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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 0264

2022
ANNUAL REPORT

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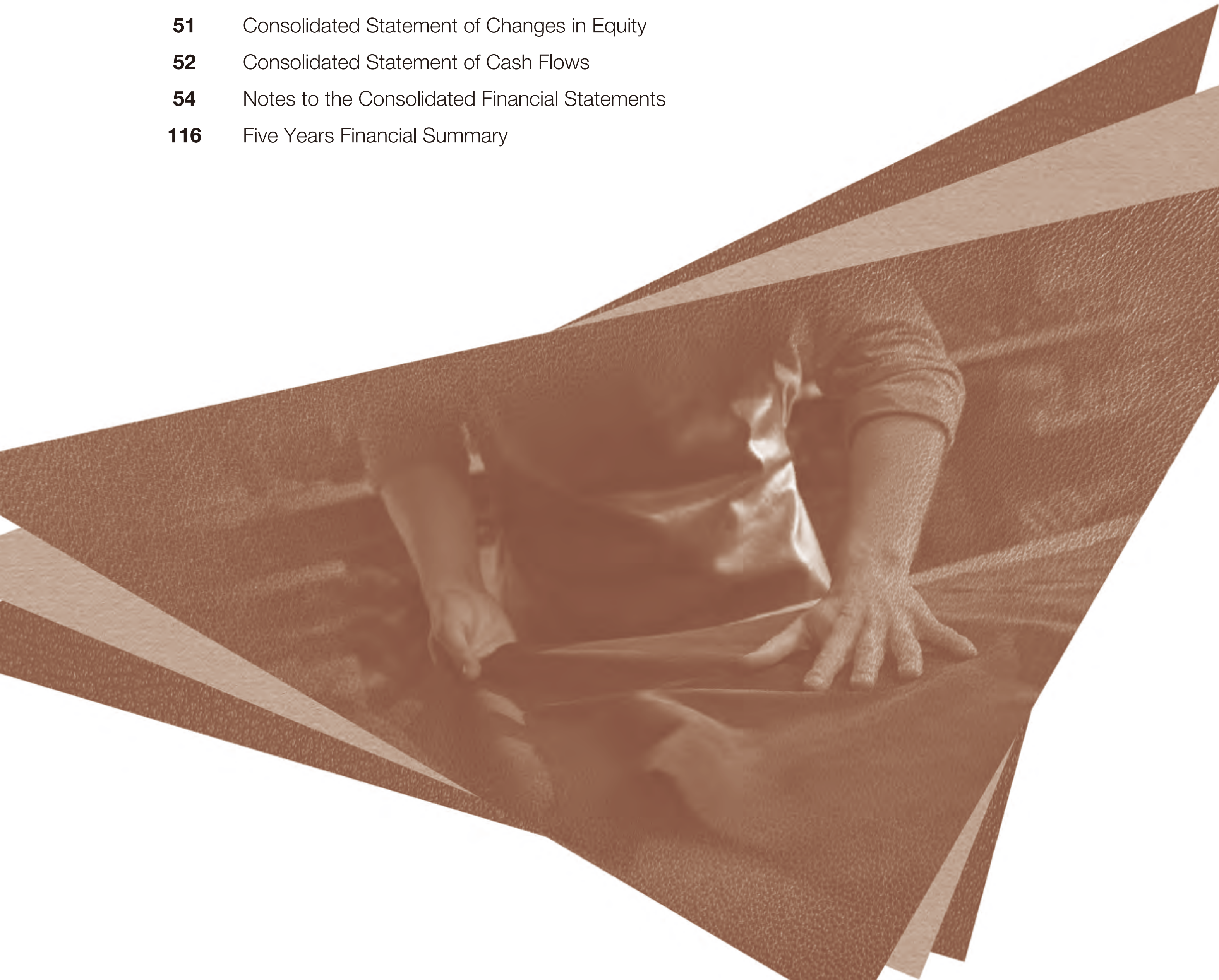

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Chan Tsang Mo

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 26
39 Queen's Road Central
Central
Hong Kong

PRINCIPAL BANKERS

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

AUDITOR

Ascenda Cachet CPA Limited
Certified Public Accountants

LEGAL 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

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

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

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

STOCK CODE

264

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2022	Year ended 31 December 2021
Operating results		
Revenue (HK$'000)	**56,042**	49,192
Gross profit (HK$'000)	**10,261**	9,820
Loss before tax (HK$'000)	**(18,936)**	(20,987)
Loss for the year (HK$'000)	**(18,936)**	(20,987)
Business performance ratios		
Gross profit margin (%)	**18.3**	20.0
Current ratio (times)	**0.31**	0.43
Quick ratio (times)	**0.21**	0.25
Share data (as at year end date)		
Shares in issue ('000)	**382,704**	382,704
Shares closing price (HK$)	**0.68**	0.71
Market capitalization (HK$'000)	**260,239**	271,720
Basic loss per share (HK cents)	**(4.9)**	(5.5)
Net liabilities value per share (HK$)	**(0.12)**	(0.08)

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 2022.

FINANCIAL PERFORMANCE

The Group has recorded revenue of approximately HK$56,042,000 for the year ended 31 December 2022 (2021: approximately HK$49,192,000), representing an increase of 13.9% or approximately HK$6,850,000 as compared with the year ended 31 December 2021. Revenue contributed from the Leather Manufacturing Business and Leather Retail Business (excluding inter-segment revenue) was approximately HK$54,542,000 (2021: approximately HK$46,016,000) and approximately HK$1,500,000 (2021: approximately HK$3,176,000) for the year ended 31 December 2022, respectively. Gross profit was approximately HK$10,261,000 (2021: approximately HK$9,820,000) for the year ended 31 December 2022. There was a decrease in gross profit margin from approximately 20.0% for the year ended 31 December 2021 to approximately 18.3% for the year ended 31 December 2022, mainly due to the extra production costs incurred for catching up the delay in production schedule of the Group's Leather Manufacturing Business as a result of the continuous spread of the coronavirus disease ("**COVID-19**") as well as the pandemic control and quarantine measures and travelling and logistics restriction implemented in Mainland China and Hong Kong in 2022.

Other income decreased by 49.6% from approximately HK$1,338,000 for the year ended 31 December 2021 to approximately HK$675,000 for the year ended 31 December 2022. The decrease was mainly attributable to less rental concessions in response to the outbreak of COVID-19 received from landlords for the year ended 31 December 2022.

Other losses/gains changed from a gain of approximately HK$722,000 for the year ended 31 December 2021 to a loss of approximately HK$1,822,000 for the year ended 31 December 2022. The change was mainly due to (i) the increase in impairment loss on right-of-use assets by approximately HK$1,216,000 during the year ended 31 December 2022; and (ii) an income from sales of scrap of approximately HK$1,328,000 was recognised during the year ended 31 December 2021 and no such income was recorded during the year ended 31 December 2022.

Selling and distribution costs decreased significantly by approximately HK$1,928,000 to approximately HK$5,647,000 for the year ended 31 December 2022 (2021: approximately HK$7,575,000). The decrease was mainly brought by the closing down of non-performing retail stores during the year ended 31 December 2022, thereby reducing rental and salaries expenses.

