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

2022
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
Bank of China (Hong Kong) Limited

AUDITOR

Ascenda Cachet CPA Limited
Certified Public Accountants

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

LEGAL ADVISER ON HONG KONG LAW

Li & Partners

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Tricor Investor Service Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

COMPANY WEBSITE

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

STOCK CODE

264

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
Operating results		
Revenue (HK$'000)	**19,614**	25,440
Gross profit (HK$'000)	**5,324**	7,895
Gross profit margin (%)	**27.1**	31.0
Loss before tax (HK$'000)	**9,856**	8,660
Loss for the period (HK$'000)	**9,856**	8,660
Basic loss per share (HK cents)	**2.58**	2.26

	As at 30 June 2022	As at 31 December 2021
	Unaudited	Audited
Total assets (HK$'000)	**38,243**	41,186
Cash and cash equivalents (HK$'000)	**1,632**	1,469
Deficiency in assets attributable to equity shareholders of the Company (HK$'000)	**(38,399)**	(30,535)
Business performance ratios		
Current ratio (times)	**0.36**	0.43
Quick ratio (times)	**0.16**	0.25

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 2022, together with the comparative figures for 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
Revenue	*5*	**19,614**	25,440
Cost of sales		**(14,290)**	(17,545)
Gross profit		**5,324**	7,895
Other income		**327**	104
Other losses	*6*	**(1,519)**	(870)
Selling and distribution costs		**(2,252)**	(3,460)
Administrative and other operating expenses		**(10,719)**	(11,434)
Reversal of impairment/(impairment) of trade receivables		**19**	(22)
Finance costs	*7*	**(1,036)**	(873)
Loss before tax	*8*	**(9,856)**	(8,660)
Income tax expense	*9*	**—**	—
Loss for the period attributable to owners of the Company		**(9,856)**	(8,660)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June **2022** **Unaudited** ***HK$'000***	 2021 Unaudited *HK$'000*
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
— Exchange differences arising on translation of operations outside Hong Kong		**922**	(473)
Other comprehensive income for the period		**922**	(473)
Total comprehensive income for the period attributable to owners of the Company		**(8,934)**	(9,133)
Loss per share attributable to owners of the Company			
— Basic and diluted	*11*	**(2.58) HK cents**	(2.26) HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	As at 30 June 2022 Unaudited HK$'000	As at 31 December 2021 Audited HK$'000
Non-current assets			
Property, plant and equipment	12	**4,542**	5,449
Right-of-use assets	13	**9,265**	9,791
Deposits paid		**1,009**	913
Total non-current assets		**14,816**	16,153
Current assets			
Inventories		**13,014**	10,566
Trade receivables	14	**3,570**	7,090
Prepayments, deposits and other receivables		**4,933**	5,617
Tax recoverable		**278**	291
Cash and cash equivalents		**1,632**	1,469
Total current assets		**23,427**	25,033
Current liabilities			
Trade payables	15	**9,276**	4,763
Other payables and accruals		**23,950**	24,847
Due to a director	16	**98**	501
Due to ultimate controlling shareholder	16	**11,794**	8,791
Due to a related company	16	**1,768**	1,848
Loan from a director	17	**8,000**	8,000
Loans from ultimate controlling shareholder	18	**4,795**	5,207
Lease liabilities	13	**4,759**	4,335
Total current liabilities		**64,440**	58,292

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	As at 30 June 2022 Unaudited HK$'000	As at 31 December 2021 Audited HK$'000
Net current liabilities		**(41,013)**	(33,259)
Total assets less current liabilities		**(26,197)**	(17,106)
Non-current liabilities			
Loan from ultimate controlling shareholder	*18*	**4,127**	4,761
Lease liabilities	*13*	**8,075**	8,668
Total non-current liabilities		**12,202**	13,429
Net liabilities		**(38,399)**	(30,535)
Deficiency in assets attributable to owners of the Company			
Share capital	*19*	**3,827**	3,827
Reserves		**(42,226)**	(34,362)
Total deficiency in assets		**(38,399)**	(30,535)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	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 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)
Notional interest of interest-free loans provided by ultimate controlling shareholder *(note 18)*	—	—	1,008	—	—	—	1,008
At 30 June 2021	3,827	77,760	1,397	2,050	5,249	(109,295)	(19,012)
At 1 January 2022	**3,827**	**77,760**	**1,397**	**2,854**	**5,249**	**(121,622)**	**(30,535)**
Total comprehensive income for the period	**–**	**–**	**–**	**922**	**–**	**(9,856)**	**(8,934)**
Notional interest of interest-free loans provided by ultimate controlling shareholder *(note 18)*	**–**	**–**	**1,070**	**–**	**–**	**–**	**1,070**
At 30 June 2022	**3,827**	**77,760**	**2,467**	**3,776**	**5,249**	**(131,478)**	**(38,399)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Net cash from/(used in) operating activities	**955**	(5,230)
Net cash used in investing activities	**(7)**	(294)
Net cash from/(used in) financing activities	**(1,063)**	4,409
Net decrease in cash and cash equivalents	**(115)**	(1,115)
Cash and cash equivalents at the beginning of the period	**1,469**	2,280
Effect of foreign exchange rate changes on cash and cash equivalents	**278**	(220)
Cash and cash equivalents at the end of the period	**1,632**	945

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

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

The unaudited condensed interim consolidated financial statements (the "**Interim Financial Statements**") are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Group and all values are rounded to the nearest thousand except when otherwise indicated. The Interim Financial Statements, which have not been audited, have been approved and authorised for issue by the board (the "**Board**") of Directors on 31 August 2022.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The preparation of the Interim 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 Interim 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 2021 (the "**2021 Annual Financial Statements**"). The Interim Financial Statements and notes thereon do not include all the information and disclosures required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), and should be read in conjunction with the 2021 Annual Financial Statements.

