000*	*%*
Belts	**20,812**	**97.6**	13,948	95.0
Leather goods & other accessories	**515**	**2.4**	719	5.0
	21,327	**100**	14,667	100

The Group's manufacturing business segment recorded an operating loss of approximately HK$4,163,000 for the six months ended 30 June 2021, representing an increase of approximately 14.7% from approximately HK$3,631,000 operating loss for the six months ended 30 June 2020. The Group will continue to streamline human resources and reduce other overheads costs.

Retail Business

The Group's revenue from its retail business increased by approximately 131.3% from approximately HK$1,778,000 for the six months ended 30 June 2020 to approximately HK$4,113,000 for the six months ended 30 June 2021. The substantial growth in the Retail Business was mainly due to exploration and expansion of the retail market in PRC during the six months ended 30 June 2021.

Revenue analysis by geographic location:

	Six months ended 30 June			
	2021		2020	
	Unaudited		Unaudited	
	HK$'000	***%***	*HK$'000*	*%*
PRC	**2,762**	**64.2**	—	—
Hong Kong	**1,351**	**32.8**	1,778	100
	4,113	**100**	1,778	100

The overall shop rental to revenue ratio of approximately 51.5% for the six months ended 30 June 2021 decreased as compared with that of approximately 61.0% for six months ended 30 June 2020. The decrease was due to increase in revenue from the growth of online sales in the PRC retail market for the six months ended 30 June 2021. The staff costs to revenue ratio decreased to approximately 41.6% for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately 63.4%).

During the six months ended 30 June 2021, the Group maintained the number of its retail shop since 31 December 2020. As at 30 June 2021, the Group operated four AREA 0264 stores and one Teepee Leather workshop in Hong Kong (30 June 2020: two AREA 0264 stores and one Teepee Leather workshop).

As a result of the above, the Group's retail business segment recorded an operating loss of approximately HK$2,170,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK$673,000). The increase was mainly due to (i) the opening of two more retail shops in the fourth quarter of 2020, which incurred the extra expense of shop rental and human resource and (ii) impairment of property, plant and equipment and right-of-use assets in the retail business segment but offset by profit from domestic retail sales in the PRC.

Prospect

In the first half of 2021, with the gradual relief of the global COVID-19 epidemic, global production gradually approached the pre-epidemic level, consumption accelerated recovery, and consumption in the overseas leatherware market resumed somewhat.

In term of oversea market, with the increase in vaccination rates, the international consumption environment has gradually stabilized. In addition, the spread of the COVID-19 in South and Southeast Asia has adversely affected the manufacturing industries of some countries, therefore, the manufacturing order from oversea have been further increased steady.

Looking forward to the second half of 2021, the Group remains optimistic about the situation of the leatherware industry. With the replenishment demand of oversea brands and the continuous recovery of overseas demand, it is expected that leatherware orders will continue to improve in the second half of the year. However, due to the continuing impact of the epidemic, there are also certain uncertainties.

In addition, the existing retail market and popularity are constantly changing, and consumers with high spending power are gradually becoming younger. However, our existing leatherware products' styles are outdated and lack of attractiveness. In the second half of the year, we will focus on designing and launching a new series of leatherware products that are in the style of our brand named Area0264 without losing trendy elements. It is expected that it will bring a new modern atmosphere to the retail business.

In the meanwhile, with the opening of the new factory in Dongguan in the second half of 2021, the Group will focus on improving the production efficiency within the factory in order to achieve its optimal production level.

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 (the "**Business Plan**"). Hemp fabric is made of fibres from industrial hemp, and is a type of textile which is antibacterial, strong and versatile, and 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 rented a parcel of land in Yunnan for the trial cultivation of industrial hemp. The Group has also secured the provision of the industrial hemp seeds of Yunma No. 7* (雲麻7號) from the Institute of Economic Crops of the Yunnan Academy of Agricultural Science* (雲南省農業科學院經濟作物研究所). The Group is still in a preliminary development stage and committed to experimental cultivation of industrial hemp. The Group looks forward to the successful trial planting and the ability to manufacture and produce hemp fabrics in the near future.

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2021, the Group's cash and bank deposits were approximately HK$945,000 as compared to approximately HK$2,280,000 as at 31 December 2020.

The Group recorded total current assets of approximately HK$27,682,000 as at 30 June 2021 (31 December 2020: approximately HK$28,329,000) and total current liabilities of approximately HK$46,328,000 as at 30 June 2021 (31 December 2020: approximately HK$37,854,000). The decrease in total current assets was mainly due to the decrease in inventories 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 0.60 times as at 30 June 2021 (31 December 2020: approximately 0.75 times).

The Group recorded total inventories of approximately HK$8,327,000 as at 30 June 2021 (31 December 2020: approximately HK$11,265,000) and the inventory turnover days decreased from 148 days to 86 days in view of the economy has gradually recovered and demand increased from overseas markets.

The Group had trade receivables of approximately HK$12,478,000 as at 30 June 2021 (31 December 2020: approximately HK$9,833,000) and the debtor turnover days decreased from 90 days to 89 days.

The Group recorded shareholders' deficiency in assets of approximately HK$19,012,000 as at 30 June 2021 (31 December 2020: approximately HK$10,887,000). The increase was mainly attributable to the Group's operational loss during the six months ended 30 June 2021.

As detailed in note 2(c) to the unaudited condensed interim consolidated financial statements for the six months ended 30 June 2021, (i) the Company has obtained a letter of undertaking from 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 30 June 2021 until the Company is in a position to do so; (ii) subsequent to the end of the reporting period, on 28 August 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 HK$30,000,000 for a term of two years, none of which has been utilised as at the date of approving these unaudited condensed interim consolidated financial statements; (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 approving these unaudited condensed interim consolidated financial statements; (iv) the Company has obtained a letter of support from Mr. Zhao confirming that he would not demand for repayment of the loan and amount due to him in aggregate principal amount of approximately HK$10,908,000 as at 30 June 2021 until the Company is in a position to do so. Mr. Zhao has also confirmed his willingness to further provide for adequate financial resources as is necessary to enable the Group both to meet its financial obligation as and when they fall due and to carrying on its business for at least 24 months from 30 June 2021.