Administrative and other operating expenses decreased by approximately HK$3,375,000 to approximately HK$19,927,000 (2021: approximately HK$23,302,000) for the year ended 31 December 2022. The decrease was mainly due to the decrease in employee costs for administrative and supporting staff as a result of the strengthened human resources management of the Group and the decrease in exchange loss.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK$18,936,000 (2021: approximately HK$20,987,000) for the year ended 31 December 2022. Loss per share for the year ended 31 December 2022 was HK4.9 cents (2021: HK5.5 cents).

BUSINESS REVIEW

For the year ended 31 December 2022, the Leather Manufacturing Business and the Leather Retail Business accounted for approximately 97.3% (2021: approximately 93.5%) and approximately 2.7% (2021: approximately 6.5%) of the Group's total revenue, respectively.

Leather Manufacturing Business

For the year ended 31 December 2022, revenue of the Leather Manufacturing Business from external customers was approximately HK$54,542,000, representing an increase of approximately 18.5% in comparison with approximately HK$46,016,000 for the year ended 31 December 2021. The increase was mainly due to the reopening of borders in overseas countries, and the gradual stabilisation of the international consumption environment, especially the demand from the United States of America, Europe and other countries.

Revenue analysis by geographic location:

	2022		2021	
	HK$'000	**%**	HK$'000	%
Hong Kong	**6,597**	**12.1**	4,921	10.7
United States of America	**32,655**	**59.9**	29,888	65.0
Europe	**9,852**	**18.1**	7,130	15.5
The Mainland China	**571**	**1.0**	–	–
Other countries	**4,867**	**8.9**	4,077	8.8
	54,542	**100.0**	46,016	100.0

Revenue analysis by product category:

	2022		2021	
	HK$'000	**%**	HK$'000	%
Belts	**52,347**	**96.0**	44,952	97.7
Leather goods and other accessories	**2,195**	**4.0**	1,064	2.3
	54,542	**100.0**	46,016	100.0

Leather Retail Business

For the Leather Retail Business, owing 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$1,352,000 (2021: approximately HK$2,366,000) from Hong Kong for the year ended 31 December 2022, representing an approximately 57.14% decrease in comparison with that for the year ended 31 December 2021. The Company's online retail business in the Mainland China recorded revenue of approximately HK$148,000 (2021: approximately HK$810,000) during the year ended 31 December 2022. Gross profit margin of the Leather Retail Business for the year ended 31 December 2022 decreased to approximately 28.5%, as compared to approximately 68.4% for the year ended 31 December 2021. The main reason was that the city closure policy and the suspension of local logistics caused unsatisfactory results of the retail shops in Hong Kong and online retail platforms in Mainland China and write-down of the slow-moving inventories.

The Leather Retail Business resulted in a loss of approximately HK$3,655,000 for the year ended 31 December 2022 as compared to approximately HK$5,787,000 for the year ended 31 December 2021. The Group maintained one (2021: four) AREA 0264 store and one (2021: one) Teepee Leather workshop in Hong Kong as at 31 December 2022.

PROSPECTS

2022 is full of challenges for us. The ongoing COVID-19 pandemic over the past three years has disrupted business activities and supply chains across industries and eroded consumption power. The global business environment continues to deteriorate. The global economic slowdown and the breakage of supply chains have led to rising transportation, energy and material prices, and global inflation has been severe and manufacturing industry has also been hit hard, posed a variety of challenges for the Group.

Despite these challenges, the Group remains optimistic about the future of the business and remains confident in the ability of the Group to navigate these uncertain times and emerge stronger than ever. Since December 2022, Chinese government has gradually lifted various COVID-19 control restrictions and social and economic activities have been returning to normal. While we expect it will still take some time for the Group's business to return to the pre-pandemic levels, we remain positive on the outlook. The Group is committed to expanding its existing customer base through business development and cooperation opportunities. The Group is currently undertaking cooperation discussion with at least several new potential clients which are mainly famous fashion apparel brands in Europe, the United States and Asia. The Group is negotiating cooperation terms with the new potential clients, and has completed sample confirmation with orders placed from one new client from Korea. Thus, while maintaining its existing customer base, the Group expects to witness an increase in customer orders during the year ending 31 December 2023. With the easing of the pandemic around the world, the recovery of overseas markets and success in the negotiation with the new potential clients, the Group is likely to record substantial growth in revenue for the year ending 31 December 2023 as compared with that for the year ended 31 December 2022.

Furthermore, the Group has also undertaken plans to diversify into the businesses of industrial hemp planting and hemp fabric product production (the "**Business Plan**"). Hemp fabric is made of fibres from industrial hemp, and is a type of textile which is antibacterial, strong and versatile, and 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). As a result of the COVID-19 pandemic, the Group is still in a preliminary development stage but is committed to experimental cultivation of industrial hemp. The Group looks forward to the successful trial planting and the ability to manufacture and produce hemp fabrics in the future.

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

Looking ahead, we will focus on several key initiatives that we believe would help us to achieve profitability and sustainable growth, including measures that improve our operational efficiency and reducing our costs wherever possible. By streamlining our processes and optimizing our supply chain, we believe that we can achieve greater profitability and position ourselves for long-term success. At the same time, we will also actively undertake measures to control operating costs and inventory levels, and maintain healthier cash flow and liquidity.

The Group will continue to work with its customers, shareholders and business partners for the sustainable social development and will regularly 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, 31 March 2023

* 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).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2022, the Group's cash and bank deposits were approximately HK$2,495,000 as compared to approximately HK$1,469,000 as at 31 December 2021.

The Group recorded total current assets of approximately HK$17,831,000 as at 31 December 2022 (31 December 2021: approximately HK$25,033,000) and total current liabilities of approximately HK$56,740,000 as at 31 December 2022 (31 December 2021: approximately HK$58,292,000). The decrease in total current assets was mainly due to the decrease in inventories and prepayments, deposits and other receivables. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 0.31 times as at 31 December 2022 (31 December 2021: approximately 0.43 times).

As at 31 December 2022, the Group had total assets amounting to approximately HK$30,582,000 (2021: approximately HK$41,186,000) and total liabilities of approximately HK$76,598,000 (2021: approximately HK$71,721,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 250.5% (31 December 2021: approximately 174.1%) as at 31 December 2022.

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$46,016,000 (31 December 2021: HK$30,535,000) as at 31 December 2022, 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. The Directors are of the view that the Group will have sufficient working capital to finance its obligations as and when they fall due for at least 12 months from 31 December 2022.

Inventories and trade receivables

The Group recorded total inventories of approximately HK$5,718,000 (31 December 2021: approximately HK$10,566,000) as at 31 December 2022 and the inventory turnover days improved to 46 days as at 31 December 2022 from 98 days as at 31 December 2021. The Group had trade receivables of approximately HK$7,943,000 (31 December 2021: approximately HK$7,090,000) as at 31 December 2022 and the debtor turnover days remained relatively stable at 52 days (31 December 2021: 53 days).