(b) Basis of measurement

These Interim 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$9,856,000 for the six months ended 30 June 2022 and had net current liabilities and deficiency in assets of approximately HK$41,013,000 and HK$38,399,000, respectively, as at 30 June 2022; and (ii) only had cash and cash equivalents of approximately HK$1,632,000 as at 30 June 2022 to meet its financial obligations as at that date. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In view of the above circumstances, the Directors have prepared a cash flow forecast of the Group and are satisfied that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for at least 12 months from 30 June 2022 after taking into account of the following measures (the "**Measures**"):

(i) the Company has obtained a letter of undertaking from Mr. Qin Bohan ("**Mr. Qin**"), an executive director of the Company, pursuant to which Mr. Qin agreed not to demand for repayment of (a) the loan from him with a principal amount of HK$8,000,000; and (b) the amount due to him of approximately HK$98,000 as at 30 June 2022 until the Company is in a position to do so. The loan and the amount due to Mr. Qin are interest-free, unsecured and have no fixed terms of repayment;

(ii) in addition to the loan provided by Mr. Qin as stated above, the Company and Mr. Qin entered into another loan facility agreement on 28 August 2021, pursuant to which, Mr. Qin further granted an unsecured interest-free loan facility up to HK$30,000,000 to the Company for a term of two years expiring on 27 August 2023, none of which has been utilised as at 30 June 2022 and the date of approving these Interim Financial Statements;

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION *(Continued)*

(c) Going concern basis *(Continued)*

(iii) Mr. Zhao had provided certain loans to the Group with aggregate principal amounts of RMB7,010,000 and HK$2,226,000 (equivalent to approximately HK$10,437,000 in aggregate the "**Shareholder Loans**") as at 30 June 2022, out of which, aggregate outstanding loan principal amounts of RMB2,510,000 and HK$2,226,000 (equivalent to approximately HK$5,166,000 in aggregate) have been extended for additional two years during the period and are repayable on or before June 2024 while the remaining loans with aggregate outstanding principal amounts of RMB4,500,000 (equivalent to approximately HK$5,271,000) are due in 2023;

(iv) in addition to the Shareholder Loans, the Company and Mr. Zhao entered into another loan facility agreement on 27 May 2020, pursuant to which, Mr. Zhao further granted an unsecured interest-free loan facility up to HK$20,000,000 to the Company for a term of two years. The expiry date of the loan facility has been extended for additional two years to 27 May 2024. None of the loan facility has been utilised as at 30 June 2022 and the date of approving these Interim Financial Statements;

(v) the Company has also obtained a letter of support from Mr. Zhao pursuant to which, Mr. Zhao agreed not demand for repayment of (a) the Shareholder Loans and (b) other amount due to him of approximately HK$11,794,000 as at 30 June 2022 until the Group 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 2022;

2. BASIS OF PREPARATION *(Continued)*

(c) Going concern basis *(Continued)*

(vi) in accordance with the commitment of providing an additional shareholder's loan (the "**Shareholder's Further Loan**") of HK$10,000,000 by Mr. Zhao as disclosed in the supplemental announcement in relation to the annual results announcement and the annual report for the year ended 31 December 2021 made by the Company on 8 July 2022, Mr. Zhao and the Company entered into certain loan agreements on 26 July 2022 and 11 August 2022, pursuant to which, Mr. Zhao granted certain loans of US$1,480,000 (equivalent to approximately HK$11,544,000) in aggregate to the Company which is unsecured, interest-free and repayable on or before August 2024;

(vii) the Group is actively negotiating with external parties to obtain new sources of financing or strategic capital investments (the "**External Financing**") to finance the Group's working capital and improve the liquidity position. With the assistance of Mr. Zhao, the Company expects to seek to obtain External Financing to the extent of HK$30,000,000 by the end of 2022. Mr. Zhao confirmed that he may assist the Company in obtaining such External Financing through provision of personal guarantee and/or share pledge financing, depending on the prevailing market conditions. The aggregate of the new working capital financing arising from Shareholder's Further Loan and the External Financing will amount to in aggregate of not less than HK$40,000,000 by the end of 2022. In addition, Mr. Zhao confirmed that in case the External Financing obtained at the relevant time is less than HK$30,000,000, he intends to enter into another shareholder's loan agreement with the Company before the end of 2022, pursuant to which he will grant another unsecured interest-free loan (the "**Additional Shareholder's Loan**") in the amount equals to the shortfall between HK$30,000,000 and the actual amount of the External Financing obtained at the time. The Additional Shareholder's Loan, if any, will be actually injected to the Company upon the signing of such shareholder's loan agreement before the end of 2022;

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION *(Continued)*

(c) Going concern basis *(Continued)*

(viii) the Group will implement various measures to improve the Group's operational performance and financial position. Regarding the leather manufacturing business, the Group strives to expand the existing customer base and allocates marketing resources to the markets with faster recovery pace. In addition, the Group is maintaining its current existing client base and it is expected that the orders from existing clients will be increased. The Group will also continue to further reduce the inventory level of raw materials, particular by to consume those slow-moving ones. Regarding the leather retail business, the management of the Group will constantly and critically review the performance of each of the Group's retail stores in Hong Kong and determine whether any relocation, close-down or any other further action is needed. Meanwhile, the Group has also proactively utilised e-commerce platforms so as to explore the PRC market, widen customer base and generate more sales.

