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

ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Chan Tsang Mo

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 26,
39 Queen's Road Central,
Central,
Hong Kong

PRINCIPAL BANKERS

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

AUDITOR

Ascenda Cachet CPA Limited
Certified Public Accountants

LEGAL ADVISERS ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

LEGAL ADVISERS ON HONG KONG LAW

Li & Partners

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

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

STOCK CODE

264

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2021	Year ended 31 December 2020
Operating results		
Revenue (HK$'000)	**49,192**	39,771
Gross profit (HK$'000)	**9,820**	11,934
Loss before tax (HK$'000)	**(20,987)**	(21,758)
Loss for the year (HK$'000)	**(20,987)**	(21,758)
Business performance ratios		
Gross profit margin (%)	**20.0**	30.0
Current ratio (times)	**0.43**	0.75
Quick ratio (times)	**0.25**	0.45
Share data (as at year end date)		
Shares in issue ('000)	**382,704**	382,704
Shares closing price (HK$)	**0.71**	0.96
Market capitalization (HK$'000)	**271,720**	367,396
Basic loss per share (HK cents)	**(5.5)**	(5.7)
Net liabilities value per share (HK$)	**(0.08)**	(0.03)

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China International Development Corporation Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I present the annual report of the Company for the year ended 31 December 2021.

FINANCIAL PERFORMANCE

The Group has recorded revenue of approximately HK$49,192,000 for the year ended 31 December 2021 (2020: approximately HK$39,771,000), representing a significant increase of 23.7% or approximately HK$9,421,000 as compared with the year ended 31 December 2020. Revenue contributed from the Leather Manufacturing and Retail Business Segments (excluding inter-segment revenue) was approximately HK$46,016,000 and approximately HK$3,176,000 for the year ended 31 December 2021, respectively. Gross profit was approximately HK$9,820,000 for the year ended 31 December 2021 (2020: approximately HK$11,934,000). There was a decrease in gross profit margin from approximately 30.0% for the year ended 31 December 2020 to approximately 20.0% for the year ended 31 December 2021 mainly because of extra production costs incurred during the transition period of factory relocation.

Other income decreased by 51.7% from approximately HK$2,772,000 for the year ended 31 December 2020 to approximately HK$1,338,000 for the year ended 31 December 2021. The decrease was mainly attributable to the government subsidies of approximately HK$1,584,000 (2021: Nil) in response to the outbreak of coronavirus disease ("**COVID-19**") for the year ended 31 December 2020.

Other gains/losses changed from a loss of approximately HK$6,047,000 for the year ended 31 December 2020 to a gain of approximately HK$722,000 for the year ended 31 December 2021. The change was mainly due to the reduction in impairment loss on right-of-use assets and property, plant and equipment by approximately HK$5,441,000 and an income from sales of scrap of approximately HK$1,328,000 (2020: Nil) during the year ended 31 December 2021.

Selling and distribution costs increased significantly by approximately HK$3,217,000 to approximately HK$7,575,000 for the year ended 31 December 2021 (2020: approximately HK$4,358,000). While the increase was brought by the increase in revenue, with the significant impact of the COVID-19 pandemic, the global supply chain has been in an unstable state and the global transportation cost continued to rise. In addition the Company adopted short-term retail shop leases as a more flexible strategy which recognized more short term retail lease rentals.

Administrative and other operating expenses decreased by approximately HK$1,853,000 to approximately HK$23,302,000 (2020: approximately HK$25,155,000) for the year ended 31 December 2021. 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.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK$20,987,000 (2020: approximately HK$21,758,000) for the year ended 31 December 2021. Loss per share for the year ended 31 December 2021 was HK5.5 cents (2020: HK5.7 cents).

BUSINESS REVIEW

For the year ended 31 December 2021, the Leather Manufacturing Business and the Leather Retail Business accounted for approximately 93.5% (2020: approximately 92.4%) and approximately 6.5% (2020: approximately 7.6%) of the Group's total revenue, respectively.

Leather Manufacturing Business

For the year ended 31 December 2021, revenue of the Leather Manufacturing Business from external customers was approximately HK$46,016,000, in comparison with approximately HK$36,743,000 for the year ended 31 December 2020. The increase was mainly due to the increase in vaccination rates and reopening of border in overseas countries, the international consumption environment has gradually stabilised, especially the demand from the United States of America and other countries.

Revenue analysis by geographic location:

	2021		2020	
	HK$'000	**%**	HK$'000	%
Hong Kong	**4,921**	**10.7**	3,276	8.9
United States of America	**29,888**	**65.0**	22,707	61.8
Europe	**7,130**	**15.5**	8,229	22.4
The PRC	**—**	**—**	14	0.0
Other countries	**4,077**	**8.8**	2,517	6.9
	46,016	**100**	36,743	100

Revenue analysis by product category:

	2021		2020	
	HK$'000	**%**	HK$'000	%
Belts	**44,952**	**97.7**	35,937	97.8
Leather goods and other accessories	**1,064**	**2.3**	806	2.2
	46,016	**100**	36,743	100

Leather Retail Business

For the Leather Retail Business, due to the adverse retail environment of Hong Kong largely due to the outbreak of the COVID-19 pandemic, and keen competition from rivals and online sales, the Group recorded revenue of approximately HK$2,366,000 from Hong Kong (2020: approximately HK$3,028,000) for the year ended 31 December 2021, representing an approximately 21.9% decrease in comparison with that for the year ended 31 December 2020. Nonetheless, the Company actively developed its online retail business in the PRC and recorded revenue of approximately of HK$810,000 from the PRC (2020: Nil) during the year ended 31 December 2021. Gross profit margin for the year ended 31 December 2021 increased to approximately 68.4%, as compared to approximately 56.6% for the year ended 31 December 2020.

The Leather Retail Business resulted in a loss of approximately HK$5,787,000 for the year ended 31 December 2021 as compared to approximately HK$7,286,000 for the year ended 31 December 2020. The Group maintained four (2020: four) AREA 0264 stores and one (2020: one) Teepee Leather workshop in Hong Kong as at 31 December 2021.

PROSPECTS

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

With the increase in vaccination rates and reopening of border in overseas countries, the international consumption environment has gradually stabilised. In addition, 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.

Looking forward to 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.

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.

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 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.

Zhao Jingfei
Chairman

Hong Kong, 17 May 2022

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2021, the Group's cash and bank deposits were approximately HK$1,469,000 as compared to approximately HK$2,280,000 as at 31 December 2020.

The Group recorded total current assets of approximately HK$25,033,000 (31 December 2020: approximately HK$28,329,000) as at 31 December 2021 and total current liabilities of approximately HK$58,292,000 (31 December 2020: approximately HK$37,854,000) as at 31 December 2021. The decrease in total current assets was mainly due to the decrease in trade receivables, amount due from a related company, pledged time deposit and cash and bank balances. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 0.43 times (31 December 2020: approximately 0.75 times) as at 31 December 2021.

As at 31 December 2021, the Group had total assets amounting to approximately HK$41,186,000 (2020: approximately HK$32,092,000) and total liabilities of approximately HK$71,721,000 (2020: approximately HK$42,979,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 174.1% (31 December 2020: approximately 133.9%) as at 31 December 2021.

The drop in current ratio and the increase in gearing ratio was mainly resulted by the increase of advances and loans from the ultimate controlling shareholder provided during the year for supporting the Group's operating needs.

The Group recorded deficiency in assets of approximately HK$30,535,000 (31 December 2020: HK$10,887,000) as at 31 December 2021, which was mainly attributable to the operating loss of the year.

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

Inventories and trade receivables

The Group recorded total inventories of approximately HK$10,566,000 (31 December 2020: approximately HK$11,265,000) as at 31 December 2021 and the inventory turnover days decreased to 98 days as at 31 December 2021 from 148 days as at 31 December 2020. The Group had trade receivables of approximately HK$7,090,000 (31 December 2020: approximately HK$9,833,000) as at 31 December 2021 and the debtor turnover days decreased from 90 days to 53 days. The improvement on inventory turnover days and the debtor turnover days was mainly due to the global economic activities gradually resumed during the year ended 31 December 2021.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held as at 31 December 2021 and 31 December 2020.

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2021.

TREASURY POLICY

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

CHARGES ON ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

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

Other than the operating lease commitments disclosed in note 24(d) to the consolidated financial statements, the Group had no significant commitments and contingent liabilities as at 31 December 2021 and 31 December 2020.

EVENT AFTER THE REPORTING PERIOD

Apart from certain supplemental agreements entered into between the Group and Mr. Zhao Jingfei, an executive Director, Chairman and ultimate controlling shareholder of the Company as disclosed in note 2.1 to the consolidated financial statements, there was no material event occurring subsequent to the end of the reporting period.

HUMAN RESOURCES

As at 31 December 2021, the Group employed 157 (2020: 169) employees. The salaries of employees largely depend on their job nature, performance and length of service with the Group. The Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. In addition to the basic remuneration, the Group also provides employees with employees benefits, including defined contribution plans, medical scheme and other applicable social insurance as required by the applicable laws and regulations. Apart from regular on-the-job training, the Group provides training to new employees including an introduction to relevant regulations and general safety awareness and a workshop specific training to the work area and the role of individual within the workshop.

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhao Jingfei, aged 32, has been appointed as an executive Director and chairman of the Board (the "**Chairman**") on 22 July 2019. He obtained a bachelor's degree in economics from Wuhan Sports University in 2013. Since graduation, Mr. Zhao has been assisting in the management of his family business as well as accumulating other working and investment experience in the PRC, which includes financial and apparel businesses. In addition, from January 2015 to January 2019, Mr. Zhao worked in Hubei Hengji Business Co., Ltd* (湖北亨基商貿有限公司) ("**Hubei Hengji**"), a manufacturing and processing company of apparel, with his last position as the operations manager. During his years working in Hubei Hengji, Mr. Zhao was primarily responsible for the procurement of garments and the introduction of brands.

Mr. Fan Xin, aged 39, has been appointed as an executive Director, Chief Executive Officer (the "**CEO**") and authorised representative of the Company on 22 July 2019. He obtained New Zealand Diploma in Business (Level 6) from New Zealand Academy of Studies in 2008. Mr. Fan was a part-time researcher in the Securities Research Institute of Fudan University* (復旦大學證券研究所) from March 2013 to December 2013. He was a general manager in Beijing Sinan Think Tank Economics Research Co., Ltd.* (北京司南車智庫經濟學研究有限公司). He has been an executive director of Yinglian Technology Co., Ltd.* (鷹鏈科技有限公司) since February 2018. He has also been the general manager of Lijiang Airlines Investment Co., Ltd.* (麗江航空投資有限公司) since December 2018.