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held as at and during the year ended 31 December 2022 (31 December 2021: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Same as disclosed in the section "Prospects" above, the Group does not have any other plans for material investments and capital assets as at the date of this report.

TREASURY POLICY

The Group generally finances its operation with internally generated resources and advances and loans from Directors and the ultimate controlling shareholder of the Company. Cash and bank deposits of the Group are mainly denominated in HK$, US$ and RMB. Transactions of the Group are mainly denominated in HK$, US$ and RMB. As HK$ is pegged to US$, the Group does not expect any significant movements in the US$/HK$ exchange rate. In this regard, the Group is not exposed to significant currency risk arising from US$. The fluctuations in the RMB's value against other currencies will create foreign currency translation gains or losses and may have 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 2022, the Group did not have any charges on assets (2021: Nil).

Other than the operating lease commitments disclosed in note 22(d) to the consolidated financial statements, the Group had no significant commitments and contingent liabilities as at 31 December 2022 and 31 December 2021.

EVENT AFTER THE REPORTING PERIOD

Apart from (a) the External Financing Facility (detailed in paragraph (v) under Note 2.1 to the consolidated financial statements below); and (b) certain supplemental agreements entered into between the Group and Mr. Zhao Jingfei, an executive Director, Chairman and ultimate controlling shareholder of the Company, each 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 2022, the Group employed 142 (2021: 157) 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 2022 (2021: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhao Jingfei, aged 33, 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 40, 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 27, has been appointed as an executive Director on 9 September 2019. He was the assistant to the general manager of Tangcheng (Beijing) Finance and Taxation Service Co., Ltd.* (唐誠(北京)財税服務有限公司) from February 2015 to October 2017. He has been the general manager of Beijing Zhongmin Huisheng Technology Co., Ltd.* (北京中民匯生科技有限公司) since December 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Han Yu, aged 50, 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 33, was appointed as an independent non-executive Director on 9 September 2019. She graduated from the Hull University with a degree of Bachelor of Arts in Business and Management in 2012. She also obtained a degree of Master of Science in International Business from the Coventry University in 2013. Ms. Jia has been the general manager of Yichang Zaowei Information Technology Consulting Co., Ltd.* (宜昌早為信息技術諮詢有限公司) since March 2017.

Mr. Rong Yi, aged 65, 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 39, 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 primary corporate contract person at the Company is Mr. Zhao Jingfei, an executive Director and Chairman of the Company.

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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 2022 except for the Code Provision D.2.5 in respect of having an internal audit function.

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 review covered analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems, encompassing the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, financial reporting function, as well as those relating to the Company's Environmental, Social and Governance ("**ESG**") performance and reporting. The Board is of the view that appropriate measures have been put in place to manage the risks and no major issue was raised for improvement during the review.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the year ended 31 December 2022.

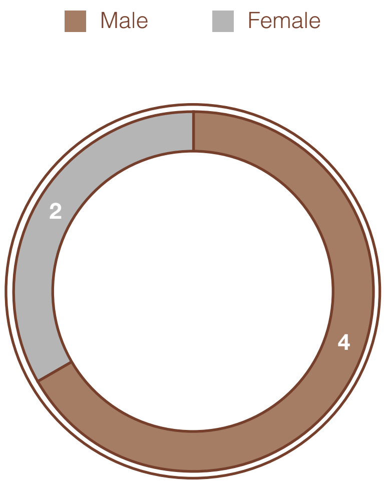
BOARD OF DIRECTORS

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.

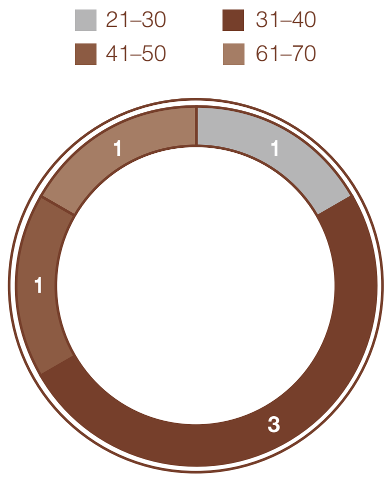
The Board currently consists of three executive Directors and three independent non-executive Directors. Their brief biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 10 to 11 of this report. There is no relationship, including financial,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

As at 31 December 2022, Board diversification in terms of:

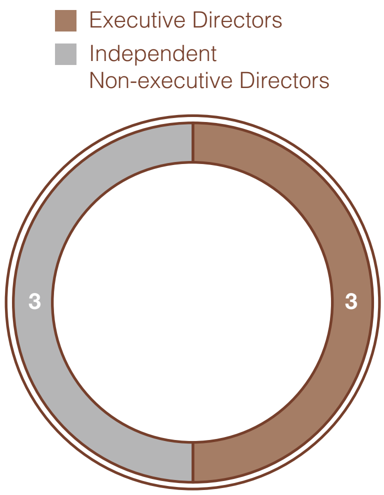
GENDER



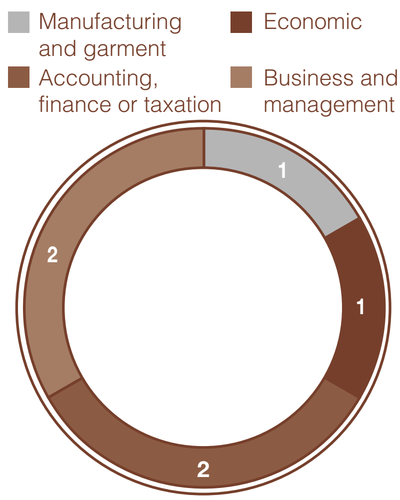
AGE GROUP



CAPACITY



MARKET/INDUSTRY EXPERIENCE



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

During the year ended 31 December 2022, four 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 2022 is as follows:

	Number of Board meetings attended/ eligible to attend	Annual general meeting held on 28 June 2022 attended
Executive Directors		
Mr. Zhao Jingfei *(Chairman)*	4/4	1/1
Mr. Fan Xin *(Chief Executive Officer)*	4/4	1/1
Mr. Qin Bohan	4/4	1/1
Independent Non-executive Directors		
Ms. Han Yu	4/4	1/1
Ms. Jia Lixin	4/4	1/1
Mr. Rong Yi	4/4	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 order to ensure that independent views and input of the independent non-executive directors are made available to the Board, the Nomination Committee and the Board are committed to assess the directors' independence annually with regards to all relevant factors related to the independent non-executive Directors including the following:

- required character, integrity, expertise, experience and stability to fulfill their roles;
- time commitment and attention to the Company's affairs;
- firm commitment to their independent roles and to the Board;
- declaration of conflict of interest in their roles as independent non-executive directors;
- no involvement in the daily management of the Company nor in any relationship or circumstances which would affect the exercise of their independent judgement; and
- the Chairman meets with the independent non-executive Directors regularly without the presence of the executive Directors.

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 ended 31 December 2022. 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 ended 31 December 2022 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' RESPONSIBILITIES

The Board is responsible for overall management and control of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and service of the company secretary and senior management. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board.