These Interim Financial Statements do not include any adjustments that would result from a failure in completing the Measures, 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 and to reclassify non-current assets and liabilities as current assets and liabilities.

3. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2021 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 2022. Details of these changes in accounting policies are set out below.

3.1 New and amended standards adopted by the Group

The Group has adopted the following new and revised HKFRSs (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for these Interim Financial Statements.

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS9, Illustrative Examples accompanying HKFRS 16 and HKAS 41

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

(a) Amendments to HKFRS 3 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 has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022.

(b) 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 Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(c) 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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022.

(d) 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 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. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(d) (Continued)

- 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

The application of the amendments in the current period had no significant impact on the Interim Financial Statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2022.

3.2 New standards and amendments to standards issued but not yet effective for the accounting period beginning on 1 January 2022 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 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 17	Insurance contracts and related amendments	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

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 2022 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 a material impact on the financial performance and the financial position of the Group.

4. ESTIMATES

The preparation of the Interim 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 Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2021 Annual Financial Statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION

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

The Group determines its operating segments based on the reports reviewed by the chief operating decision 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:

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

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.

	Leather Manufacturing Business		Leather Retail Business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2022	2021	**2022**	2021	**2022**	2021
	Unaudited	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**18,670**	21,327	**944**	4,113	**19,614**	25,440
Inter-segment revenue	**57**	159	**–**	—	**57**	159
Reportable segment revenue *(Note (i))*	**18,727**	21,486	**944**	4,113	**19,671**	25,599
Reportable segment loss	**(4,540)**	(4,163)	**(928)**	(2,170)	**(5,468)**	(6,333)
Interest income					**–**	1
Unallocated corporate expenses *(Note (ii))*					**(4,388)**	(2,328)
Loss before tax					**(9,856)**	(8,660)
Income tax expense					**–**	—
Loss for the period					**(9,856)**	(8,660)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

	Leather Manufacturing Business		Leather Retail Business		Total	
	As at 30 June 2022	As at 31 December 2021	**As at 30 June 2022**	As at 31 December 2021	**As at 30 June 2022**	As at 31 December 2021
	Unaudited	Audited	**Unaudited**	Audited	**Unaudited**	Audited
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**33,710**	35,325	**3,615**	4,839	**37,325**	40,164
Elimination of inter-segment assets					**(152)**	(18)
Tax recoverable					**278**	291
Unallocated corporate assets					**792**	749
Consolidated total assets					**38,243**	41,186
Reportable segment liabilities	**26,810**	22,070	**40,802**	41,347	**67,612**	63,417
Elimination of inter-segment liabilities					**(38,881)**	(36,793)
Unallocated corporate liabilities					**47,911**	45,097
Consolidated total liabilities					**76,642**	71,721

Notes:

(i) Revenue from the Leather Manufacturing Business and the Leather Retail Business is recognised at a point in time when the control of the products has been passed to customers.

(ii) The amount represented unallocated corporate expenses that are not allocated to operating segments, including professional fees, directors' emoluments, employee costs, foreign exchange loss and other head office expenses as well as the expenses incurred in the Industrial Hemp Planting Business.

6. OTHER LOSSES

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Impairment loss on property, plant and equipment	**–**	51
Impairment loss on right-of-use assets	**1,519**	819
	1,519	870

7. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Interest on lease liabilities	**667**	698
Imputed interest on loans from ultimate controlling shareholder *(note 18)*	**369**	175
	1,036	873

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Cost of inventories recognised as expenses	**14,290**	17,545
Depreciation of property, plant and equipment *(note (i))*	**700**	60
Depreciation of right-of-use assets *(note (i))*	**1,881**	2,377
Foreign exchange losses, net	**879**	914
Expenses relating to short term leases	**158**	1,349
Employee costs (excluding Directors' emoluments) *(note (i))*	**9,283**	9,772
(Reversal of impairment)/Impairment of trade receivables	**(19)**	22
Government subsidies *(note (ii))*	**8**	—
Interest income	**—**	(1)

Notes:

(i) Cost of inventories included approximately HK$4,419,000 (six months ended 30 June 2021: approximately HK$5,077,000) for the six months ended 30 June 2022 relating to employee costs, depreciation of property, plant and equipment and depreciation of right-of-use assets, which amounts are also included in the respective total amounts disclosed above for each of these types of expenses.

(ii) The Group received government subsidies of approximately HK$8,000 during the six months ended 30 June 2022 (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 subsidies.

9. INCOME TAX EXPENSE

Under the Hong Kong two-tiered profits tax rates regime, the first HK$2,000,000 of profits of one subsidiary of the Group, which is a qualifying group entity operating in Hong Kong, will be taxed at 8.25%, and its remaining assessable profits will be taxed at 16.5% during the six months ended 30 June 2022 and 2021. Other group entities operating in Hong Kong are taxed at 16.5%.