Mr. Qin Bohan, aged 26, has been appointed as an executive Director on 9 September 2019. He was the assistant to the general manager of Tangcheng (Beijing) Finance and Taxation Service Co., Ltd.* (唐誠 (北京) 財稅服務有限公司) from February 2015 to October 2017. He has been the general manager of Beijing Zhongmin Huisheng Technology Co., Ltd.* (北京中民匯生科技有限公司) since December 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Han Yu, aged 49, was appointed as an independent non-executive Director on 9 September 2019. She obtained a master's degree in management majoring in accounting from Central University of Finance and Economics in 2008. Ms. Han has over 10 years' experience in accounting and financial management. She was the vice chief financial officer of Beijing Dinghan Technology Group Co., Ltd., a company listed on Growth Enterprise Market of Shenzhen Stock Exchange (Stock Code: 300011) from June 2008 to October 2012. She was the chief financial officer of Changshu Poly Theatre Management Co., Ltd.* (常熟市保利大劇院管理有限公司) from November 2012 to May 2016. She has been the chief financial officer of Shenzhen Qianhai Hanya Trading Company Limited* (深圳前海瀚亞貿易有限責任公司) since November 2016.

Ms. Jia Lixin, aged 32, was appointed as an independent non-executive Director on 9 September 2019. She graduated from the Hull University with a degree of Bachelor of Arts in Business and Management in 2012. She also obtained a degree of Master of Science in International Business from the Coventry University in 2013. Ms. Jia has been the general manager of Yichang Zaowei Information Technology Consulting Co., Ltd.* (宜昌早為信息技術諮詢有限公司) since March 2017.

* The English translation of the Chinese name of the relevant entity is for identification and reference only.

Mr. Rong Yi, aged 64, was appointed as an independent non-executive Director on 9 September 2019. He was the chairman and general manager of Jiangsu Wuxi Rongxin Industry Development Co., Ltd.* (江蘇無錫榮信實業發展有限公司) from 1996 to August 2019. Mr. Rong was a director of the board of directors of Jiangnan University from 1997 to 2006. He was a member of the eighth and ninth committees of the Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference from 1998 to 2008. He was a council member of the second council of Jiangsu Glorious Business Promotion Association* (江蘇省光彩事業促進會) from 2003 to 2005. He was an industry style supervisor* (行風監督員) of the Jiangsu Administration for Industry and Commerce from September 2006 to September 2008.

COMPANY SECRETARY

Mr. Chan Tsang Mo, aged 38, has been appointed as the company secretary of the Company on 28 February 2018. Mr. Chan is a director of Synergy Morton Corporate Services Limited, a professional firm providing corporate secretarial and advisory services. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and holds a degree in Bachelor of Business Administration in Accounting from the City University of Hong Kong. Mr. Chan has over 10 years of experience in the field of accounting and financial management.

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company's corporate governance practices are based on the principles and code provisions (the "**Code Provisions**") set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Company has complied with the Code Provisions as set out in the CG Code during the year ended 31 December 2021 except for the Code Provisions D.2.5 in respect of having an internal audit function (as disclosed in the paragraph headed "Internal Controls and Risk Management" in this corporate government report) and C.5.1 in respect of holding board meetings at least four times a year at approximately quarterly intervals.

Under Code Provision D.2.5 of the CG Code, the Group should have an internal audit function. The Group has reviewed the need for an internal audit department annually. Given the Group's simple operating structure, the management is of the opinion that instead of setting up an internal audit department, it would be more cost effective to engage an independent external professional party to review on annual basis the internal control systems and measures of the Group and report to the audit committee (the "**Audit Committee**") members.

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

Due to the difficulties encountered by the Company in arranging meeting of all Directors for the year ended 31 December 2021, only three Board meetings were held. In view of the above and in order to comply with Code Provision C.5.1 of the CG Code, the Company has planned in advance four scheduled Board meetings a year at approximately quarterly intervals in order that the Directors can plan in advance their availability.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the year ended 31 December 2021.

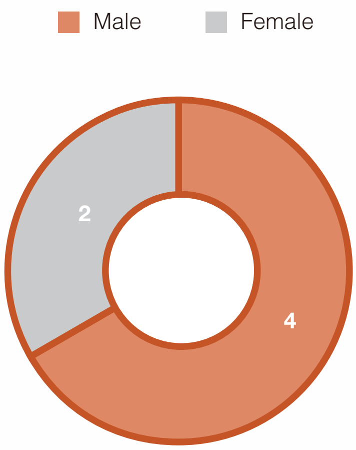
BOARD OF DIRECTORS

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

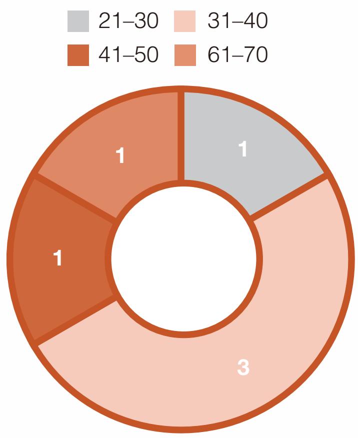
The Board currently consists of three executive Directors and three independent non-executive Directors. Their brief biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 10 to 11 of this annual report. There is no relationship, including financial, business, family or other material/relevant relationships among the Board members.

As at 31 December 2021, Board diversification in terms of:

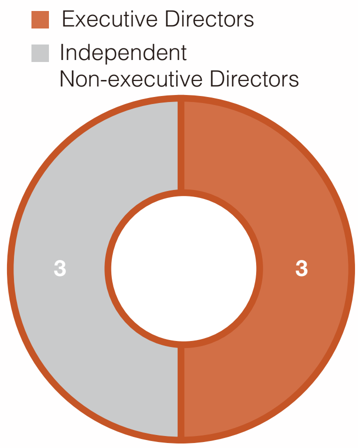
GENDER



AGE GROUP



CAPACITY



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

Due to the difficulties encountered by the Company in arranging meeting of all Directors for the year ended 31 December 2021, only three Board meetings were held. In view of the above and in order to comply with Code Provision C.5.1 of the CG Code, the Company has planned in advance four scheduled Board meetings a year at approximately quarterly intervals in order that the Directors can plan in advance their availability.

During the year ended 31 December 2021, three Board meetings were held by the Company. The individual attendance record of each Director at the meetings of the Board and annual general meeting of the Company during the year ended 31 December 2021 is as follows:

	Number of Board meetings attended/ eligible to attend	Annual general meeting held on 8 June 2021 attended
Executive Directors		
Mr. Zhao Jingfei (Chairman)	3/3	1/1
Mr. Fan Xin (Chief Executive Officer)	3/3	1/1
Mr. Qin Bohan	3/3	1/1
Independent Non-executive Directors		
Ms. Han Yu	3/3	1/1
Ms. Jia Lixin	3/3	1/1
Mr. Rong Yi	3/3	1/1

NON-EXECUTIVE DIRECTORS

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

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

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

DIRECTORS' INSURANCE COVER OF LEGAL ACTION

Under the Code Provision C.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. During the year ended 31 December 2021, the Company arranged appropriate insurance cover for Directors' and officers' liabilities.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to provision C.1.4 of the CG Code, all the Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and update all Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and to enhance their awareness of good corporate governance practices.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

During the year ended 31 December 2021, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

OTHER COMMITTEES

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

AUDIT COMMITTEE

An Audit Committee has been established with written terms of reference in compliance with the Corporate Governance Code and in line with the Listing Rules requirement. The primary functions of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, the effectiveness of the Company's internal audit function and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee currently comprises three independent non-executive Directors, namely Ms. Han Yu, Ms. Jia Lixin and Mr. Rong Yi. The composition of the Audit Committee meets the requirements of Rule 3.21 of the Listing Rules.

During the year ended 31 December 2021, three audit committee meetings were held by the Company. Individual attendance of each committee member at the meetings is as follows:

	Number of meeting attended/ eligible to attend
Independent Non-executive Directors	
Ms. Han Yu (Committee Chairlady)	3/3
Ms. Jia Lixin	3/3
Mr. Rong Yi	3/3

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year under review, the Audit Committee has reviewed with the Group's management the principles and practices adopted by the Group, discussed internal control, risk management and financial reporting matters, including a review of the unaudited consolidated financial statements of the Company for the six months ended 30 June 2021 and audited consolidated financial statements of the Company for the year ended 31 December 2020.

AUDITOR'S REMUNERATION

Ascenda Cachet CPA Limited, being the auditor of the Group, provided audit and non-audit services to the Group. During the year ended 31 December 2021, the fees paid/payable for the Group was HK$1,530,000, of which the fees for the statutory audit and other assurance services were HK$1,280,000 and HK$250,000, respectively.

REMUNERATION COMMITTEE

A Remuneration Committee has been established with written terms of reference in compliance with the Corporate Governance Code and in line with the Listing Rules requirement. The primary functions of the Remuneration Committee include determining the remuneration packages of individual executive Directors and senior management; reviewing and making recommendation to the Board on the remuneration policy and structure for all Directors and senior management.

The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Rong Yi, Ms. Han Yu and Ms. Jia Lixin and one executive Director, namely Mr. Fan Xin.

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

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

During the year ended 31 December 2021, one remuneration committee meeting was held to review and determine the annual remuneration packages of the Directors. Individual attendance of each committee members at the meetings is as follows:

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

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

- to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- to review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to make recommendations to the Board on the remuneration packages of individual Directors and senior management. The remuneration package should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
- to review and approve the compensation payable to Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

NOMINATION COMMITTEE

A Nomination Committee has been established with written terms of reference in compliance with the Corporate Governance Code and in line with the Listing Rules requirement. The primary functions of the Nomination Committee are to review the Board composition, make recommendations to the Board on the appointment and succession planning of Directors, and assess the independence of independent non-executive Directors.

The Nomination Committee comprises three independent non-executive Directors, namely Mr. Rong Yi, Ms. Han Yu and Ms. Jia Lixin and one executive Director, namely Mr. Zhao Jingfei.

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

During the year ended 31 December 2021, one nomination committee meeting was held to recommend the re-appointment of the Directors standing for re-election at the annual general meeting of the Company, to assess the independence of the independent non-executive Directors and to review and assess the board diversity policy (the "**Board Diversity Policy**") to ensure its effectiveness and considered that the Group has achieved the effectiveness of the Board Diversity Policy during the year ended 31 December 2020. Individual attendance of each committee member at the meeting is as follows:

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

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

- to review the structure, size and composition (including the gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- to implement and review the Board Diversity Policy;
- develop, review and disclose the policy for nomination of Directors;

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

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

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an independent non-executive Director, the Company's needs and other relevant statutory requirements and regulations. Detailed information relating to educational, professional qualifications and relevant work experience are provided at the Board meeting to approve the proposed appointment of new Directors. The criteria for selecting Directors are mainly based on the candidate's qualifications, experience, professional knowledge, ethics and integrity.