DELEGATION BY THE BOARD

The Board has delegated responsibilities to the executive directors and senior management of the Company, including implementing decisions of the Board and directing and conducting the day-to-day operation and the management of the Group. The delegated functions and responsibilities are periodically reviewed by the Board and approval has to be obtained from the Board prior to any significant transactions are entered.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The appointment of a new director must be approved by the Board. The Board has delegated to the Nomination Committee to select and recommend candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The Nomination Committee has established certain guidelines to assess the candidates. These guidelines emphasise appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and possible time commitments to the Board and the Company.

Each newly appointed director would receive a comprehensive, formal and tailored 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 legal and regulatory requirements and the Company's business and governance policies.

Each of the Directors (including non-executive Directors) has entered into a service contract or letter of appointment with the Company and is appointed for an initial term of three years. All Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings in accordance with the Listing Rules and the Articles. Every Director newly appointed by the Board is subject to re-election at the next following general meeting after his/her appointment.

According to article 84(1) of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3) the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall retire from office by rotation at least once every three years.

Pursuant to article 84(1) of the Articles, each of Ms. Han Yu and Ms. Jia Lixin will retire from office as Directors at the forthcoming annual general meeting of the Company. Ms. Han Yu and Ms. Jia Lixin, being eligible, will offer themselves for re-election.

BOARD PRACTICES AND CONDUCT OF MEETINGS

The Board holds regular meetings no less than 4 times each year to formulate overall strategy of the Group, monitor its financial performance and maintain effective oversight over management. Directors may participate either in person or through electronic means of communications. Notice of regular board meetings is served to all directors at least 14 days prior to the meeting. For other board and committee meetings, reasonable notice is generally given.

Agenda of each board meeting is usually sent to all directors together with the notice of meeting in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting. Board papers together with all appropriate, complete and reliable information are sent to directors at least 3 days before each board meeting to keep the directors apprised of the latest development and financial position of the Group and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chairman and other relevant senior management normally attend regular board and committee meetings, and where necessary, other board and committee meetings to advise on business development, financial and accounting matters, statutory compliance, corporate governance, environment, social and governance issues and other major aspects of the Group. Draft minutes are normally circulated to all directors for comment in due course after each meeting and the final copy, which is kept by the company secretary, is open for directors' inspection.

Any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened board meeting. Except for those circumstances permitted by the Company's articles of association, a director who has a material interest in any contract, transaction, arrangement or any other kind of proposal put forward to the Board for consideration abstains from voting on the relevant resolution and such director is not counted for quorum determination purposes.

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 2022, 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 2022, 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 *(Chief Executive Officer)*	✔
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 managing 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.

BOARD COMMITTEES

There are three committees established under the Board, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Each committee has its defined and written terms of reference setting out its duties, powers and functions and being posted on the Company's website and the Stock Exchange's website. The board committees report regularly to the Board on their decisions and recommendations and they are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

AUDIT COMMITTEE

The 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 (Committee Chairlady), 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 2022, five audit committee meetings were held by the Company. Individual attendance of each committee member at the meetings is as follows:

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

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

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

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

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

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

- to monitor the integrity of the Company’s financial statements and the annual report and accounts and interim report and, if prepare for publication, 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, such risks would include, amongst others, material risks relating to ESG;

- 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, internal audit, and financial reporting function, as well as those relating to the Company’s ESG performance and reporting;

- 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 ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

- 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 establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, with the Committee (or any designated committee comprising a majority of independent non-executive directors) about possible improprieties in any matter related to the Company;

- to review arrangements for employees and those who deal with the Company (e.g. customers and suppliers) of the Company to raise concerns, in confidence and anonymity, 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 ended 31 December 2022, the Audit Committee has reviewed with the Group's management the principles and practices adopted by the Group, discussed internal control and risk management system, the effectiveness of the Company's internal audit function and financial reporting matters, including a review of the unaudited consolidated financial statements of the Company for the six months ended 30 June 2022 and audited consolidated financial statements of the Company for the year ended 31 December 2021.

AUDITOR'S REMUNERATION AND AUDITOR RELATED MATTERS

The statement of the independent auditor of the Company, Ascenda Cachet CPA Limited, regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" on pages 40 to 48 of this report.

Ascenda Cachet CPA Limited provided audit and other assurance services to the Group. During the year ended 31 December 2022, the fees paid/payable for the Group was HK$1,360,000 (2021: HK$1,530,000), of which the fees for the audit and other assurance services were HK$1,180,000 (2021: HK$1,280,000) and HK$180,000 (2021: HK$250,000), respectively.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, reappointment or removal of the independent auditor. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the independent auditor of the Company.

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 (Committee Chairman), 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 2022, one remuneration committee meeting was held to review and determine the annual remuneration packages of the Directors, assess the performance of executive Directors, approve the terms of executive Directors' service contracts. 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 make recommendation to the Board on the remuneration of non-executive Directors;

- 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 executive 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;
- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.
- to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules;
- to review from time to time as appropriate the terms of reference of the Remuneration Committee and recommend to the Board any necessary changes; and
- to consider other topics or matters, as defined by the Board.

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 (Committee Chairman).

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 2022, 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 2022. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended/ eligible to attend
Independent Non-executive Directors	
Ms. Han Yu	1/1
Ms. Jia Lixin	1/1
Mr. Rong Yi	1/1
Executive Director	
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, experience 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 effectiveness of the Board Diversity Policy, as appropriate, recommend any revisions of the Board Diversity Policy to the Board; review the measurable objectives that the Board has set for implementing the Board Diversity Policy and the progress on achieving the objectives on a regular basis; and disclose the Board Diversity Policy or a summary of such policy, in particular, the measurable objectives that it has set for implementing the Board Diversity Policy and the progress on achieving the objectives and its review results in the Company's corporate governance report annually;

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

- to establish mechanism(s) to ensure independent views and input are available to the Board and disclose such mechanism(s) in its Corporate Governance Report. The Board should review the implementation and effectiveness of such mechanism(s) on an annual basis;

- develop, review and disclose the policy for nomination of directors (the "**Nomination Policy**"), as appropriate, in the Company's corporate governance report annually. The Nomination Policy shall set out, *inter alia*, the nomination procedures, process and criteria to select and recommend candidates for directorship;

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

- 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, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future;

- where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting:

  (i) the process used for identify the individual and why the Board believes the individual should be elected and the reasons why it considers the individual to be independent;

  (ii) if the proposed independent non-executive director will be holding their seventh (or more) listed company directorship, why the Board believes the individual would still be able to devote sufficient time to the board;

(iii) if the proposed independent non-executive director has served more than nine years, why the Board (or the Committee) believes that the director is still independent and should be re-elected, including the factors considered, the process and the discussion of the Board (or the Committee) in arriving such determination and such further appointment should be subject to a separate resolution to be approved by the shareholders of the Company;

(iv) the perspectives, skills and experience that the individual can bring to the Board; and

(v) how the individual contributes to diversity of the Board.