According to the Announcement of the State Administration of Taxation on Issues Relating to Implementation of Inclusive Income Tax Relief Policy for Small Low-profit Enterprises, a lower corporate income tax ("**CIT**") rate is applicable to small scale enterprises with low profitability that meet certain conditions, pursuant to which, (i) the first RMB1,000,000 of assessable profits (the "**1st Assessable Profits**") of these subsidiaries are effective taxable at 2.5% (i.e. 20% CIT rate on 12.5% of the 1st Assessable Profits) (six months ended 30 June 2021: 2.5% (i.e. 20% CIT rate on 12.5% of the 1st Assessable Profits)); and (ii) the remaining assessable profits not over RMB3,000,000 (the "**Remaining Assessable Profits**") are taxable at 5% (i.e. 20% CIT rate on the 25% of the Remaining Assessable Profits) (six months ended 30 June 2021: 10% (i.e. 20% CIT rate on 50% of the Remaining Assessable Profits)). For the other subsidiaries operating in the PRC, the CIT is taxed at the statutory rate of 25%.

No Hong Kong Profits Tax or CIT in the PRC 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 for both periods.

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022 and 2021.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss for the period of HK$9,856,000 (six months ended 30 June 2021: HK$8,660,000) attributable to owners of the Company and the weighted average number of 382,704,000 (six months ended 30 June 2021: 382,704,000) ordinary shares in issue during the six months ended 30 June 2022.

For the six months ended 30 June 2022 and 2021, no adjustment has been made to the basic loss per share amounts for the respective period in respect of a dilution as there is no potential dilutive ordinary share in issue for the six months ended 30 June 2022 and 2021.

12. PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment amounted to approximately HK$7,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: HK$4,222,000), while no disposal of property, plant and equipment was recorded for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

Leather Retail Business

As at 30 June 2022, the Directors considered that there were impairment indicators on certain of the property, plant and equipment (including leasehold improvements) (the "**Retail PPE**") and right-of-use assets (note 13) (the "**Retail ROA**") because of the substantial loss incurred by its Leather Retail Business during the six months ended 30 June 2022. Accordingly, the relevant items of the Retail PPE and Retail ROA of the Leather Retail Business are grouped together to constitute a cash generating unit (the "**Retail CGU**") for the purpose of the impairment assessment. The value in use (the "**2022 Retail Valuation**") of the Retail CGU as at 30 June 2022 has been determined by the Directors by using the discounted cashflow projection for a period covered from 2022 to 2023.

Based on the 2022 Retail Valuation, no write back of impairment loss on the fully impaired Retail PPE and the Retail ROA (six months ended 30 June 2021: HK$51,000 and HK$819,000, respectively), was considered necessary for the six months ended 30 June 2022.

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

Leather Manufacturing Business

As at 30 June 2022, the Directors considered that there were impairment indicators on certain of the property, plant and equipment (including leasehold improvements) (the "**Manufacturing PPE**") and right-of-use assets (note 13) (the "**Manufacturing ROA**") because of the substantial loss incurred by its Leather Manufacturing Business during the six months ended 30 June 2022. Accordingly, the relevant items of the Manufacturing PPE and Manufacturing ROA of the Leather Manufacturing Business are grouped together to constitute a cash generating unit (the "**Manufacturing CGU**") for the purpose of the impairment assessment. The value in use (the "**2022 Manufacturing Valuation**") of the Manufacturing CGU as at 30 June 2022 has been determined by the Directors by using the discounted cashflow projection for a period covered from 2022 to 2025.

Based on the 2022 Manufacturing Valuation, no impairment loss on the Manufacturing PPE and the Manufacturing ROA is considered necessary.

13. LEASES

During the six months ended 30 June 2022, the Group entered into certain new lease agreements for office premises for terms of 2 years (six months ended 30 June 2021: certain new lease agreements for factory and retail shop premises for terms ranging from 5 months to 5 years). Right-of-use assets and lease liabilities amounting to approximately HK$3,255,000 were initially recognised for the six months ended 30 June 2022 (six months ended 30 June 2021: approximately HK$11,913,000 and HK$11,874,000 respectively).

As detailed in note 12 to the Interim Financial Statements, the Group performed an impairment assessment on the Retail ROA and Manufacturing ROA and no write back or any further impairment (six months ended 30 June 2021: HK$819,000) was considered necessary during the six months ended 30 June 2022.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13. LEASES *(Continued)*

In addition, the Directors further performed an impairment assessment on the right-of-use asset (the "**Corporate ROA**") which was used by the Group as corporate head office because of the existence of impairment indicator resulted from the substantial loss incurred by the Group during the six months ended 30 June 2022. The recoverable amount of the Corporate ROA was determined by the Directors with reference to the value in use calculations, using the discounted cash flow projections from the latest financial budgets covering the lease terms. In view of the carrying amount of the Corporate ROA was higher than the recoverable amount, an impairment loss of approximately HK$1,519,000 (six months ended 30 June 2021: Nil) was recognised in the condensed consolidated statement of profit or loss during the six months ended 30 June 2022.

The operating lease commitments related to short-term leases for retail shops entered by the Group were approximately HK$250,000 as at 30 June 2022 (31 December 2021: approximately HK$820,000).