BOARD DIVERSITY POLICY

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

Summary of the Board Diversity Policy

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

Measurable Objectives

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

Monitoring and Reporting

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

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

DIVIDEND POLICY

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

CORPORATE GOVERNANCE FUNCTIONS

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board at the Board meeting held on 21 March 2012 and is in compliance with paragraph A.2.1 of the CG Code. During the year ended 31 December 2021, the Board has discussed the corporate governance matters including a review of the corporate governance report for the year ended 31 December 2021.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The Directors' responsibilities in preparing the consolidated financial statements and the auditor's responsibilities are set out in the Independent Auditor's Report on pages 37 to 38 of this annual report.

GOING CONCERN

The Group (i) incurred a substantial loss of approximately HK$20,987,000 for the year ended 31 December 2021 and had net current liabilities and deficiency in assets of approximately HK$33,259,000 and HK$30,535,000, respectively, as at 31 December 2021; and (ii) only had cash and cash equivalents of approximately HK$1,469,000 as at 31 December 2021 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.

Management's position and basis on the going concern assumption, and its view on the Disclaimer

The consolidated financial statements have been prepared by the Directors on the basis that the Group will continue to operate as a going concern, the validity of which depends upon the measures being taken by the Directors and the ongoing availability of financing to the Group, including the loan facilities, undertakings and/or financial support from an executive Director and the ultimate controlling shareholder of the Company as set out in note 2.1 to the consolidated financial statements. However, since the validity and the appropriateness of the adoption of the going concern basis is dependent on whether the executive Director and the ultimate controlling shareholder of the Company will continue to have sufficient and adequate financial resources to provide the necessary financing to the Group under the loan facilities, undertakings and/or financial support, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Action plan to address the Disclaimer

Notwithstanding the aforesaid conditions, the consolidated financial statements for the year ended 31 December 2021 have been prepared on a going concern basis because the Directors have prepared a cash flow forecast of the Group and are satisfied that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for at least 12 months from 31 December 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, 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$501,000 as at 31 December 2021 until the Group 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 31 December 2021 and the date of approving these consolidated financial statements;

(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$10,810,000 in aggregate, the "**Shareholder Loans**") as at 31 December 2021, out of which, aggregate outstanding loan principal amounts of RMB2,510,000 and HK$2,226,000 (equivalent to approximately HK$5,299,000 in aggregate) are repayable on or before June 2022 (the "**2022 Due Loans**") while the remaining loans are due in 2023. On 12 January 2022 and 17 May 2022, the Group and Mr. Zhao entered into certain supplemental agreements, agreeing to extend the terms of the 2022 Due Loans for additional two years;

(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, none of which has been utilised as at 31 December 2021 and the date of approving the consolidated financial statements. On 17 May 2022, the Company and Mr. Zhao agreed to extend the expiry date of the loan facility to 27 May 2024; and

(v) the Company has also obtained a letter of financial support from Mr. Zhao, pursuant to which, Mr. Zhao agreed not to demand for repayment of (a) the Shareholder Loans; and (b) other amount due to him of approximately HK$8,791,000 as at 31 December 2021 until the Group is in a position to do so. Mr. Zhao has also confirmed his willingness to further provide adequate financial resources as is necessary to enable the Group both to meet its financial obligations as and when they fall due and to carry on its business for at least 24 months from 31 December 2021.

Impact of the Disclaimer on the Company's financial position

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

Audit Committee's view on the Disclaimer

The Audit Committee had critically reviewed the Disclaimer, the management's position and the action plan of the Group to address the Disclaimer. The Audit Committee is in agreement with the management of the Company with respect to the Disclaimer and the Group's ability to continue as a going concern, and in particular the actions or measures to be implemented by the management of the Company.

INTERNAL CONTROLS AND RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

The Board has conducted a review of the effectiveness of the internal control systems of the Group for the year ended 31 December 2021. The Board considers that the existing risk management and internal control systems of the Group are in place and effective.

CORPORATE COMMUNICATION

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

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

Under the Code Provision F.2.2 of the CG Code, the Chairman should attend the annual general meeting and should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. During the year ended 31 December 2021, Mr. Zhao Jingfei (chairman of the Board at the time of annual general meeting) attended the annual general meeting of the Company held on 8 June 2021.

During the year ended 31 December 2021, the Board reviewed the implementation and effectiveness of the Shareholders' communication policy. The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's head office and principal place of business in Hong Kong at Level 26, 39 Queen's Road Central, Central, Hong Kong.

SHAREHOLDERS' RIGHT

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

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

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

Procedures for putting forward Proposals at a general meeting

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

Procedures for Directing Shareholders' Enquiries to the Board

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

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

COMPANY SECRETARY

Mr. Chan Tsang Mo was appointed as the company secretary of the Company. The company secretary is responsible to the Board for ensuring that Board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and has regard to them when making decisions. The company secretary is also responsible for advising the Board on the Group's compliance with the continuing obligations of the Listing Rules, The Codes on Takeovers and Mergers and Share Buy-backs, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations. During the year ended 31 December 2021, Mr. Chan undertook not less than 15 hours of professional training to update his skills and knowledge.

CONSTITUTIONAL DOCUMENTS

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

REPORT OF THE DIRECTORS

The Directors present their report together with the audited consolidated financial statements of the Company for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

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

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

BUSINESS REVIEW

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on pages 4 to 7 and pages 8 to 9 of this annual report, respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including currency risk, interest rate risk, credit risk and liquidity risk. The financial risk management policies and practices of the Group are shown in note 33 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

For the year ended 31 December 2021, the Group was not subject to any environmental penalty. Details of the environmental, social and governance performance of the Group are set out in the environment, social and governance report which will be published on both the websites of the Company and the Stock Exchange no later than three months after the publication of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The indirect wholly owned subsidiary, Dongguan Sze Cheik Leather Goods Company Limited had entered into a tenancy agreement on 6 January 2021 to lease (the "**Lease**") certain premises in Dongguan as its production factory and staff dormitory for production operation. 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 the 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 has obtained written Shareholders' approval, 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 ensure future compliance with Chapter 14 of the Listing Rules, the Company has adopted measures to strengthen the relevant internal procedures and continue to provide training for the staff, especially the relevant PRC personnel.

Save as disclosed above, there was no other material breach of or non-compliance with the applicable laws and regulations by the Group during the year ended 31 December 2021.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

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

During the year ended 31 December 2021, there was no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

PERMITTED INDEMNITY

The Company's Articles of Association provides that every Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities which they may sustain or incur in or about the execution of the duties of their office or otherwise in relation thereto.

During the year ended 31 December 2021, the Company has arranged appropriate insurance cover for Directors' and officers' liabilities.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 39 to 103 of this annual report.

The Directors do not recommend any payment of final dividend to shareholders for the year ended 31 December 2021.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2021 are set out in note 35 to the consolidated financial statements and in the consolidated statement of changes in equity on page 41 of this annual report, respectively.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of share capital of the Company are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

There were no distributable reserves of the Company at 31 December 2021. Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the memorandum and articles of association of the Company and no distribution or dividend may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

PRE-EMPTIVE RIGHTS

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

BANK LOANS AND OVERDRAFTS

The Group did not have bank loans and overdrafts as at 31 December 2021.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 104 of this Annual Report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2021.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors of the Group are set out on pages 10 to 11 of this Annual Report.

DIRECTORS

The Directors during the year ended 31 December 2021 and up to the date of this report were:

Executive Directors

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

Independent Non-executive Directors

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

EMOLUMENT POLICY

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or substantial shareholders of the Company or their respective close associates (as defined in the Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, during the year ended 31 December 2021 and up to the date of this annual report.

DIRECTORS' MATERIAL INTERESTS IN CONTRACTS

Save as disclosed in this annual report, there were no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries, holding companies and fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period under review.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION

(I) Interest in the Company

Long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate percentage of shareholding
Zhao Jingfei (Chairman and executive Director)	Interest of a controlled corporation (Note)	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 31 December 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 31 December 2021, the following persons (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest and/or short position in the Shares, the underlying Shares or debentures of the Company which were required to be recorded in the register required to be kept by the Company under Section 336 of the SFO, or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares

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

Save as disclosed above, as at 31 December 2021, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest and/or short position in the Shares, the underlying Shares or debentures of the Company which were required to be recorded in the register required to be kept by the Company under Section 336 of the SFO, or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

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

There was no outstanding share option of the Company under the Share Option Scheme as at 1 January 2021 and 31 December 2021 and no share option of the Company was granted, exercised, lapsed or cancelled during the year under review.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2021.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2021, the Company has not entered into any equity-linked agreements, and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2021.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
— the largest supplier	21.4%
— five largest suppliers combined	59.0%
Sales	
— the largest customer	55.0%
— five largest customers combined	87.5%

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

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and Code Provisions set out in the CG Code contained in Appendix 14 of the Listing Rules.

The Company has complied with the Code Provisions as set out in the CG Code during the year ended 31 December 2021 except for the deviation from the Code Provisions D.2.5 and C.5.1 in respect of having the internal audit function and holding board meetings at least four times a year at approximately quarterly intervals, respectively. Details are set out in the section headed "Corporate Governance Report" on pages 12 to 27 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, internal controls and risk management systems of the Group. The Audit Committee currently comprises Ms. Han Yu (Committee Chairlady), Ms. Jia Lixin and Mr. Rong Yi. The Audit Committee has reviewed and discussed with the management and the external auditor the financial reporting matters including the annual results for the year ended 31 December 2021.

SUBSIDIARIES

Particulars of Company's subsidiaries as at 31 December 2021 are set out in note 1 to the consolidated financial statements.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this annual report, there were (i) no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries nor (ii) any contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries during the year ended 31 December 2021.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2021, the Group did not enter into any transactions which need to be disclosed as connected transactions or continuing connected transactions pursuant to Chapter 14A of the Listing Rules.

Details of the related party transactions of the Group are set out in note 27 to the consolidated financial statements. These related party transactions did not constitute connected transactions or continuing connected transactions pursuant to Chapter 14A of the Listing Rules.

CHARITABLE DONATIONS

No charitable or other donations were made by the Group during the year ended 31 December 2021.

RELIEF OF TAXATION

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

AUDITOR

The consolidated financial statements of the Company for the years ended 31 December 2021 and 2020 and for the year ended 31 December 2019 were audited by Ascenda Cachet CPA Limited ("**Ascenda**") and BDO Limited ("**BDO**"), respectively.