- Where all the independent non-executive directors of the Company have served more than nine years on the Board, the Company should:

  (i) disclose the length of tenure of each existing independent non-executive director on a named basis in the circular to shareholders and/or explanatory statement accompanying the notice of the annual general meeting; and

  (ii) appoint a new independent non-executive director on the Board at the forthcoming annual general meeting.

- to review from time to time as appropriate the terms of reference of the Nomination Committee and recommend to the Board any necessary changes; and

- to consider other topics or matters, as defined by the Board.

NOMINATION POLICY

The Nomination Committee adopts the following nomination procedures, process and criteria in selecting and recommending candidates for directorship to the Board.

Selection criteria

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.

Nomination procedures and process

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedure and process:

- by giving due consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort;
- consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing directors, advertising, recommendations from independent agency firms, and proposals from shareholders of the Company, with due consideration given to the criteria set out in the section titled "Selection Criteria" above;
- adopt any process it deems appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third-party reference checks;
- upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;
- make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and
- the Board will have the final authority on determining the selection of nominees.

The ultimate decision of Board appointment will be based on reputation and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Board Diversity Policy on a regular basis and discuss any revisions that might be required, and recommend to the Board for consideration and approval.

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 and amended on 30 December 2022 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, experience 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.

As at 31 December 2022, the Directors have a balanced mix of knowledge, skills and experience, including the areas of business management, investment, accounting and financial management. They obtained academic diploma, degrees and masters in various majors, including economics, business, management and accounting. The Board comprises 3 executive Directors and 3 independent non-executive Directors, and the male Directors represent approximately 67% of the Board and the female Directors represent approximately 33% of the Board. Furthermore, the Board has a wide range of age, ranging from 27 years old to 65 years old.

Measurable objectives

In terms of implementing the Board Diversity Policy, there are the following measurable objectives:

- to comply with the requirements as specified under the Listing Rules from time to time in relation to composition of the Board;
- the number of independent non-executive Directors appointed must not be less than three and must represent at least one-third of the Board;
- at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise; and
- must appoint a Director of a different gender on or before the year ended 2024 to avoid single gender board.

As at 31 December 2022, all the measurable objectives under the Board Diversity Policy have been fulfilled.

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 and the measurable objectives for implementing such policy, as appropriate, to ensure the effectiveness of this policy. The Nomination Committee will also review the progress on achieving these objectives, developing successors to the Board, and the implementation and effectiveness of the Board Diversity Policy on an annual basis. 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.

Gender diversity of workforce

Gender diversity at workforce levels (including our senior management) is disclosed in the Company's Environmental, Social and Governance Report 2022.

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 on 21 March 2012 and revised on 30 December 2022 and is in compliance with paragraph A.2.1 of the CG Code. During the year ended 31 December 2022, the Board has discussed the corporate governance matters including a review of the corporate governance report for the year ended 31 December 2022.

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 40 to 48 of this report.

THE COMPANY'S ACTIONS TO ADDRESS THE 2021 DISCLAIMER OF OPINION

Reference is made to the supplemental announcement of the Company dated 8 July 2022 (the "**Supplemental Announcement**"), in which the Company set out an action plan (the "**Action Plan**") comprising a number of measures in order to address the disclaimer of opinion issued by the Auditors in relation to the annual report of the Company for the year ended 31 December 2021 (the "**2021 Disclaimer**").

Since the publication of the Supplemental Announcement and in an effort to address the 2021 Disclaimer, the Company has taken the measures detailed in paragraphs (i) to (iv) and (vi) under note 2.1 to the consolidated financial statements. Such actions were largely in line with paragraphs 1, 2 and 4 of the Action Plan.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

The Group incurred a substantial loss of approximately HK$18,936,000 during the year and had net current liabilities and deficiency in assets of approximately HK$38,909,000 and HK$46,016,000, respectively, as at 31 December 2022; and the Group had cash and cash equivalents of approximately of HK$2,495,000 to meet its financial obligations as at 31 December 2022. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the aforesaid conditions, the consolidated financial statements for the year ended 31 December 2022 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 2022 after taking into account of the measures detailed in in paragraphs (i) to (vi) under note 2.1 to the consolidated financial statements.

The report of the independent auditor of the Company, Ascenda Cachet CPA Limited (the "**independent auditor**"), for the year ended 31 December 2022, as set out in the "Independent Auditor's Report" on pages 40 to 48 of this report, is not qualified in respect of the fundamental uncertainty relating to the going concern basis, meaning no disclaimer has been issued by the independent auditor in relation to the consolidated annual financial statements of the Company for the year ended 31 December 2022.

The Audit Committee had critically reviewed the disclosure by the auditors on the material uncertainty relating to going concern, the management's position and the measures implemented by the Group to address the issue. The Audit Committee is in agreement with the management of the Company with respect to the disclosure by the auditors and the Group's ability to continue as a going concern, and in particular the measures 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.

Procedures and internal control for handling and dissemination of inside information

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.

- Inside information is announced promptly through the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/cidc/index.htm). The electronic publication system of the Stock Exchange is the first channel of dissemination of the Group's information before any other channel.

Whistleblowing policy

The Board adopted a whistleblowing policy (the "**Whistleblowing Policy**") in May 2017. The Whistleblowing Policy allows employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, about possible improprieties in operation, financial reporting or other matters related to the Company. Such arrangement will be reviewed by the Audit Committee which ensures that proper arrangement is in place for fair and independent investigation of the matters. The purpose of the Whistleblowing Policy is to (i) foster a culture of compliance, ethical behaviour and good corporate governance across the Group; and (ii) promote the importance of ethical behaviour and encourages the reporting of misconduct, unlawful and unethical behavior.

The nature, status and the results of the complaints received under the Whistleblowing Policy are reported to the chairman of the Audit Committee or the human resource director of the Group. No incident of fraud or misconduct that have material effect on the Group's financial statements or overall operations for the year ended 31 December 2022 has been discovered.

The Whistleblowing Policy is reviewed annually by the Audit Committee to ensure its effectiveness.

Anti-corruption policy

The Board adopted an anti-corruption policy (the "**Anti-corruption Policy**") in February 2022. The Group is committed to achieving the highest standards of integrity and ethical behaviour in conducting its business. The Anti-corruption Policy forms an integral part of the Group's corporate governance framework. The Anticorruption Policy sets out the specific behavioural guidelines that the Group's personnel and business partners must follow to combat corruption. It demonstrates the Group's commitment to the practice of ethical business conduct and the compliance of the anti-corruption laws and regulations that apply to its local and foreign operations. In line with this commitment and to ensure transparency in the Group's practices, the Anti-corruption Policy has been prepared as a guide to all Group employees and third parties dealing with the Group.

The Anti-corruption Policy is reviewed and updated periodically to align with the applicable laws and regulations as well as the industry best practice.

The Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2022. The Board considers that the existing risk management and internal control systems of the Group are effective and adequate.