14. TRADE RECEIVABLES

	As at 30 June 2022 Unaudited *HK$'000*	As at 31 December 2021 Audited *HK$'000*
Trade receivables	**4,699**	8,238
Less: Impairment loss	**(1,129)**	(1,148)
Net carrying amounts	**3,570**	7,090

14. TRADE RECEIVABLES *(Continued)*

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

	As at 30 June 2022 Unaudited *HK$'000*	As at 31 December 2021 Audited *HK$'000*
Less than 30 days	**2,832**	1,906
31–60 days	**369**	3,989
61–90 days	**365**	1,195
91–120 days	**3**	—
121–365 days	**1**	—
More than 365 days	**—**	—
	3,570	7,090

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE RECEIVABLES *(Continued)*

The following table provides information about the Group's exposure to credit risk and the loss allowance for expected credit loss ("**ECLs**") for trade receivables as at 30 June 2022:

	Expected loss rate *(%)*	Gross carrying amount *HK$'000*	Loss *HK$'000*	Net carrying amount *HK$'000*
Current (not past due)	**0.03**	**3,156**	**(4)**	**3,152**
1–30 days past due	**0.17**	**412**	**(1)**	**411**
31–60 days past due	**2.21**	**5**	**—**	**5**
61–90 days past due	**36.39**	**2**	**—**	**2**
91–365 days past due	**99.21**	**1**	**(1)**	**—**
Over 365 days past due	**100**	**1,123**	**(1,123)**	**—**
		4,699	**(1,129)**	**3,570**

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 2021:

	Expected loss rate *(%)*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Net carrying amount *HK$'000*
Current (not past due)	0.03	6,404	(3)	6,401
1–30 days past due	0.1	690	(1)	689
31–60 days past due	N/A	—	—	—
61–90 days past due	N/A	—	—	—
91–365 days past due	99.91	21	(21)	—
Over 365 days past due	100	1,123	(1,123)	—
		8,238	(1,148)	7,090

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

14. TRADE RECEIVABLES *(Continued)*

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

	Six months ended 30 June 2022 Unaudited *HK$'000*	Year ended 31 December 2021 Audited *HK$'000*
Beginning of the period/year	**1,148**	1,123
(Reversal of)/Provision for impairment loss	**(19)**	25
Balance at end of period/year	**1,129**	1,148

15. TRADE PAYABLES

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

	As at 30 June 2022 Unaudited *HK$'000*	As at 31 December 2021 Audited *HK$'000*
Less than 30 days	**1,871**	1,023
31–60 days	**1,868**	924
61–90 days	**2,376**	959
91–120 days	**754**	1,265
121–365 days	**2,053**	238
More than 365 days	**354**	354
	9,276	4,763

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The amount due to a director, namely Mr. Qin, amounting to HK$98,000 (31 December 2021: HK$501,000) is unsecured, interest-free and has no fixed terms of repayment. Mr. Qin has confirmed that he will not demand for repayment of the amount due to him until the Group is in a position to do so.

The amount due to the ultimate controlling shareholder, namely Mr. Zhao, amounting to HK$11,794,000 (31 December 2021: HK$8,791,000) is unsecured, interest-free and has no fixed terms of repayment. Mr. Zhao has confirmed that he will not demand for repayment of the amount due to him until the Group is in a position to do so.

The amount due to a related company, namely 北京盛茂坤科技產業發展有限公司, amounting to HK$1,768,000 (31 December 2021: HK$1,848,000) is unsecured, interest-free and has no fixed terms of repayment.

17. LOAN FROM A DIRECTOR

On 28 October 2019, the Company entered into a loan agreement with 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. Mr. Qin has confirmed that he will not demand for repayment of the loan due to him until the Company is in a position to do so.

18. LOANS FROM ULTIMATE CONTROLLING SHAREHOLDER

	Six months ended 30 June 2022 Unaudited ***HK$'000***	Year ended 31 December 2021 Audited *HK$'000*
Beginning of the period/year	**9,968**	3,262
New loan agreements entered:		
Principal amount	**–**	7,657
Notional interest saving arising from the interest-free loans	**–**	(1,008)
Loan extension agreements entered:		
Notional interest saving arising from the interest-free loans	**(1,070)**	—
	8,898	9,911
Imputed interest charged	**369**	501
Repayment	**–**	(591)
Exchange realignment	**(345)**	147
Balance at end of period/year	**8,922**	9,968
Less: Current portion	**(4,795)**	(5,207)
Non-current portion	**4,127**	4,761

The Group entered into certain loan agreements with the ultimate controlling shareholder, Mr. Zhao, pursuant to which, Mr. Zhao granted certain interest-free loans with aggregate outstanding principal amounts of RMB7,010,000 (equivalent to approximately HK$8,211,000) (the "**RMB Loans**") and HK$2,226,000 (the "**HK$ Loans**") to the Group (collectively, the "**Shareholder's Loans**") as at 31 December 2021.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The HK$ Loans were repayable during January 2022 to June 2022. Pursuant to the supplemental agreements entered on 12 January 2022 and 17 May 2022, Mr. Zhao agreed to extend the term of the HK$ Loan for additional two years. The extended HK$ Loans are repayable during January 2024 to June 2024.

Among the RMB Loans, an interest-free loan with an outstanding principal amount of RMB2,510,000 (equivalent to approximately HK$2,940,000) is repayable on 30 June 2022. Pursuant to a supplemental agreement entered on 17 May 2022, the term of the loan was extended for additional two years to be repayable on 30 June 2024. The remaining RMB Loans with aggregate outstanding principal amounts of RMB4,500,000 (equivalent to approximately HK$5,271,000) are repayable during March 2023 to June 2023. Mr. Zhao has confirmed that he will not demand for repayment of the Shareholder's Loans until the Group is in a position to do so.

The Shareholder's Loans are accounted for at amortised cost, using effective interest rates from 8% to 14%.