On 11 August 2020, BDO resigned as the auditor of the Company. Following the resignation of BDO, Ascenda was appointed as the new auditor of the Company with effect from 11 August 2020 to fill the casual vacancy.

A resolution for the re-appointment of Ascenda as the auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhao Jingfei
Chairman

Hong Kong, 17 May 2022

Ascenda CACHET
天健德揚

13F Neich Tower,
128 Gloucester Road,
Wanchai, Hong Kong

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

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China International Development Corporation Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 39 to 103, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion" section of our report, it is not possible for us to form an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As detailed in note 2.1 to the consolidated financial statements concerning the liquidity position of the Group and the adoption of the going concern basis in the preparation of the consolidated financial statements, (i) the Group incurred a substantial loss of approximately HK$20,987,000 for the year ended 31 December 2021 and had net current liabilities and deficiency in assets of approximately HK$33,259,000 and HK$30,535,000, respectively, as at 31 December 2021; and (ii) the Group only had cash and cash equivalents of approximately HK$1,469,000 as at 31 December 2021 to meet its financial obligations as at that date.

The consolidated financial statements have been prepared by the directors (the "**Directors**") of the Company on the basis that the Group will continue to operate as a going concern, the validity of which depends upon the measures being taken by the Directors and the ongoing availability of financing to the Group, including the loan facilities, undertakings and/or financial support from an executive Director and the ultimate controlling shareholder of the Company as set out in note 2.1 to the consolidated financial statements. However, since the validity and the appropriateness of the adoption of the going concern basis is dependent on whether the executive Director and the ultimate controlling shareholder of the Company will continue to have sufficient and adequate financial resources to provide the necessary financing to the Group under the loan facilities, undertakings and/or financial support, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. After our deliberated considerations on the consolidated financial position of the Group, despite appropriate disclosures have been made in these consolidated financial statements, we consider that this fundamental uncertainty is significant and pervasive and therefore, we have disclaimed our opinion in respect of the appropriateness of adopting the going concern basis for the preparation of the consolidated financial statements.

Should the Group be unable to continue in business as a going concern, adjustments would have been made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirement of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the Directors in discharging their responsibilities in this regard.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing by the HKICPA and to issue an auditor's report. We report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the "Basis for Disclaimer of Opinion" section of our report, it is not possible for us to form an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

Ascenda Cachet CPA Limited
Certified Public Accountants
Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
17 May 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	**2021 HK$'000**	2020 HK$'000
Revenue	5	**49,192**	39,771
Cost of sales		**(39,372)**	(27,837)
Gross profit		**9,820**	11,934
Other income	5	**1,338**	2,772
Other gains/(losses)	7(b)	**722**	(6,047)
Selling and distribution costs		**(7,575)**	(4,358)
Administrative and other operating expenses		**(23,302)**	(25,155)
Impairment of trade receivables	14	**(25)**	(176)
Impairment of other receivables	15	**(43)**	(192)
Finance costs	6	**(1,922)**	(536)
Loss before tax	7(a)	**(20,987)**	(21,758)
Income tax expense	9	**—**	—
Loss for the year attributable to owners of the Company		**(20,987)**	(21,758)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translation of operations outside Hong Kong		**331**	977
Other comprehensive income for the year		**331**	977
Total comprehensive income for the year attributable to owners of the Company		**(20,656)**	(20,781)
Loss per share attributable to owners of the Company			
— Basic and diluted	11	**HK(5.5) cents**	HK(5.7) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Property, plant and equipment	12	**5,449**	233
Right-of-use assets	24(a)	**9,791**	1,853
Deposits paid	15	**913**	1,677
Total non-current assets		**16,153**	3,763
Current assets			
Inventories	13	**10,566**	11,265
Trade receivables	14	**7,090**	9,833
Prepayments, deposits and other receivables	15	**5,617**	3,540
Due from a related company	16	**—**	543
Tax recoverable		**291**	438
Pledged time deposit	17	**—**	430
Cash and cash equivalents	18	**1,469**	2,280
Total current assets		**25,033**	28,329
Current liabilities			
Trade payables	19	**4,763**	2,746
Other payables and accruals	20	**24,847**	21,322
Due to a director	21	**501**	—
Due to ultimate controlling shareholder	21	**8,791**	263
Due to a related company	21	**1,848**	—
Loan from a director	22	**8,000**	8,000
Loans from ultimate controlling shareholder	23	**5,207**	—
Lease liabilities	24(b)	**4,335**	5,523
Total current liabilities		**58,292**	37,854
Net current liabilities		**(33,259)**	(9,525)
Total assets less current liabilities		**(17,106)**	(5,762)
Non-current liabilities			
Loans from ultimate controlling shareholder	23	**4,761**	3,262
Lease liabilities	24(b)	**8,668**	1,863
Total non-current liabilities		**13,429**	5,125
Net liabilities		**(30,535)**	(10,887)
Deficiency in assets			
Share capital	25	**3,827**	3,827
Reserves		**(34,362)**	(14,714)
Total deficiency in assets		**(30,535)**	(10,887)

On behalf of the Board

Zhao Jingfei
Executive Director

Fan Xin
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital HK$'000 (note 25)	Share premium HK$'000 (note 26(i))	Capital reserve HK$'000 (note 26(ii))	Translation reserve HK$'000 (note 26(iii))	Statutory and discretionary reserves HK$'000 (note 26(iv))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2020	3,827	77,760	–	1,546	5,249	(78,877)	9,505
Loss for the year	–	–	–	–	–	(21,758)	(21,758)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	977	–	–	977
Total comprehensive income for the year	–	–	–	977	–	(21,758)	(20,781)
Notional interest of interest-free loan provided by ultimate controlling shareholder (note 23)	–	–	389	–	–	–	389
At 31 December 2020 and 1 January 2021	3,827	77,760	389	2,523	5,249	(100,635)	(10,887)
Loss for the year	–	–	–	–	–	(20,987)	(20,987)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	331	–	–	331
Total comprehensive income for the year	–	–	–	331	–	(20,987)	(20,656)
Notional interest of interest-free loans provided by ultimate controlling shareholder (note 23)	–	–	1,008	–	–	–	1,008
At 31 December 2021	3,827	77,760	1,397	2,854	5,249	(121,622)	(30,535)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Cash flows from operating activities			
Loss before tax		**(20,987)**	(21,758)
Adjustments for:			
Interest income	5	**(1)**	(48)
Finance costs	6	**1,922**	536
Rent concession from landlords as direct consequence from COVID-19 pandemic relating to recognised lease liabilities	24(b)	**–**	(525)
Depreciation of property, plant and equipment	7(a)&12	**928**	146
Depreciation of right-of-use assets	7(a)&24(a)	**4,168**	4,993
Impairment of property, plant and equipment	12	**–**	1,545
Impairment of right-of-use assets	7(b)&24(a)	**606**	4,502
Impairment of trade receivables, net	14	**25**	176
Impairment of other receivables	15	**43**	192
Provision for onerous short-term lease contracts	7(a)	**536**	–
Write back of other payables	5	**–**	(80)
Operating loss before working capital changes		**(12,760)**	(10,321)
Decrease in inventories		**946**	2,036
Decrease in trade receivables		**2,718**	1,634
Increase in prepayments, deposits and other receivables		**(1,284)**	(2,065)
Increase/(decrease) in trade payables		**1,927**	(372)
Increase in other payables and accruals		**2,889**	268
Cash used in operations		**(5,564)**	(8,820)
Income tax recovered		**155**	–
Net cash used in operating activities		**(5,409)**	(8,820)

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Cash flows from investing activities			
Additions to property, plant and equipment	12	**(6,065)**	(1,609)
Decrease/(increase) in pledged time deposit		**430**	(1)
Interest received		**1**	48
Net cash used in investing activities		**(5,634)**	(1,562)
Cash flows from financing activities	29(b)		
Advances from a director		**494**	—
Advances from ultimate controlling shareholder		**8,512**	263
Loans from ultimate controlling shareholder		**7,657**	3,374
Repayment of loan from ultimate controlling shareholder		**(591)**	—
Advances from/(to) a related company		**2,361**	(513)
Payment of principal portion of lease liabilities		**(7,089)**	(6,325)
Payment of interest portion of lease liabilities		**(1,421)**	(443)
Net cash from/(used in) financing activities		**9,923**	(3,644)
Net decrease in cash and cash equivalents		**(1,120)**	(14,026)
Cash and cash equivalents at beginning of year		**2,280**	15,041
Effect of exchange rate changes on cash and cash equivalents		**309**	1,265
Cash and cash equivalents at end of year			
Represented by cash and bank balances	18	**1,469**	2,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

1. GENERAL

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

The Company is an investment holding company. The Group is principally engaged in (i) manufacturing and distribution of leather products; and (ii) retail of fashion apparel, footwear and leather accessories. During the year ended 31 December 2020, the Group has obtained the relevant permit to plant industrial hemp in Mainland China (the "**PRC**") and extended its business into the industrial hemp planting and production of hemp fabric products.

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, PO Box 905, Quastisky Building, Road Town, Tortola, BVI.

Information about subsidiaries

Details of the Company's subsidiaries as at 31 December 2021 are as follows:

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

1. GENERAL (CONTINUED)

Information about subsidiaries (Continued)

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

Notes:

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

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

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

2.1 BASIS OF PREPARATION

Basis of preparation

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

The Group (i) incurred a substantial loss of approximately HK$20,987,000 for the year ended 31 December 2021 and had net current liabilities and deficiency in assets of approximately HK$33,259,000 and HK$30,535,000, respectively, as at 31 December 2021; and (ii) only had cash and cash equivalents of approximately HK$1,469,000 as at 31 December 2021 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.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis because the Directors have prepared a cash flow forecast of the Group and are satisfied that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for at least 12 months from 31 December 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, 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$501,000 as at 31 December 2021 until the Group 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 31 December 2021 and the date of approving these consolidated financial statements;

2.1 BASIS OF PREPARATION (Continued)

Basis of preparation (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$10,810,000 in aggregate, the "**Shareholder Loans**") as at 31 December 2021, out of which, aggregate outstanding loan principal amounts of RMB2,510,000 and HK$2,226,000 (equivalent to approximately HK$5,299,000 in aggregate) are repayable on or before June 2022 (the "**2022 Due Loans**") while the remaining loans are due in 2023. On 12 January 2022 and 17 May 2022, the Group and Mr. Zhao entered into certain supplemental agreements, agreeing to extend the terms of the 2022 Due Loans for additional two years;

(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, none of which has been utilised as at 31 December 2021 and the date of approving the consolidated financial statements. On 17 May 2022, the Company and Mr. Zhao agreed to extend the expiry date of the loan facility to 27 May 2024; and

(v) the Company has also obtained a letter of financial support from Mr. Zhao, pursuant to which, Mr. Zhao agreed not to demand for repayment of (a) the Shareholder Loans; and (b) other amount due to him of approximately HK$8,791,000 as at 31 December 2021 until the Group is in a position to do so. Mr. Zhao has also confirmed his willingness to further provide adequate financial resources as is necessary to enable the Group both to meet its financial obligations as and when they fall due and to carry on its business for at least 24 months from 31 December 2021.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2021. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the consolidated financial statements.