CORPORATE COMMUNICATION

The Company endeavours to maintain good investor relationship with shareholders and potential investors by way of a number of communication channels including annual general meeting, extraordinary general meeting, publication of interim and annual reports and periodic announcements on the websites of the Company and the Stock Exchange, timely press releases on the Company's website and shareholders of the Company may also direct their questions regarding their shareholding to the Company's Hong Kong share registrar. A shareholder's communication policy was adopted by the Board on 21 March 2012 and amended on 30 December 2022 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 in accordance with the Articles. Shareholders can raise questions and comments on the performance and future direction of the Company and exchange their views with the Board and 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.

The Company considers that the implementation of its shareholder communication policy was effective during the year ended 31 December 2022.

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 28 June 2022.

During the year ended 31 December 2022, 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 at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at the general meetings 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 2022, Mr. Chan undertook not less than 15 hours of professional training to update his skills and knowledge.

The primary corporate contact person at the Company is Mr. Zhao Jingfei, an executive Director and the Chairman of the board of Directors.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2022, 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 2022.

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 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 31 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 2022, 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.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

There was no material breach of or non-compliance with the applicable laws and regulations by the Group during the year ended 31 December 2022.

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 2022, 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 2022, 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 2022 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 49 to 115 of this report.

The Directors do not recommend any payment of final dividend to shareholders for the year ended 31 December 2022.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2022 are set out in note 33 to the consolidated financial statements and in the consolidated statement of changes in equity on page 51 of this 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 23 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

There were no distributable reserves of the Company at 31 December 2022. 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 2022.

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 116 of this 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 2022.

BIOGRAPHICAL DETAILS OF DIRECTORS

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

DIRECTORS

The Directors during the year ended 31 December 2022 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

Pursuant to article 84(1) of the Articles, each of Ms. Han Yu and Ms. Jia Lixin will retire from office as Directors at the forthcoming annual general meeting of the Company. Ms. Han Yu and Ms. Jia Lixin, being eligible, will 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. Other than the waived fees disclosed in note 8a to the consolidated financial statements, there has been no arrangement under which any Director has waived or agreed to waive any emoluments during the year.

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 2022 and up to the date of this report.

DIRECTORS' MATERIAL INTERESTS IN CONTRACTS

Save as disclosed in this report, there were no other 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 or at any time during the year ended 31 December 2022.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of his/her 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 OF THE COMPANY AND ASSOCIATED CORPORATION

As at 31 December 2022, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have been taken under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) which were to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

(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)	256,024,406	66.90%

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

(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 2022, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

So far as known to the Directors, as at 31 December 2022, 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	256,024,406	66.90%
Zhao Jingfei *(Chairman and executive Director)*	Interest of a controlled corporation (Note)	256,024,406	66.90%

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

Save as disclosed above, as at 31 December 2022, 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 2022 and 31 December 2022 and no share option of the Company was granted, exercised, lapsed or cancelled during the year ended 31 December 2022.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2022 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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 2022.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2022, 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 2022.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2022 attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	16.8%
– five largest suppliers combined	58.8%
Sales	
– the largest customer	61.4%
– five largest customers combined	89.5%

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 2022 except for the deviation from the Code Provision D.2.5 in respect of having the internal audit function. Details are set out in the section headed "Corporate Governance Report" on pages 12 to 31 of this 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 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 2022.

SUBSIDIARIES

Particulars of Company's subsidiaries as at 31 December 2022 are set out in note 1 to the consolidated financial statements.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this 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 2022.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2022, 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 25 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 2022.

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.

On behalf of the Board

Zhao Jingfei
Chairman

Hong Kong, 31 March 2023

Ascenda CACHET
天健德揚

10/F Tien Chu Commercial Building
173 Gloucester Road
Wanchai, Hong Kong

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

OPINION

We have audited the consolidated financial statements of China International Development Corporation Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 49 to 115, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosures concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements which indicates that (i) the Group incurred a substantial loss of approximately HK$18,936,000 during the year and had net current liabilities and deficiency in assets of approximately HK$38,909,000 and HK$46,016,000, respectively, as at 31 December 2022; and (ii) the Group had cash and cash equivalents of approximately of HK$2,495,000 only to meet its financial obligations as at 31 December 2022. 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.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN (CONTINUED)

Notwithstanding the abovementioned, 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 implementation of the following measures:

(i) The Company has obtained a letter of undertaking from Mr. Qin Bohan ("**Mr. Qin**"), an executive director of the Company, that he would not demand for repayment of the loan with principal amount of HK$8,000,000 as at 31 December 2022 until the Company is in a position to do so. The loan from Mr. Qin is interest-free, unsecured and has no fixed terms of repayment.

(ii) In addition to the loan provided by Mr. Qin as stated above, the Company and Mr. Qin entered into another loan agreement on 28 August 2021, pursuant to which, Mr. Qin further granted an unsecured interest-free loan facility up to HK$30,000,000 to the Company for a term of two years expiring on 27 August 2023, none of which has been utilised as at 31 December 2022 and the date of approving the consolidated financial statements.

(iii) Mr. Zhao Jingfei ("**Mr. Zhao**"), an executive director, the chairman and the ultimate controlling shareholder of the Company, has entered into certain loan agreements with the Company in July and August 2022, pursuant to which, Mr. Zhao further provided certain unsecured interest-free loans to the Company with aggregate principal amounts of US$1,480,000 (equivalent to approximately HK$11,544,000 in aggregate).

As at 31 December 2022, Mr. Zhao has provided certain loans to the Group with aggregate principal of RMB7,010,000, HK$2,226,000 and US$1,480,000 (equivalent to approximately HK$21,678,000 in aggregate, collectively the "**Shareholder Loans**"), out of which, aggregate outstanding loan principal amounts of RMB4,500,000 (equivalent to approximately HK$5,076,000) are repayable on or before June 2023 (the "**2023 Due Loans**") while the remaining balance of the loans is due in 2024. On 10 March 2023, the Group and Mr. Zhao entered into certain supplemental agreements, agreeing to extend the terms of the 2023 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 (the "**Shareholder Facility**") to the Company for a term of two years. On 17 May 2022, the Company and Mr. Zhao agreed to extend the expiry date of the loan facility to 27 May 2024. As at 31 December 2022 and the date of approving the consolidated financial statements, none of the Shareholder Facility has been utilised.

(v) The Company and an independent third party (the "**Lender**") licenced under the Money Lenders Ordinance, entered into a loan facility agreement on 30 March 2023, pursuant to which, the Lender granted a loan facility up to HK$30,000,000 (the "**External Financing Facility**") to the Company for a term of 14 months, extendable to 26 months. Any amounts drawn under the External Financing Facility will bear interest at 20% per annum and is unsecured. As at the date of approving the consolidated financial statements, the External Financing Facility has not been drawn down.

(vi) The Company has 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$9,135,000 as at 31 December 2022 until the Group is in a position to do so. Mr. Zhao has also confirmed his willingness to further provide for adequate financial resources as is necessary to enable the Group both to meet its financial obligations as and when they fall due and to carry on its business for at least 24 months from 31 December 2022.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN (CONTINUED)

The consolidated financial statements do not include any adjustments 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 and/or the External Financing Facility, which indicates the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. Should the Group be unable to continue in business as a going concern, adjustment would have been made to restate the value of assets to the recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities. We consider that the fundamental uncertainty has been properly disclosed in the consolidated financial statements. Our report is not qualified in respect of the fundamental uncertainty relating to the going concern basis.