The Group did not have any bank borrowings or bank facilities as at 30 June 2021 (31 December 2020: nil)

As at 30 June 2021, the Group had total assets amounting to approximately HK$44,325,000 (as at 31 December 2020: approximately HK$32,092,000) and total liabilities of approximately HK$63,337,000 (as at 31 December 2020: approximately HK$42,979,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 142.9% as at 30 June 2021 (as at 31 December 2020: approximately 133.9%).

TREASURY POLICY

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in HK$, United States dollars ("**USD**") and RMB. Transactions of the Group are mainly denominated in HK$, 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 an adverse effect on the Group's business, financial condition and results. Any imposition, variation or removal of foreign exchange controls may adversely affect the value, translated or converted into HK$ or USD, of our Group's net assets and earnings. The Group currently does not have any foreign currency hedging policy. However, the management of the Company will continue to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CHARGES OF ASSETS

The Group did not have any charges on assets as at 30 June 2021 (31 December 2020: time deposits at a bank of approximately HK$430,000).

SIGNIFICANT INVESTMENTS

The Group did not have any significant investment during the six months ended 30 June 2021.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not conduct any significant acquisition or disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2021.

COMMITMENTS

Details of capital commitments as at 30 June 2021 are disclosed in note 20 to the unaudited condensed interim consolidated financial statements.

HUMAN RESOURCES

As at 30 June 2021, the Group employed 161 employees (31 December 2020: 169). The salaries of employees largely depend on their job nature, performance and length of service with the Group. The Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. In addition to the basic remuneration, the Group also provides employees with employees benefits, including pension, medical scheme and other applicable social insurance as required by the applicable laws and regulations. Apart from regular on-job training, the Group provides training to new employees including an introduction to relevant regulations and general safety awareness and a workshop specific training to the work area and the role of individual within the workshop.

DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

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

As at 30 June 2021, 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 for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") contained in the Listing Rules, were as follows:

(I) Interest in the Company

Long positions in the ordinary shares of the Company (the "Shares")

Name	Nature of interest	Number of Shares held	Approximate percentage of shareholding
Zhao Jingfei (Chairman and executive Director)	Interest of a controlled corporation *(Note)*	273,524,406	71.47

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 30 June 2021, 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 30 June 2021, the following persons (other than the Directors and chief executive of the Company) had interests in 5% or more of the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate percentage of shareholding
Waterfront Holding Group Co., Ltd.	Beneficial owner	273,524,406	71.47

Save as disclosed above, as at 30 June 2021, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) had interests in 5% or more of the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 2021 and 30 June 2021 and no share option of the Company was granted, exercised, lapsed or cancelled during the period under review.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2021 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CHANGES IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmations from the Directors, there was no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the date of the Company's annual report published on 29 April 2021 or their appointment.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2021.

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and code provisions (the "**Code Provisions**") set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules. The Company has complied with the Code Provisions as set out in the CG Code during the six months ended 30 June 2021 except the following deviation.

Under the code provision C.2.5 of the CG Code, the Group should have an internal audit function. The Company did not perform the internal audit function for the six months ended 30 June 2021. The Board is aware of the importance of internal audit function and based on the size and simple operating structure of the Group as well as the existing internal control processes, the Board has decided not to set up an internal audit department for the time being. Instead, the Company will engage an independent third party to carry out internal audit function annually. When necessary, the audit committee of the Company would carry out internal audit function for reviewing the adequacy and effectiveness of the risk management and internal control systems of the Group.

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

NON-COMPLIANCE WITH DISCLOSURE REQUIREMENT OF THE LISTING RULES

The indirect wholly owned subsidiary, Dongguan Sze Cheik Leather Goods Company Limited had entered into a tenancy agreement of 6 January 2021 to lease certain premises in Dongguan as its production factory and staff dormitory for production operation (the "**Lease**"). The Lease regarded as the right-of-use asset under HKFRS 16, constituted a major transaction subject to the reporting, announcement, circular and shareholders' approval requirements under the Listing Rules. Due to inadvertent oversight of the implementation of HKFRS 16 in relation to Lease. The Company was unable to timely comply with the announcement and shareholders' approval requirements for the Lease under Rules 14.34 and 14.40 of the Listing Rules. As such, the Company published announcements in relation to the Lease on 15 March 2021, 8 April 2021, 22 April 2021 and 17 May 2021 and published the circular on 21 May 2021.

To prevent non-compliance on disclosure requirement in the future, the Company will adopt measures to strengthen the relevant internal procedures and continue to provide training for the staff, especially the relevant PRC personnel.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 June 2021.

AUDIT COMMITTEE

The Company has established an audit committee of the Company (the "**Audit Committee**") with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, internal controls and risk management systems of the Group. As at 30 June 2021, the Audit Committee comprised three independent non-executive Directors, Ms. Han Yu (Chairlady), Ms. Jia Lixin and Mr. Rong Yi. The Audit Committee has reviewed and discussed with management in relation to financial reporting matters, including but not limited to the unaudited condensed interim consolidated financial statements of the Group for the six months ended 30 June 2021.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 2(c) to the unaudited condensed interim consolidated financial statements, there are no important events affecting the Group which have occurred after the end of the reporting period and up to the date of this report.

On behalf of the Board
Zhao Jingfei
Chairman

Hong Kong, 30 August 2021