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

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

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 accumulated losses at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the covid-19-related rent concessions received by the Group during the year were related to the short-term leases which are not included within lease liabilities. The Group plans to apply the practical expedient when it becomes applicable within the allowed period of application.

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 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. 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. Since the Group had no interest-bearing bank and other borrowings as at 31 December 2021, the amendments did not have any impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	Reference to the Conceptual Framework[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts and the related Amendments[2,5]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[2,4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a single transaction[2]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[1]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a contract[1]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, HKAS 41 and Illustrative Examples accompanying HKFRS 16[1]

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

2 *Effective for annual periods beginning on or after 1 January 2023*

3 *No mandatory effective date yet determined but available for adoption*

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

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

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the consolidated financial statements of the Group. The adoption of the above is not expected to have a material impact on the consolidated financial statements of the Group.

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

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

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

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

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted.

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

Amendments to HKAS 1 Disclosure of Accounting Policies require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise a deferred tax asset and a deferred tax liability for deductible and taxable temporary differences associated with right-of-use assets and lease liabilities, and recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained profits at the beginning of the earliest comparative period presented.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted.

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

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

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

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of corporate assets (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases

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

Group as a lessee

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

Right-of-use asset

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

Lease liability

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases (Continued)

Group as a lessee (Continued)

Lease liability (Continued)

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

(e) Investments and other financial assets

Initial recognition and measurement

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

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

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

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (Continued)

Subsequent measurement

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

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (Continued)

Impairment of financial assets

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

General approach

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

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for accounts receivable and contract assets which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables and accruals, amounts due to a director, the ultimate controlling shareholder and a related company and loans from a director and the ultimate controlling shareholder.

Subsequent measurement

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Inventories

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

(h) Cash and cash equivalents

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

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

(i) Revenue recognition

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

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

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition (Continued)

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

i. Sale of goods

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

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition (Continued)

ii. Interest income

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

(j) Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

(k) Income taxes

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

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

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

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

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Foreign currency

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

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

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

The functional currencies of certain overseas subsidiaries are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK$ at the exchange rates prevailing at the end of the reporting period and their consolidated statements of profit or loss are translated into HK$ at the exchange rates that approximate to those prevailing at the dates of the transactions..

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

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

2.4 SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution retirement plans

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

(iii) Termination benefits

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

(n) Provisions and contingent liabilities

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provision are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Estimation uncertainty

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

Provision for inventories

The Group carries out an inventory review at the end of each reporting period and estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions as well as make allowance for obsolete and slow-moving inventories. Such estimates could change significantly as a result of changes in economic conditions and customers taste. Where the subsequent estimated net realisable value and/or allowance for obsolete and slow-moving inventories differs from the original estimate, a provision or reversal of provision may be material.

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

Estimation uncertainty (Continued)

Impairment loss on trade receivables

The assessment of impairment losses on financial assets measured at amortised cost is performed based on expected credit losses model as detailed in the accounting policies and note 2.4(e) to the consolidated financial statements.

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

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

The assessment of the correlation among historical loss rates, forecast economic conditions and ECLs is a significant estimate. Any change in the estimates, assumptions and inputs adopted in the assessment would increase or decrease the impairment losses for the year and affect the Group's net asset value. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 14 to the consolidated financial statements.

Estimation of the incremental borrowing rate

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

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

Estimation uncertainty (Continued)

Impairment of property, plant and equipment and right-of-use assets

The management of the Group assesses whether there are any indicators of impairment for property, plant and equipment and right-of-use assets at the end of each reporting period. The property, plant and equipment and right-of use assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group's management uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Useful lives of property, plant and equipment

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

Going concern basis

As disclosed in note 2.1 to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into account of all relevant available information about the future of the Group, including cash flow forecast of the Group, and the availability of financing to the Group, including the loan facilities, undertakings and/or financial support from an executive Director and the ultimate controlling shareholder of the Company. Such forecast about the future inherently involves various estimation, assumptions and uncertainties. Actual results could differ significantly and hence render the adoption of the going concern basis not appropriate.

4. OPERATING SEGMENT INFORMATION

The principal activities of the Group consisted of (i) manufacturing and distribution of leather products; and (ii) retail of fashion apparel, footwear and leather accessories. Upon obtaining the relevant permit in June 2020, the Group extended its business into the industrial hemp planting and production of hemp fabric products (the "**Industrial Hemp Planting Business**"). However, the Industrial Hemp Planting Business did not form a separate reportable segment during the years as it was still in a preliminary development stage and had not built its scale and was considered immaterial by the management of the Group.

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

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(a) Reportable segments

	Leather Manufacturing Business		Leather Retail Business		Total	
	2021	2020	**2021**	2020	**2021**	2020
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**46,016**	36,743	**3,176**	3,028	**49,192**	39,771
Inter-segment revenue	**482**	104	**–**	797	**482**	901
Reportable segment revenue	**46,498**	36,847	**3,176**	3,825	**49,674**	40,672
Reportable segment loss	**(9,468)**	(4,828)	**(5,787)**	(7,286)	**(15,255)**	(12,114)
Depreciation of property, plant and equipment	**856**	70	**72**	76	**928**	146
Depreciation of right-of-use assets	**3,836**	3,975	**332**	625	**4,168**	4,600
Finance cost	**1,041**	223	**320**	176	**1,361**	399
Impairment of trade and other receivables	**13**	358	**55**	10	**68**	368
Impairment of property, plant and equipment and right-of-use assets	**–**	–	**606**	4,674	**606**	4,674
Additions to non-current assets (note)	**17,104**	1,502	**1,525**	5,360	**18,629**	6,862
Reportable segment assets	**35,325**	25,260	**4,839**	4,551	**40,164**	29,811
Reportable segment liabilities	**22,070**	9,000	**41,347**	36,264	**63,417**	45,264

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

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

	2021	2020
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**49,674**	40,672
Elimination of inter-segment revenue	**(482)**	(901)
Consolidated revenue	**49,192**	39,771
Loss before tax		
Reportable segment loss	**(15,255)**	(12,114)
Elimination of inter-segment losses	**–**	419
Interest income	**1**	48
Unallocated corporate expenses (note (i))	**(5,733)**	(10,111)
Consolidated loss before tax	**(20,987)**	(21,758)
Depreciation of property, plant and equipment		
Reportable segment depreciation	**928**	146
Depreciation of unallocated property, plant and equipment	**–**	–
Consolidated depreciation of property, plant and equipment	**928**	146
Depreciation of right-of-use assets		
Reportable segment depreciation	**4,168**	4,600
Depreciation of unallocated right-of-use assets	**–**	393
Consolidated depreciation of right-of-use assets	**4,168**	4,993

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	2021 HK$'000	2020 HK$'000
Finance costs		
Reportable segment finance cost	**1,361**	399
Interest on unallocated lease liabilities	**60**	44
Imputed interest on loans from ultimate controlling shareholder	**501**	93
Consolidated finance costs	**1,922**	536
Impairment of trade and other receivables		
Reportable segment impairment	**68**	368
Unallocated impairment of trade and other receivables	**—**	—
Consolidated impairment of trade and other receivables	**68**	368
Impairment of property, plant and equipment and right-of-use assets		
Reportable segment impairment	**606**	4,674
Unallocated impairment of property, plant and equipment and right-of-use assets	**—**	1,373
Consolidated impairment of property, plant and equipment and right-of-use assets	**606**	6,047
Additions to non-current assets (note (ii))		
Reportable segment additions	**18,629**	6,862
Unallocated additions to non-current assets	**—**	1,766
Consolidated additions to non-current assets	**18,629**	8,628
Assets		
Reportable segment assets	**40,164**	29,811
Elimination of inter-segment assets	**(18)**	—
Tax recoverable	**291**	438
Unallocated corporate assets	**749**	1,843
Consolidated total assets	**41,186**	32,092
Liabilities		
Reportable segment liabilities	**63,417**	45,264
Elimination of inter-segment liabilities	**(36,793)**	(30,765)
Unallocated corporate liabilities	**45,097**	28,480
Consolidated total liabilities	**71,721**	42,979

Notes:

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(c) *Geographical information*

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

	Revenue from external customers (note)		Non-current assets	
	2021	2020	**2021**	2020
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**7,287**	6,304	**338**	1,049
Europe	**7,130**	8,229	**—**	—
The PRC	**810**	14	**14,902**	1,037
United States of America	**29,888**	22,707	**—**	—
Other countries	**4,077**	2,517	**—**	—
Total	**49,192**	39,771	**15,240**	2,086

Note: Revenues are attributed to countries based on the customers' location (place of domicile).

(d) *Information about major customers*

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

	2021	2020
	HK$'000	HK$'000
Customer A*	**27,046**	20,578
Customer B*	**—#**	4,284
Customer C*	**7,516**	—#
	34,562	24,862

* Customer arising from the Leather Manufacturing Business segment.

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

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

5. REVENUE, OTHER INCOME AND GAINS

The principal activities of the Group are manufacturing and distribution of leather products, and retail of fashion apparel, footwear and leather accessories. During the year ended 31 December 2020, the Group has extended its business into the Industrial Hemp Planting Business, which is still in a preliminary development stage and no revenue has been generated during the years.