19. 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 2021 (audited) and 30 June 2022 (unaudited)	**2,000,000**	20,000
Issued and fully paid:		
At 31 December 2021 (audited) and 30 June 2022 (unaudited)	**382,704**	3,827

20. COMMITMENTS

Other than the operating lease commitments disclosed in note 13 to the Interim Financial Statements, the Group had no significant commitments as at 30 June 2022 and 31 December 2021.

21. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2022 and 31 December 2021.

22. RELATED PARTY BALANCES AND TRANSACTIONS

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

Compensation of key management personnel

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

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Short-term benefits	**646**	630
Post employment benefits	**—**	—
	646	630

23. COMPARATIVE AMOUNTS

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

For the six months ended 30 June 2022, the Group's revenue decreased by approximately 22.9% from approximately HK$25,440,000 for the six months ended 30 June 2021 to approximately HK$19,614,000. Gross profit decreased by approximately 32.6% from approximately HK$7,895,000 for the six months ended 30 June 2021 to approximately HK$5,324,000 for the six months ended 30 June 2022. The gross profit margin of the Group decreased from approximately 31.0% for the six months ended 30 June 2021 to approximately 27.1% for the six months ended 30 June 2022. The decrease in revenue was a result of the outbreak of coronavirus disease ("**Covid-19**") and the Covid-19 pandemic control quarantine measures in the PRC and Hong Kong, as well as restrictions on travel and logistics, resulting in a delay in production schedule of the Group's Leather Manufacturing Business. Meanwhile, the Covid-19 pandemic has crippled the Group's Leather Retail Business, leading to a decrease in gross profit and gross profit margin of the Group.

Other income increased by approximately 214.4% from approximately HK$104,000 for the six months ended 30 June 2021 to approximately HK$327,000 for the six months ended 30 June 2022. The increase was mainly attributable to the write-back of the over-provision of renovation and restoration of the closed retail shop and Covid-19-related rent concessions for the six months ended 30 June 2022.

Selling and distribution costs decreased by approximately 34.9% from approximately HK$3,460,000 for the six months ended 30 June 2021 to approximately HK$2,252,000 for the six months ended 30 June 2022. The decrease was primarily due to (i) the closure of one retail shop in the first quarter of 2022, which reduced the expenses of shop rental and human resource, and (ii) the epidemic prevention and lockdown policy in the PRC leading to a decrease in domestic sales activities during the six months ended 30 June 2022.

Administrative and other operating expenses slightly decreased by approximately HK$715,000 to approximately HK$10,719,000 (six months ended 30 June 2021: approximately HK$11,434,000) for the six months ended 30 June 2022. The decrease was mainly due to the decrease in employee costs for administrative and supporting staff as a result of the strengthened human resources management of the Group and the decrease in professional fee of the Group.

Other losses increased by approximately HK$649,000 to approximately HK$1,519,000 (six months ended 30 June 2021: approximately HK$870,000) for the six months ended 30 June 2022. The increase was primarily due to the impairment of right-of-use assets arising form the lease renewed during the six months ended 30 June 2022.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK$9,856,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: approximately HK$8,660,000). Loss per share for the six months ended 30 June 2022 was 2.58 HK cents (six months ended 30 June 2021: 2.26 HK cents).

BUSINESS REVIEW

During the six months ended 30 June 2022, the leather manufacturing and leather retail business segments accounted for approximately 95.2% (six months ended 30 June 2021: approximately 83.8%) and approximately 4.8% (six months ended 30 June 2021: approximately 16.2%) of the total revenue of the Group, respectively.

Leather Manufacturing Business

For the six months ended 30 June 2022, the Group's revenue from its Leather Manufacturing Business from external customers decreased by approximately 12.5% from approximately HK$21,327,000 for the six months ended 30 June 2021 to approximately HK$18,670,000. This was mainly due to the outbreak of Covid-19 pandemic during the six months ended June 2022, which led to serious delay in the Group's leather manufacturing activities caused by delay in raw material supplies and the restrictions imposed by the anti-epidemic policies.

Revenue analysis by geographic location:

	Six months ended 30 June			
	2022		2021	
	Unaudited		Unaudited	
	HK$'000	***%***	*HK$'000*	*%*
United States	**9,890**	**53.0**	13,160	61.7
Europe	**3,665**	**19.6**	3,083	14.4
Hong Kong	**2,163**	**11.6**	2,294	10.8
PRC	**463**	**2.5**	—	—
Others	**2,489**	**13.3**	2,790	13.1
	18,670	**100**	21,327	100

Revenue analysis by product category:

	Six months ended 30 June			
	2022		2021	
	Unaudited		Unaudited	
	HK$'000	***%***	*HK$'000*	*%*
Belts	**16,991**	**91.0**	20,812	97.6
Leather goods & other accessories	**1,679**	**9.0**	515	2.4
	18,670	**100**	21,327	100

The Group's Leather Manufacturing Business segment recorded an operating loss of approximately HK$4,540,000 for the six months ended 30 June 2022, representing an increase of approximately 9.1% from approximately HK$4,163,000 operating loss for the six months ended 30 June 2021.