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (CONTINUED)

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

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

The Key Audit Matter	How our audit was addressed in the Key Audit Matter
Included in the Group's property, plant and equipment ("**PPE**") were property, plant and equipment in relation to its leather manufacturing business (the "**Manufacturing PPE**") with an aggregate net carrying amount of approximately HK$4,370,000 (with no accumulated impairment) as at 31 December 2022. PPE are written down to their recoverable amounts if their carrying amounts are higher than the recoverable amounts. The recoverable amounts of the PPE were determined by the value in use of the PPE by using the discounted cashflow projections in the relevant valuations. For the purpose of performing the impairment assessment of the Manufacturing PPE, the Directors assessed the recoverable amounts of the Manufacturing PPE with reference to a valuation (the "**Manufacturing VIU Valuation**") prepared by an independent valuer (the "**Valuer**"). Significant management judgement and estimation was used to determine the key assumptions underlying the discounted cashflow projections, including the growth rates, gross profit margin, discount rate and future business plan. For the above reasons, we identified the impairment assessment of the Manufacturing PPE as a key audit matter.	Our procedures in relation to management's assessment of the impairment of the Manufacturing PPE of the Group included: – Discussing with management and the Valuer to understand the basis of valuation approach and methodology used in the cashflow forecasts, the Manufacturing VIU Valuation; – Challenging the management and the Valuer on the adoption of the assumptions and estimations in the cashflow forecasts, the Manufacturing VIU valuation; – Evaluating the independence, professionalism and accuracy of the work performed by the Valuer; – Evaluating the reasonableness and appropriateness of the cashflow forecasts, the Manufacturing VIU Valuation and the assumptions, information and parameters used in the models, including the growth rates, gross profit margin, discount rate and future business plan used by the management and the Valuer in assessing the recoverable amounts of the Manufacturing PPE; and – Recalculating the recoverable amounts of the Manufacturing PPE and assessing the sufficiency of the accumulated impairment as at 31 December 2022.

KEY AUDIT MATTERS (CONTINUED)

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

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

The Key Audit Matter	How our audit was addressed in the Key Audit Matter
Included in the Group's right-of-use assets ("**ROA**") were (i) the ROA in relation to the leather manufacturing business ("**Manufacturing ROA**") with aggregate net carrying amounts of approximately HK$7,187,000 (with no accumulated impairment) as at 31 December 2022; and (ii) the ROA used by the corporate head office (the "**Corporate ROA**") with nil carrying amount (net of accumulated impairment of approximately HK$1,519,000) as at 31 December 2022. ROA are written-down to their recoverable amounts if their carrying amounts are higher than the recoverable amounts. The recoverable amounts of the Manufacturing ROA and Corporate ROA were primarily determined by the value in use of the Manufacturing ROA and Corporate ROA by using the discounted cashflow projections in the valuations. For the purpose of performing the impairment assessment of the Manufacturing ROA and Corporate ROA, the Directors assessed the recoverable amounts of the Manufacturing ROA and Corporate ROA with reference to the Manufacturing VIU Valuation prepared by the Valuer and a valuation (the "**Corporate Valuation**") of the Group prepared by the Management. Significant management judgement and estimation was used to determine the key assumptions underlying the discounted cashflow projections, including the growth rates, gross profit margin, discount rate and future business plan. For the above reasons, we identified the impairment assessment of the Manufacturing ROA and Corporate ROA as a key audit matter.	Our procedures in relation to management's assessment of the impairment of the Group's Manufacturing ROA and Corporate ROA included: – Discussing with management and/or the Valuer to understand the basis of valuation approach and methodology used in the cashflow forecasts, the Manufacturing VIU Valuation and the Corporate Valuation; – Challenging the management and the Valuer on the adoption of the assumptions and estimations in the cashflow forecasts, the Manufacturing VIU Valuation and the Corporate Valuation; – Evaluating the independence, professionalism and accuracy of the work performed by the Valuer; – Evaluating the reasonableness and appropriateness of the cashflow forecasts, the Manufacturing VIU Valuation, the Corporate Valuation and the assumptions, information and parameters used in the models, including growth rates, gross profit margin, discount rate and future business plan used by the management and/or the Valuer in assessing the recoverable amounts of the Manufacturing ROA and the Corporate ROA; and – Recalculating the recoverable amounts of the Manufacturing ROA and the Corporate ROA, and assessing the sufficiency of the accumulated impairment, if any, as at 31 December 2022.

KEY AUDIT MATTERS (CONTINUED)

3. Loss allowance for impairment of trade receivables

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

The Key Audit Matter	How our audit was addressed in the Key Audit Matter
The carrying amount of the Group's trade receivables was approximately HK$7,943,000 (net of impairment of HK$1,188,000) as at 31 December 2022. The Group has applied the simplified approach for determining the expected credit loss ("**ECL**") on trade receivables, which are assessed individually for customers which are credit impaired and collectively using a provision matrix. For the purpose of assessment of the ECL, the Directors engaged the Valuer to perform a valuation (the "**ECL Valuation**") regarding ECL allowance for impairment of trade receivables based on management's assumptions. Significant management judgement and estimation was used to determine the key assumptions underlying the ECL Valuation, including (i) the historical loss rates; and (ii) the selection and use of reasonable and supportable forward-looking information without undue cost or effort in the ECL Valuation. The Group calibrates the matrix to adjusting the historical credit loss experience with forward-looking factors. Based on the ECL Valuation, the Group provided ECL allowance for impairment of trade receivables of approximately HK$40,000 for the year ended 31 December 2022. For the above reasons, we identified the ECL allowance for impairment of trade receivables as a key audit matter.	Our procedures in relation to the management's assessment of the ECL allowance for impairment of trade receivables included: – Discussing with the management and the Valuer to understand the basis of approach and methodology of the ECL Valuation; – Challenging the management and the Valuer on the adoption of the assumptions and estimations in the ECL Valuation; – Evaluating the independence, professionalism and accuracy of the work performed by the Valuer; – Evaluating the reasonableness and appropriateness of the ECL Valuation and the assumptions, information and parameters used in the model, including the historical loss rates and forward-looking factors; – Checking the information used by the management and the Valuer to develop the provision matrix including ageing analysis of trade receivables, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices; – Checking settlements subsequent to the end of the reporting period relating to the trade receivables as at 31 December 2022 on a sample basis; and – Recalculating the ECL allowance for impairment of trade receivables on trade receivables, and assessing the sufficiency of the ECL allowance as at 31 December 2022.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Hong Kong
31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	5	**56,042**	49,192
Cost of sales		**(45,781)**	(39,372)
Gross profit		**10,261**	9,820
Other income	5	**675**	1,338
Other (losses)/gains	7(b)	**(1,822)**	722
Selling and distribution costs		**(5,647)**	(7,575)
Administrative and other operating expenses		**(19,927)**	(23,302)
Impairment of trade receivables	14	**(40)**	(25)
Write-back of/(provision for) impairment of other receivables	15	**4**	(43)
Finance costs	6	**(2,440)**	(1,922)
Loss before tax	7(a)	**(18,936)**	(20,987)
Income tax expense	9	**–**	–
Loss for the year attributable to owners of the Company		**(18,936)**	(20,987)
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		**327**	331
Other comprehensive income for the year		**327**	331
Total comprehensive income for the year attributable to owners of the Company		**(18,609)**	(20,656)
Loss per share attributable to owners of the Company			
– Basic and diluted	11	**HK(4.9) cents**	HK(5.5) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment	12	**4,370**	5,449
Right-of-use assets	22(a)	**7,187**	9,791
Deposits paid	15	**1,194**	913
Total non-current assets		**12,751**	16,153
Current assets			
Inventories	13	**5,718**	10,566
Trade receivables	14	**7,943**	7,090
Prepayments, deposits and other receivables	15	**1,407**	5,617
Tax recoverable		**268**	291
Cash and cash equivalents	16	**2,495**	1,469
Total current assets		**17,831**	25,033
Current liabilities			
Trade payables	17	**7,032**	4,763
Other payables and accruals	18	**21,682**	24,847
Due to a director	19	**–**	501
Due to ultimate controlling shareholder	19	**9,135**	8,791
Due to a related company	19	**1,702**	1,848
Loan from a director	20	**8,000**	8,000
Loans from ultimate controlling shareholder	21	**4,863**	5,207
Lease liabilities	22(b)	**4,326**	4,335
Total current liabilities		**56,740**	58,292
Net current liabilities		**(38,909)**	(33,259)
Total assets less current liabilities		**(26,158)**	(17,106)
Non-current liabilities			
Loans from ultimate controlling shareholder	21	**14,139**	4,761
Lease liabilities	22(b)	**5,719**	8,668
Total non-current liabilities		**19,858**	13,429
Net liabilities		**(46,016)**	(30,535)
Deficiency in assets			
Share capital	23	**3,827**	3,827
Reserves		**(49,843)**	(34,362)
Total deficiency in assets		**(46,016)**	(30,535)