An analysis of revenue is as follows:

	2021 HK$'000	2020 HK$'000
Revenue from contracts with external customers		
Sale of goods		
Manufacturing and distribution of leather products	**46,016**	36,743
Retail of fashion apparel, footwear and leather accessories	**3,176**	3,028
	49,192	39,771

(i) *Disaggregated revenue information*

	2021 HK$'000	2020 HK$'000
Timing of revenue recognition		
Manufacturing and distribution of leather products recognised when control of goods is transferred	**46,016**	36,743
Retail of fashion apparel, footwear and leather accessories when control of goods is transferred	**3,176**	3,028
Goods transferred at a point in time	**49,192**	39,771

(ii) *Performance obligations*

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

Manufacturing and distribution of leather products

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

Retail of fashion apparel, footwear and leather accessories

The performance obligation is satisfied at a point in time when the customers obtain control of the products and immediate cash or credit card payment is normally required.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

(iii) Contract liabilities

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

	2021 **HK$'000**	2020 HK$'000
Movements in contract liabilities		
Balance as at 1 January	**420**	146
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(420)**	(146)
Increase in contract liabilities as a result of receipts in advance from customers during the year	**294**	420
Balance as at 31 December	**294**	420

Other income

	2021 **HK$'000**	2020 HK$'000
Interest income (note 7(a))	**1**	48
Rent concessions from landlords, as direct consequence from COVID-19 pandemic (note 24(c))	**836**	525
Government subsidies*	**–**	1,584
Write back of other payables	**–**	80
Sundry income	**501**	535
	1,338	2,772

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

6. FINANCE COSTS

	2021 **HK$'000**	2020 HK$'000
Interest on lease liabilities (note 24(b))	**1,421**	443
Imputed interest on loans from ultimate controlling shareholder (note 23)	**501**	93
	1,922	536

7(a). LOSS BEFORE TAX

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

	2021 **HK$'000**	2020 HK$'000
Auditor's remuneration		
— Audit and other assurance related services	**1,330**	880
— Under-provision for prior year	**200**	—
Cost of inventories*	**39,372**	27,837
Employee costs, excluding directors' emoluments* (note 8)		
— Salaries, allowance and other benefits	**18,613**	17,212
— Retirement scheme contributions	**1,441**	575
	20,054	17,787
Depreciation of property, plant and equipment* (note 12)	**928**	146
Depreciation of right-of-use assets* (note 24(a))	**4,168**	4,993
Impairment of trade receivable (note 14)	**25**	176
Impairment of other receivable (note 15)	**43**	192
Provision for onerous short-term lease contracts	**536**	—
Foreign exchange losses, net	**684**	629
Interest income (note 5)	**(1)**	(48)

* Cost of inventories included HK$10,479,000 (2020: HK$8,061,000) for the year ended 31 December 2021 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.

7(b). OTHER GAINS/(LOSSES)

	2021 **HK$'000**	2020 HK$'000
Impairment loss on property, plant and equipment (note 12)	**—**	(1,545)
Impairment loss on right-of-use assets (note 24(a))	**(606)**	(4,502)
Sales of scrap	**1,328**	—
	722	(6,047)

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) *Directors' emoluments*

	Fees paid HK$'000	Salaries, allowances, discretionary bonus and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000	Fees waived HK$'000
Year ended 31 December 2021					
Executive directors:					
Zhao Jingfei	**180**	**–**	**–**	**180**	**180**
Fan Xin	**180**	**–**	**–**	**180**	**180**
Qin Bohan	**180**	**–**	**–**	**180**	**180**
Independent non-executive directors:					
Han Yu	**120**	**–**	**–**	**120**	**–**
Jia Lixin	**120**	**–**	**–**	**120**	**–**
Rong Yi	**120**	**–**	**–**	**120**	**–**
Total	**900**	**–**	**–**	**900**	**540**
Year ended 31 December 2020					
Executive directors:					
Zhao Jingfei	90	–	–	90	90
Fan Xin	195	–	–	195	165
Qin Bohan	195	–	–	195	165
Independent non-executive directors:					
Han Yu	120	–	–	120	–
Jia Lixin	120	–	–	120	–
Rong Yi	120	–	–	120	–
Total	840	–	–	840	420

Other than the waived fees disclosed above, there was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

(b) *Five highest paid individuals*

Of the five individuals with the highest emoluments in the Group, none (2020: none) is a director of the Company. The emoluments of the five (2020: five) highest paid individuals are as follows:

	2021 HK$'000	2020 HK$'000
Salaries, allowances and benefits in kind	**2,522**	2,802
Retirement scheme contributions	**70**	97
	2,592	2,899

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

(b) Five highest paid individuals (Continued)

The emoluments of the top five (2020: five) highest paid individuals were within the following bands:

	2021	2020
Nil to HK$1,000,000	**5**	5

During the years ended 31 December 2021 and 2020, no emolument was paid to the Directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

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

	2021	2020
Nil to HK$1,000,000	**7**	9

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 years ended 31 December 2021 and 2020. 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) (2020: 5% (i.e. 20% CIT rate on 25% of the 1st Assessable Profits)); and (ii) the remaining assessable profits not over RMB3,000,000 (the "**Remaining Assessable Profits**") are taxable at 10% (i.e. 20% CIT rate on the 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 (the "**Hong Kong Profits Tax**") or CIT has been provided as the Group did not generate any assessable profits arising in Hong Kong and the PRC or has available tax losses brought forward from prior years to offset the assessable profits generated during the years ended 31 December 2021 and 2020.

9. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the tax expense applicable to loss before tax at the statutory rate applicable to the Company to the tax expense at effective tax rates is as follows:

	2021		2020	
	HK$'000	**%**	HK$'000	%
Loss before tax	**(20,987)**		(21,758)	
Tax at the statutory tax rate of 16.5%	**(3,463)**	**16.5**	(3,590)	16.5
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,588)**	**7.6**	(791)	3.6
Tax effect of expenses not deductible	**1,658**	**(7.9)**	1,934	(8.9)
Tax effect of income not taxable	**(30)**	**0.1**	(294)	1.4
Tax effect of tax losses not recognised	**4,952**	**(23.6)**	2,009	(9.2)
Tax effect of utilisation of tax losses not previously recognised	**(1,010)**	**4.8**	(281)	1.3
Tax effect of deductible temporary differences not recognised	**(519)**	**2.5**	1,013	(4.7)
Tax charge at the Group's effective rate	**–**	**–**	–	–

As at 31 December 2021, the Group had unused tax losses of approximately HK$95,879,000 (2020: HK$79,481,000) and other deductible temporary differences of approximately HK$9,625,000 (2020: HK$14,089,000). The unused tax losses of approximately HK$69,631,000 (2020: HK$69,261,000) can be carried forward indefinitely, while the remaining unused tax losses of approximately HK$26,248,000 (2020: HK$10,220,000) will be expired in five years from the respective dates of incurrence. Deferred tax assets have not been recognised in relation to such unused tax losses and other deductible temporary differences due to unpredictability of future profit streams.

As at 31 December 2021, no deferred tax liability has been recognised on the temporary difference in relation to the undistributed earnings of approximately HK$11,813,000 (31 December 2020: HK$11,661,000) of a subsidiary in the PRC because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not be reversed in the foreseeable future.

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

Additional tax assessments

Since February 2018, the Inland Revenue Department of Hong Kong (the "**IRD**") has initiated a tax audit on certain subsidiaries of the Company.

In December 2021, the tax audit initiated by the IRD were settled and the additional assessments raised for the years of assessments of 2011/2012 to 2014/2015 were withdrawn. The tax reserve certificates purchased have been fully refunded in December 2021.

10. DIVIDEND

The Directors do not recommend the payment of any dividend for the years ended 31 December 2021 and 2020.

11. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of approximately HK$20,987,000 (2020: approximately HK$21,758,000) and the number of ordinary shares of 382,704,000 (2020: 382,704,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2021 and 2020 in respect of a dilution as the Company had no potential dilutive ordinary shares in issue during these years.

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2021					
Cost					
At 1 January 2021	**7,446**	**5,563**	**12,602**	**749**	**26,360**
Additions	**902**	**11**	**5,152**	**–**	**6,065**
Write off	**(4,644)**	**(2,931)**	**(7,752)**	**(3)**	**(15,330)**
Exchange realignment	**66**	**4**	**75**	**20**	**165**
At 31 December 2021	**3,770**	**2,647**	**10,077**	**766**	**17,260**
Accumulated depreciation and impairment					
At 1 January 2021	**7,398**	**5,468**	**12,549**	**712**	**26,127**
Depreciation (note 7(a))	**285**	**22**	**610**	**11**	**928**
Eliminated upon write off	**(4,644)**	**(2,931)**	**(7,752)**	**(3)**	**(15,330)**
Exchange realignment	**56**	**2**	**9**	**19**	**86**
At 31 December 2021	**3,095**	**2,561**	**5,416**	**739**	**11,811**
Net carrying amounts					
At 31 December 2021	**675**	**86**	**4,661**	**27**	**5,449**
31 December 2020					
Cost					
At 1 January 2020	7,278	5,564	10,996	700	24,538
Additions	3	–	1,606	–	1,609
Write off	–	(12)	–	–	(12)
Exchange realignment	165	11	–	49	225
At 31 December 2020	7,446	5,563	12,602	749	26,360
Accumulated depreciation and impairment					
At 1 January 2020	7,216	5,434	10,931	650	24,231
Depreciation (note 7(a))	20	32	79	15	146
Eliminated upon write off	–	(12)	–	–	(12)
Exchange realignment	162	8	–	47	217
Impairment loss provided for the year (note 7(b))	–	6	1,539	–	1,545
At 31 December 2020	7,398	5,468	12,549	712	26,127
Net carrying amounts					
At 31 December 2020	48	95	53	37	233

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note:

Leather Retail Business

As at 31 December 2020 and 2021, the Directors considered that there were impairment indicators on certain property, plant and equipment (the "**Retail PPE**") and right-of-use assets (note 24(a)) (the "**Retail ROA**") of the Leather Retail Business because of the substantial loss incurred during the years ended 31 December 2020 and 2021. 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.

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

Based on the 2020 Retail Valuation, impairment losses on the Retail PPE and the Retail ROA of approximately HK$1,545,000 (note 7(b)) and HK$3,129,000 (note 24(a)), respectively, were recognised in the consolidated statement of profit or loss during the year ended 31 December 2020.

For the year ended 31 December 2021, the value in use (the "**2021 Retail Valuation**") of the Retail CGU as at 31 December 2021 have been determined by the management by using the discounted cash flow projections for a period covered from 2022 to 2023. The key assumptions used in the 2021 Retail Valuation included growth rate of 47% to 74%, gross profit margin of 55% and discount rate of 10%. Based on the 2021 Retail Valuation, impairment loss on the Retail ROU of approximately HK$606,000 (note 24(a)) was recognised in the consolidated statement of profit or loss for the year ended 31 December 2021; and no further impairment on the Retail PPE is considered necessary.

Leather Manufacturing Business

As at 31 December 2021, the Directors considered that there were impairment indicators on certain of the property, plant and equipment (the "**Manufacturing PPE**") and right-of-use assets (note 24(a)) (the "**Manufacturing ROA**") of the Leather Manufacturing Business because of the substantial loss incurred during the year ended 31 December 2021. 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 Directors engaged the Valuer to determine the value in use (the "**2021 Manufacturing Valuation**") of the Manufacturing CGU as at 31 December 2021 by using the discounted cash flow projections for a period covered from 2021 to 2025. The key assumptions used in the 2021 Manufacturing Valuation included growth rate of 10% to 29%, gross profit margin of 30% and discount rate of 13%.