Leather Retail Business

The Group's revenue from its Leather Retail Business decreased by approximately HK$3,169,000 to approximately HK$944,000 (six months ended 30 June 2021: approximately HK$4,113,000) for the six months ended 30 June 2022. The substantial decline in the Leather Retail Business was mainly attributed to the strict epidemic prevention policy in the PRC and Hong Kong and the retail stores of the Group was forced close intermittently during the six months ended 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue analysis by geographic location:

	Six months ended 30 June			
	2022		2021	
	Unaudited		Unaudited	
	HK$'000	***%***	*HK$'000*	*%*
PRC	**69**	**7.3**	2,762	67.2
Hong Kong	**875**	**92.7**	1,351	32.8
	944	**100**	4,113	100

As at 30 June 2022, the Group operated three AREA 0264 stores and one Teepee Leather workshop in Hong Kong (30 June 2021: four AREA 0264 stores and one Teepee Leather workshop).

The Group's Leather Retail Business segment recorded an operating loss of approximately HK$928,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: approximately HK$2,170,000). The decrease was mainly due to (i) the closing down of one retail store in the first quarter of 2022, which reduced the expenses of shop rental and human resource, and (ii) the Covid-19-related rent concessions during the six months ended 30 June 2022.

Prospect

With the relaxation of the global Covid-19 epidemic prevention policy, global economic activities will gradually recover, and it is believed that the consumption in the overseas leatherware market and our production scale will also recover somewhat.

Looking forward to the second half of 2022, the Group remains optimistic about the situation of the leatherware industry. With the replenishment demand of overseas brands and the continuous recovery of overseas demand, it is expected that leatherware orders will continue to improve in coming years. However, due to the continuing impact of the Covid-19 pandemic, there are also certain uncertainties ahead.

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 2022, we will keep focusing on designing and launching a new series of leatherware products that are in the style of our brand named AREA 0264 without losing trendy elements. It is expected that it will bring a new modern atmosphere to the retail business.

Retail store rental remains one of the Group's largest expenses. The substantial rental expenses of the retail stores is determined to be an impediment to the profit and loss of the Leather Retail Business of the Group. In view of this grim business outlook of the Hong Kong retail sector and in order to mitigate any loss of the Leather Retail Business of the Group in the second half of 2022, the Group has closed down one retail store in March 2022 and planned to close down two existing retail stores in the second half of 2022 upon the expiry of their respective store tenancies. Going forward, the Group will further enhance the online marketing and online promotion activities of its leather products, as well as improving the service quality of existing stores by strengthening the human resource management of the retails business segment.

In the meantime, 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.

Reference is made to the announcement of the Company dated 8 July 2022, the Company proposed some measures to improve the Group's operational performance and financial position as follows:

- Regarding the Leather manufacturing Business, the Group strives to expand the existing customer base and the management will closely monitor and evaluate the recovery status of the markets so as to allocate marketing resources to those of a faster recovery pace. The Group will also continue to further reduce the inventory level of raw materials, particularly to consume those slow-moving ones.

- Regarding the Leather Retail Business, the Management will constantly and critically review the performance of each of the Group's retail stores in Hong Kong and determine whether any relocation, close-down or any other further action is needed. As mentioned above, the management of the Company intends to close down two retail stores in the second half of 2022. Meanwhile, the Group has also proactively utilise e-commerce platforms (such as shopee.com, tmall.com and Company's website) so as to explore the PRC market, widen customer base and generate more sales. Also, the Fourteenth Five-Year Plan (the "**145 Plan**") sets out the development vision of the PRC for the next five years up to 2035. The 145 Plan has active measures to increase the supply and demand of domestic consumers, which is a good omen for the future of the retail industry and is positive for the retail and e-commerce markets.

- The Group is striving to expand the existing customer base through business development and cooperation opportunities. The Group is currently dealing with not less than five new potential customers, which are internationally well-known fashion apparel brands located in Europe and the United States. In addition, the Group is maintaining its current existing client base and it is expected that the orders from the existing clients will be increased for the year ending 31 December 2022.

- The Group will continue to take proactive measures to control administrative expenses and other operating expenses through various channels including human resources optimization and containment of capital expenditures.

Furthermore, the Group has undertaken plans to diversify into the businesses of industrial hemp planting and hemp fabric product production (the "**Business Plan**") in 2022. 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. During the period, the Group has renewed the relevant permit to plant industrial hemp and rented a parcel of land in Yunnan for the trial cultivation of industrial hemp. The Group looks forward to the successful trial planting and the ability to manufacture and produce hemp fabrics in the future.

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

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

* *For identification purpose only*

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2022, the Group's cash and bank deposits were approximately HK$1,632,000 as compared to approximately HK$1,469,000 as at 31 December 2021.

The Group recorded total current assets of approximately HK$23,427,000 as at 30 June 2022 (31 December 2021: approximately HK$25,033,000) and total current liabilities of approximately HK$64,440,000 as at 30 June 2022 (31 December 2021: approximately HK$58,292,000). The decrease in total current assets was mainly due to the increase in operating loss. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 0.36 times as at 30 June 2022 (31 December 2021: approximately 0.43 times).

As at 30 June 2022, the Group had total assets amounting to approximately HK$38,243,000 (31 December 2021: approximately HK$41,186,000) and total liabilities of approximately HK$76,642,000 (31 December 2021: approximately HK$71,721,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 200.4% (31 December 2021: approximately 174.1%) as at 30 June 2022.

The drop in current ratio and the increase in gearing ratio were mainly resulted by the increase of trade payables and advances and loans provided by the ultimate controlling shareholder of the Company during the reporting period for supporting the Group's operating needs.

The Group recorded deficiency in assets of approximately HK$38,399,000 (31 December 2021: HK$30,535,000) as at 30 June 2022, which was mainly attributable to the operating loss of the period.