Based on the 2021 Manufacturing Valuation, no impairment loss on the Manufacturing PPE and the Manufacturing ROA is considered necessary.

The growth rates and gross profit margin within the forecast periods are estimated by the Directors after having taken into consideration of the respective past performance of the Retail CGU and the Manufacturing CGU, industry growth forecasts and future business plan of the Group.

31 December 2021

13. INVENTORIES

	2021 HK$'000	2020 HK$'000
Raw materials	**2,592**	6,000
Work in progress	**4,113**	1,522
Finished goods	**3,861**	3,743
	10,566	11,265

14. TRADE RECEIVABLES

	2021 HK$'000	2020 HK$'000
Trade receivables	**8,238**	10,956
Less: Impairment loss	**(1,148)**	(1,123)
Net carrying amounts	**7,090**	9,833

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

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

	2021 HK$'000	2020 HK$'000
Less than 30 days	**1,906**	5,453
31 to 60 days	**3,989**	3,679
61 to 90 days	**1,195**	685
91 to 120 days	**–**	11
121 to 365 days	**–**	1
More than 365 days	**–**	4
	7,090	9,833

14. TRADE RECEIVABLES (CONTINUED)

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

	2021 HK$'000	2020 HK$'000
At 1 January	**1,123**	947
Provision for impairment loss (note 7(b))	**25**	176
At 31 December	**1,148**	1,123

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating). The calculation reflects the historical 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.

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

		Past due					
	Current HK$'000	1–30 days HK$'000	31–60 days HK$'000	61–90 days HK$'000	91–365 days HK$'000	Over 365 days HK$'000	Total HK$'000
As at 31 December 2021							
Expected credit loss rate	**0.03%**	**0.1%**	**N/A**	**N/A**	**99.91%**	**100%**	
Gross carrying amount	**6,404**	**690**	**–**	**–**	**21**	**1,123**	**8,238**
Expected credit losses	**(3)**	**(1)**	**–**	**–**	**(21)**	**(1,123)**	**(1,148)**
Net carrying amount	**6,401**	**689**	**–**	**–**	**–**	**–**	**7,090**
As at 31 December 2020							
Expected credit loss rate	0.03%	0.09%	N/A	11.55%	78.87%	100%	
Gross carrying amount	9,819	13	–	1	4	1,119	10,956
Expected credit losses	(4)	–	–	–	–	(1,119)	(1,123)
Net carrying amount	9,815	13	–	1	4	–	9,833

The increase in the allowance for credit loss to HK$1,148,000 (2020: HK$ 1,123,000) was mainly due to the increase in trade receivables which were past due for over 90 days.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 HK$'000	2020 HK$'000
Prepayments	**716**	979
Rental, utility and other deposits	**3,653**	3,104
Due from former fellow subsidiaries	**8**	8
Other receivables	**2,388**	1,318
	6,765	5,409
Less: Impairment loss on other receivables	**(235)**	(192)
	6,530	5,217
Less: Rental deposits classified as non-current assets	**(913)**	(1,677)
Current portion	**5,617**	3,540

The amounts due from former fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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

	2021 HK$'000	2020 HK$'000
At 1 January	**192**	—
Provision for impairment loss (note 7(b))	**43**	192
At 31 December	**235**	192

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

16. DUE FROM A RELATED COMPANY

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

31 December 2021

	31 December 2021 HK$'000	**Maximum amount outstanding during the year HK$'000**	**1 January 2021 HK$'000**
Related company			
北京盛聚祥經貿有限公司	**–**	**543**	**543**

31 December 2020

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

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

17. PLEDGED TIME DEPOSIT

As at 31 December 2020, a time deposit at a bank of approximately HK$430,000 (2021: Nil) was pledged to a bank to secure a bank guarantee given in favour of a landlord in lieu of rental deposits. The pledged time deposit was released upon the expiry of the relevant tenancy agreement during the year.

18. CASH AND CASH EQUIVALENTS

	2021 HK$'000	2020 HK$'000
Cash and bank balances	**1,469**	2,280

The cash and bank balances amounting to approximately HK$290,000 (2020: approximately HK$577,000) that were deposited in bank accounts maintained in the PRC and denominated in Renminbi ("**RMB**") were not freely convertible into other currencies and were subject to exchange controls in the PRC. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulation, the Group is permitted to exchange RMB for other currencies through bank authorised to conduct foreign exchange business.

19. TRADE PAYABLES

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

	2021 HK$'000	2020 HK$'000
Less than 30 days	**1,023**	1,185
31 to 60 days	**924**	349
61 to 90 days	**959**	867
91 to 120 days	**1,265**	2
121 to 365 days	**238**	2
Over 365 days	**354**	341
	4,763	2,746

20. OTHER PAYABLES AND ACCRUALS

	2021 HK$'000	2020 HK$'000
Other payables	**5,694**	3,575
Accrued expenses	**5,392**	3,986
Due to former fellow subsidiaries	**8,171**	8,171
Due to former intermediate holding company	**5,590**	5,590
	24,847	21,322

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

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

The amount due to the ultimate controlling shareholder, namely Mr. Zhao, amounting to HK$8,791,000 (2020: HK$263,000), 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 director, namely Mr. Qin, amounting to HK$501,000 (2020: Nil), is unsecured, interest-free and has no fixed terms of repayment. Mr. Qin has confirmed that he will not demand for repayment of the amount due to him until the Group is in a position to do so.

The amount due to a related company, namely 北京盛茂坤科技產業發展有限公司, amounting to HK$1,848,000 (2020: Nil), is unsecured, interest-free and has no fixed terms of repayment.

22. 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 is repayable on demand. Mr. Qin has confirmed that he will not demand for repayment of the loan due to him until the Company is in a position to do so.

23. LOANS FROM ULTIMATE CONTROLLING SHAREHOLDER

	2021 HK$'000	2020 HK$'000
Balance as at 1 January	**3,262**	—
New loan agreements entered:		
Principal amounts	**7,657**	3,374
Notional interest saving arising from the interest-free loans	**(1,008)**	(389)
	9,911	2,985
Imputed interest charged (note 6)	**501**	93
Repayment	**(591)**	—
Exchange realignment	**147**	184
Balance as at 31 December	**9,968**	3,262
Less: Current portion	**(5,207)**	—
Non-current portion	**4,761**	3,262

In 2020, the Group entered into a loan agreement with the ultimate controlling shareholder, 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 30 June 2022. The interest-free loan was accounted for at amortised cost, using an effective interest rate of 6%.

In 2021, the Group further entered into certain loan agreements with Mr. Zhao, pursuant to which, Mr. Zhao granted certain interest-free loans with aggregate principal amounts of RMB4,500,000 (equivalent to approximately HK$5,431,000) (the "**Long Term Loans**") and HK$2,226,000 (the "**Short Term Loans**") to the Group. The Short Term Loans are repayable during January 2022 to June 2022. The Long Term Loans are repayable during March 2023 to June 2023 and were accounted for at amortised cost, using an effective interest rate of 10%.

23. LOANS FROM ULTIMATE CONTROLLING SHAREHOLDER (Continued)

On 12 January 2022 and 17 May 2022, the Group and Mr. Zhao entered into certain supplemental agreements, agreeing to extend the terms of certain interest-free loans with aggregate outstanding principal amounts of RMB2,510,000 and HK$2,226,000 (equivalent to approximately HK$5,299,000 in aggregate), which are repayable during January 2022 to June 2022, for additional two years.

24. LEASES

The Group as a lessee

During the year ended 31 December 2021, the Group entered into certain new lease agreements for office premises, retail shops, manufacturing plant and parcel of farmland used in the Industrial Hemp Planting Business for terms ranging from 5 months to 5 years (2020: 1 year to 2 years). The Group applied the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date.

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

(a) Right-of-use assets

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

	Head office premises	Retail shops, dismantling cost and office premises	Manufacturing plants and office premises	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2020	–	–	4,241	4,241
Additions	1,766	3,754	1,499	7,019
Depreciation (notes 7(a) & 24(c))	(393)	(625)	(3,975)	(4,993)
Impairment loss provided for the year (notes 7(b)) & 24(c))	(1,373)	(3,129)	–	(4,502)
Exchange realignment	–	–	88	88
At 31 December 2020 and 1 January 2021	**–**	**–**	**1,853**	**1,853**
Additions	**–**	**1,453**	**11,111**	**12,564**
Depreciation (notes 7(a) & 24(c))	**–**	**(332)**	**(3,836)**	**(4,168)**
Impairment loss provided for the year (notes 7(b) & 24(c))	**–**	**(606)**	**–**	**(606)**
Exchange realignment	**–**	**7**	**141**	**148**
At 31 December 2021	**–**	**522**	**9,269**	**9,791**

24. LEASES (Continued)

The Group as a lessee (Continued)

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

As detailed in note 12 to the consolidated financial statements, the Group performed an impairment assessment on the right-of-use assets of the retail shops (i.e. the **Retail ROA**) which formed part of the Retail CGU with impairment loss of approximately HK$606,000 (2020: HK$3,129,000) recognised in the consolidated statement of profit or loss for the year ended 31 December 2021.

In addition, the Directors further performed an impairment assessment on the right-of-use assets (the "**Corporate ROA**") which were used by the Group as corporate head office. The Corporate ROA has been fully impaired during the year ended 31 December 2020. No reversal of impairment loss (2020: impairment loss of HK$1,373,000) was considered necessary for the year ended 31 December 2021.

For the year ended 31 December 2020, the recoverable amount of the Corporate ROA was determined by the Directors with reference to the value in use calculation, using the discounted cash flow projections from the latest financial budgets covering its lease terms. The key assumptions used in the calculation of the value in use including growth rate of 8.8 to 10%, gross profit margin of 49 to 53% and discount rate of 12%. The growth rates and gross profit margin within the forecast periods are estimated by the Directors after having taken into consideration of the past performance of the Group, industry growth forecasts and future business plan of the Group.

(b) Lease liabilities

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

	2021 **HK$'000**	2020 HK$'000
Carrying amount at 1 January	**7,386**	7,308
Additions	**12,524**	6,835
Accrued rent	**18**	—
Interest expenses (note 6)	**1,421**	443
Payment of lease liabilities	**(8,510)**	(6,768)
Rent concessions from landlords, as direct consequence from COVID-19 pandemic relating to recognised lease liabilities	**—**	(525)
Exchange realignment	**164**	93
Carrying amount at 31 December	**13,003**	7,386
Analysed into:		
Current portion	**4,335**	5,523
Non-current portion	**8,668**	1,863
	13,003	7,386

24. LEASES (CONTINUED)

The Group as a lessee (Continued)

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

	2021 HK$'000	2020 HK$'000
Interest on lease liabilities (note 6)	**1,421**	443
Depreciation of right-of-use assets (notes 7(a) & 23(a))	**4,168**	4,993
Expenses relating to short-term leases	**4,212**	1,761
Rent concessions from landlords, as direct consequence from COVID-19 pandemic (note 5) relating to:		
— Short-term leases	**(836)**	—
— Recognised lease liabilities	**—**	(525)
Impairment of right-of-use assets (notes 7(b) & 23(a))	**606**	4,502
Provision for onerous short-term lease contracts	**536**	—
	10,107	11,174

(d) Operating lease commitments related to short-term leases

	2021 HK$'000	2020 HK$'000
Short-term leases for retail shops	**820**	205

25. SHARE CAPITAL

Authorised and issued share capital

	Number of shares	Amount HK$'000
Authorised:		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021 (ordinary shares of HK$0.01 each)	**2,000,000,000**	20,000
Issued and fully paid:		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021 (ordinary shares of HK$0.01 each)	**382,704,000**	3,827

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 41 of the consolidated financial statements.

(i) Share premium

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

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

(ii) Capital reserve

The capital reserve is the notional interest saving arising from the interest-free loans from the ultimate controlling shareholder at the date of inception.

(iii) Translation reserve

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

(iv) Statutory and discretionary reserves

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

27. RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel of the Group:

	2021 **HK$'000**	2020 HK$'000
Short-term benefits	**1,248**	1,725
Retirement scheme contributions	**—**	28
Total compensation paid to key management personnel	**1,248**	1,753

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

28. RETIREMENT BENEFIT PLANS

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

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

During the years ended 31 December 2020 and 2021, the Group had no forfeited contributions under its retirement benefit schemes which may be used to reduce the existing level of contributions.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$12,564,000 (2020: HK$7,019,000) and HK$12,524,000 (2020: HK$6,835,000), respectively, in respect of lease arrangements for retail shops, office premises and factory premises.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities during the years ended 31 December 2021 and 2020:

	Due to a director HK$'000	Due to/(from) a related company HK$'000	Due to ultimate controlling shareholder HK$'000	Loan from a director HK$'000	Loans from ultimate controlling shareholder HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2020	–	–	–	8,000	–	7,308	15,308
Changes from cash flows:							
– Loan from ultimate controlling shareholder	–	–	–	–	3,374	–	3,374
– Expenses paid on behalf	–	–	263	–	–	–	263
– Advance to a related company	–	(513)	–	–	–	–	(513)
– Payment of principal portion of lease liabilities	–	–	–	–	–	(6,325)	(6,325)
– Payment of interest portion of lease liabilities	–	–	–	–	–	(443)	(443)
	–	(513)	263	–	3,374	(6,768)	(3,644)
Inception of new leases	–	–	–	–	–	6,835	6,835
Accretion of interest recognised during the year	–	–	–	–	93	443	536
Rent concession from landlords as direct consequence from COVID-19 pandemic relating to recognised lease liabilities	–	–	–	–	–	(525)	(525)
Notional interest saving arising from interest-free loans provided by ultimate controlling shareholder	–	–	–	–	(389)	–	(389)
Exchange realignment	–	–	–	–	184	93	277
At 31 December 2020 and 1 January 2021	–	(513)	263	8,000	3,262	7,386	18,398
Changes from cash flows:							
– Loans from ultimate controlling shareholder	–	–	–	–	7,657	–	7,657
– Repayment of loan from ultimate controlling shareholder	–	–	–	–	(591)	–	(591)
– Advances from ultimate controlling shareholder	–	–	8,512	–	–	–	8,512
– Advances from a director	494	–	–	–	–	–	494
– Advances from a related company	–	2,361	–	–	–	–	2,361
– Payment of principal portion of lease liabilities	–	–	–	–	–	(7,089)	(7,089)
– Payment of interest portion of lease liabilities	–	–	–	–	–	(1,421)	(1,421)
	494	2,361	8,512	–	7,066	(8,510)	9,923
Inception of new leases	–	–	–	–	–	12,524	12,524
Accrued rent	–	–	–	–	–	18	18
Accretion of interest recognised during the year	–	–	–	–	501	1,421	1,922
Notional interest saving arising from interest-free loans provided by ultimate controlling shareholder	–	–	–	–	(1,008)	–	(1,008)
Exchange realignment	7	–	16	–	147	164	334
At 31 December 2021	501	1,848	8,791	8,000	9,968	13,003	42,111

31 December 2021

30. COMMITMENTS

Other than the operating lease commitments disclosed in note 24(d) to the consolidated financial statements, the Group had no significant commitments as at the end of the reporting period.

31. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at the end of the reporting period.

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	Financial assets at amortised cost	
	2021	2020
	HK$'000	HK$'000
Trade receivables	**7,090**	9,833
Prepayments, deposits and other receivables	**5,814**	4,238
Due from a related company	**—**	543
Pledged time deposit	**—**	430
Cash and cash equivalents	**1,469**	2,280
	14,373	17,324

Financial liabilities

	Financial liabilities at amortised cost	
	2021	2020
	HK$'000	HK$'000
Trade payables	**4,763**	2,746
Other payables and accruals	**24,847**	21,322
Due to a director	**501**	—
Due to ultimate controlling shareholder	**8,791**	263
Due to a related company	**1,848**	—
Loan from a director	**8,000**	8,000
Loans from ultimate controlling shareholder	**9,968**	3,262
	58,718	35,593

33. FINANCIAL RISK MANAGEMENT

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

(i) Currency risk

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

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

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in loss before tax**
	%	HK$'000
31 December 2021		
If RMB strengthens against HK$	**5**	**5**
If RMB weakens against HK$	**(5)**	**(5)**
31 December 2020		
If RMB strengthens against HK$	5	3
If RMB weakens against HK$	(5)	(3)

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

(ii) Interest rate risk

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

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

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Credit risk

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

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2021 and 2020. The amounts presented are gross carrying amounts for financial assets.

31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables*	—	—	—	8,238	8,238
Financial assets included in prepayments, deposits and other receivables					
— normal **	5,814	—	—	—	5,814
— doubtful**	—	235	—	—	235
Cash and cash equivalents					
— Not yet past due	1,469	—	—	—	1,469
	7,283	235	—	8,238	15,756

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Credit risk (Continued)

31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables*	—	—	—	10,956	10,956
Financial assets included in prepayments, deposits and other receivables					
— normal **	4,238	—	—	—	4,238
— doubtful**	—	192	—	—	192
Due from a related company	543	—	—	—	543
Pledged time deposit	430	—	—	—	430
Cash and cash equivalents					
— Not yet past due	2,280	—	—	—	2,280
	7,491	192	—	10,956	18,639

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

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

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Liquidity risk

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

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

31 December 2021

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	4,663	100	–	–	4,763
Other payables and accruals	24,847	–	–	–	24,847
Due to a director	501	–	–	–	501
Due to ultimate controlling shareholder	8,791	–	–	–	8,791
Due to a related company	1,848	–	–	–	1,848
Loan from a director	8,000	–	–	–	8,000
Loans from ultimate controlling shareholder	–	1,000	4,300	5,510	10,810
Lease liabilities	–	1,748	3,658	10,118	15,524
	48,650	2,848	7,958	15,628	75,084

31 December 2020

	On demand or no fixed terms of repayment HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	2,704	42	–	–	2,746
Other payables and accruals	21,322	–	–	–	21,322
Due to ultimate controlling shareholder	263	–	–	–	263
Loan from a director	8,000	–	–	–	8,000
Loans from ultimate controlling shareholder	–	–	–	3,575	3,575
Lease liabilities	–	2,555	3,327	1,919	7,801
	32,289	2,597	3,327	5,494	43,707

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) *Capital management*

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total (deficiency in assets)/equity plus net debt. Net debt includes trade payables, other payables and accruals, amounts due to and loans from a director and the ultimate controlling shareholder and lease liabilities, less pledged time deposit and cash and cash equivalents. Capital represents deficiency in assets attributable to equity holders of the Company. The Group does not disclose the gearing ratio as at 31 December 2020 and 2021 as the Group was in a net deficiency in assets position as at those respective dates.

34. EVENT AFTER THE REPORTING PERIOD

Apart from certain supplemental agreements entered into between the Group and Mr. Zhao as disclosed in note 2.1 to the consolidated financial statements, there was no material event occurring subsequent to the end of the reporting period.

31 December 2021

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021 HK$'000	2020 HK$'000
Non-current assets		
Investments in subsidiaries	**11,929**	26,808
Rental deposits	**—**	330
Total non-current assets	**11,929**	27,138
Current assets		
Prepayment, deposits and other receivables	**589**	361
Due from former fellow subsidiaries	**36**	8
Cash and cash equivalents	**66**	385
Total current assets	**691**	754
Current liabilities		
Other payables and accruals	**15,878**	15,507
Due to a subsidiary	**12,214**	11,392
Due to ultimate controlling shareholder	**5,231**	263
Loan from a director	**8,000**	8,000
Lease liabilities	**110**	1,260
Total current liabilities	**41,433**	36,422
Net current liabilities	**(40,742)**	(35,668)
Total assets less current liabilities	**(28,813)**	(8,530)
Non-current liabilities		
Lease liabilities	**—**	110
Total non-current liabilities	**—**	110
Net liabilities	**(28,813)**	(8,640)
Deficiency in assets		
Share capital (note 25)	**3,827**	3,827
Reserves (note)	**(32,640)**	(12,467)
Total deficiency in assets	**(28,813)**	(8,640)

On behalf of the Board

Zhao Jingfei
Executive Director

Fan Xin
Executive Director

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

Note:

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

	Share Premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2020	125,931	(125,343)	588
Loss and total comprehensive income for the year	—	(13,055)	(13,055)
At 31 December 2020 and 1 January 2021	125,931	(138,398)	(12,467)
Loss and total comprehensive income for the year	**—**	**(20,173)**	**(20,173)**
At 31 December 2021	**125,931**	**(158,571)**	**(32,640)**

36. COMPARATIVE AMOUNTS

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

37. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 17 May 2022.

FIVE YEAR FINANCIAL SUMMARY

31 December 2021

A summary of the published results, assets and liabilities of the Group for the last five financial years, which does not form part of the audited consolidated financial statements, is set out as follows:

	2021 **HK$'000**	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000
Results					
Loss for the year	**(20,987)**	(21,758)	(18,327)	(31,466)	(14,225)

	2021 **HK$'000**	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000
Assets and liabilities					
Total assets	**41,186**	32,092	48,642	52,230	87,639
Total liabilities	**(71,721)**	(42,979)	(39,137)	(24,173)	(26,113)
Total (deficiency in assets)/ equity	**(30,535)**	(10,887)	9,505	28,057	61,526