As detailed in note 2(c) to the Interim Financial Statements, the Company has undertaken various measures to improve its liquidity.

Apart from the Shareholder loans, the Group did not have any bank borrowings or bank facilities as at 30 June 2022 (31 December 2021: nil).

Inventories and trade receivables

The Group recorded total inventories of approximately HK$13,014,000 as at 30 June 2022 (31 December 2021: approximately HK$10,566,000) and the inventory turnover days increased from 98 days to 166 days in view of the delay in the production and the stressed global logistics leading the shortages of some raw materials resulted by the massive outbreak of Covid-19 in the period in Hong Kong and the PRC, however, the adverse effect is believed to be temporary. The Group had trade receivables of approximately HK$3,570,000 as at 30 June 2022 (31 December 2021: approximately HK$7,090,000) and the debtor turnover days decreased from 53 days to 33 days.

TREASURY POLICY

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

CHARGES OF ASSETS

The Group did not have any charges on assets as at 30 June 2022 (31 December 2021: nil).

SIGNIFICANT INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

The Group did not have any significant investment nor make any significant acquisition of capital assets during the six months ended 30 June 2022.

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not conduct any significant acquisition or disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2022.

COMMITMENTS AND CONTINGENT LIABILITIES

Other than the operating lease commitments disclosed in note 13 to the Interim Financial Statements, the Group had no significant and contingent liabilities as at 30 June 2022 and 31 December 2021.

HUMAN RESOURCES

As at 30 June 2022, the Group employed 149 employees (31 December 2021: 157). The salaries of employees largely depend on their job nature, performance and length of service with the Group. The Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. In addition to the basic remuneration, the Group also provides employees with employees benefits, including pension, medical scheme and other applicable social insurance as required by the applicable laws and regulations. Apart from regular on-job training, the Group provides training to new employees including an introduction to relevant regulations and general safety awareness and a workshop specific training to the work area and the role of individual within the workshop.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

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

As at 30 June 2022, 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)*	258,024,406	67.42

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 2022, 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 2022, the following person (other than the Directors and chief executive of the Company) had interests in 5% or more of the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate percentage of shareholding
Waterfront Holding Group Co., Ltd.	Beneficial owner	258,024,406	67.42

Save as disclosed above, as at 30 June 2022, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had interests in 5% or more of the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

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

There was no outstanding share option of the Company under the Share Option Scheme as at 1 January 2022 and 30 June 2022 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 2022 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CHANGES IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmations from the Directors and chief executive of the Company, there was no change in the information of the Directors or chief executive of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the date of the Company's annual report published on 20 May 2022 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 2022.

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 2022 except the following deviation.

Under the code provision D.2.5 of the CG Code, the Group should have an internal audit function. The Company did not establish the internal audit function for the six months ended 30 June 2022. 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 FINANCIAL REPORTING REQUIREMENTS OF THE LISTING RULES

Owing to the travel restriction in force in the PRC to combat the outbreak of Covid-19, the audit of the consolidated financial statements of the Group for the year ended 31 December 2021 was affected, the Company was unable to publish the audited annual results of the Group for the year ended 31 December 2021 (the "**2021 Annual Results**") and the annual report of the Group for the same financial year (the "**2021 Annual Report**") within the periods as required by the Listing Rules nor the extended deadline allowed under the "Frequently asked questions on the Joint Statement in relation to Result Announcements in light of Travel Restrictions related to the Severe Respiratory Disease associated with a Novel Infectious Agent (Joint Statement) and Holding of General Meetings" issued by the Securities and Futures Commission of Hong Kong (the "**SFC**") and the Stock Exchange and last updated on 8 April 2022 (the "**FAQ**"). The Company was only able to publish the unaudited 2021 Annual Results without agreement by its auditors on 31 March 2022 pursuant to the "Further guidance on the joint statement in relation to results announcements in light of Covid-19 pandemic" released on 16 March 2020 by the SFC and the Stock Exchange. Such delay constituted non-compliance with Rules 13.46 and 13.49 of the Listing Rules.

However, as disclosed in the announcement of the Company dated 29 April 2022, an application was made to the Stock Exchange on 29 April 2022 for approval of further delay in publication of the audited 2021 Annual Results and the despatch of the 2021 Annual Report to 17 May 2022 and 20 May 2022, respectively, and waiver of the Company's strict compliance of the relevant requirements under the Listing Rules in relation to the publication of the audited 2021 Annual Results and the despatch of the 2021 Annual Report. On 4 May 2022, the Stock Exchange approved the Company to despatch the 2021 Annual Report on or before 20 May 2022. Accordingly, the Company published the audited Annual Results agreed by the Company's auditors on 17 May 2022 and despatched the 2021 Annual Report on 20 May 2022.

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 2022.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 2(c) to the Interim 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.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, internal controls and risk management systems of the Group. As at 30 June 2022, the Audit Committee comprised three independent non-executive Directors, Ms. Han Yu (Chairlady), Ms. Jia Lixin and Mr. Rong Yi. The Group's financial results for the six months ended 30 June 2022 has not been audited or reviewed by the external auditor of the Company, but the Audit Committee has reviewed and discussed with management in relation to financial reporting matters, including but not limited to the Interim Financial Statements of the Group for the six months ended 30 June 2022 and this report.

By Order of the Board
China International Development Corporation Limited
Zhao Jingfei
Chairman and Executive Director

Hong Kong, 31 August 2022