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 2022

	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 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 21)	–	–	1,008	–	–	–	1,008
At 31 December 2021 and 1 January 2022	3,827	77,760	1,397	2,854	5,249	(121,622)	(30,535)
Loss for the year	–	–	–	–	–	(18,936)	(18,936)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	327	–	–	327
Total comprehensive income for the year	–	–	–	327	–	(18,936)	(18,609)
Notional interest of interest-free loans provided and existing loans extension by ultimate controlling shareholder (note 21)	–	–	3,128	–	–	–	3,128
At 31 December 2022	3,827	77,760	4,525	3,181	5,249	(140,558)	(46,016)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Cash flows from operating activities			
Loss before tax		**(18,936)**	(20,987)
Adjustments for:			
Interest income	5	**–**	(1)
Finance costs	6	**2,440**	1,922
Depreciation of property, plant and equipment	7(a) & 12	**706**	928
Depreciation of right-of-use assets	7(a) & 22(a)	**3,360**	4,168
Impairment of right-of-use assets	7(b) & 22(a)	**1,822**	606
Impairment of trade receivables, net	14	**40**	25
(Write-back of)/provision for impairment of other receivables	15	**(4)**	43
Provision for onerous short-term lease contracts	7(a) & 22(c)	**576**	536
Operating loss before working capital changes		**(9,996)**	(12,760)
Decrease in inventories		**4,848**	946
(Increase)/decrease in trade receivables		**(893)**	2,718
Decrease/(increase) in prepayments, deposits and other receivables		**3,933**	(1,284)
Increase in trade payables		**2,269**	1,927
(Decrease)/increase in other payables and accruals		**(3,741)**	2,889
Cash used in operations		**(3,580)**	(5,564)
Income tax recovered		**–**	155
Net cash used in operating activities		**(3,580)**	(5,409)

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Cash flows from investing activities			
Additions to property, plant and equipment	12	**(29)**	(6,065)
Decrease/(increase) in pledged time deposit		**–**	430
Interest received		**–**	1
Net cash used in investing activities		**(29)**	(5,634)
Cash flows from financing activities	27(b)		
Advances from/(repayment to) a director		**(501)**	494
Advances from ultimate controlling shareholder		**344**	8,512
Loans from ultimate controlling shareholder		**11,544**	7,657
Repayment of loan from ultimate controlling shareholder		**–**	(591)
Advances from a related company		**–**	2,361
Payment of principal portion of lease liabilities		**(5,439)**	(7,089)
Payment of interest portion of lease liabilities		**(1,219)**	(1,421)
Net cash from financing activities		**4,729**	9,923
Net increase/(decrease) in cash and cash equivalents		**1,120**	(1,120)
Cash and cash equivalents at beginning of year		**1,469**	2,280
Effect of exchange rate changes on cash and cash equivalents		**(94)**	309
Cash and cash equivalents at end of year			
Represented by cash and bank balances	16	**2,495**	1,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

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; (ii) retail of fashion apparel, footwear and leather accessories; and (iii) the industrial hemp planting and production of hemp fabric products in Mainland China (the "**PRC**").

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 the 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 2022 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 (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/ Hong Kong	Ordinary shares USD1	100%	–	Inactive
Grandeur Smart Enterprises Limited (note (a))	The BVI/ Hong Kong	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.

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$18,936,000 during the year ended 31 December 2022 and had net current liabilities and deficiency in assets of approximately HK$38,909,000 and HK$46,016,000, respectively, as at 31 December 2022; and (ii) had cash and cash equivalents of approximately of HK$2,495,000 only to meet its financial obligations. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the 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 2022 after taking into account of the following measures:

(i) The Company has obtained a letter of undertaking from Mr. Qin Bohan ("**Mr. Qin**"), an executive director of the Company, that he would not demand for repayment of the loan with principal amount of HK$8,000,000as at 31 December 2022 until the Company is in a position to do so. The loan from Mr. Qin is interest-free, unsecured and has no fixed terms of repayment.

(ii) In addition to the loan provided by Mr. Qin as stated above, the Company and Mr. Qin entered into another loan agreement on 28 August 2021, pursuant to which, Mr. Qin further granted an unsecured interest-free loan facility up to HK$30,000,000 to the Company for a term of two years expiring on 27 August 2023, none of which has been utilised as at 31 December 2022 and the date of approving these consolidated financial statements.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of preparation (Continued)

(iii) Mr. Zhao Jingfei ("**Mr. Zhao**"), an executive director, the chairman and the ultimate controlling shareholder of the Company, has entered into certain loan agreements with the Company in July and August 2022, pursuant to which, Mr. Zhao further provided certain unsecured interest-free loans to the Company with aggregate principal amounts of US$1,480,000 (equivalent to approximately HK$11,544,000 in aggregate).

As at 31 December 2022, Mr. Zhao has provided certain loans to the Group with aggregate principal amounts of RMB7,010,000, HK$2,226,000 and US$1,480,000 (equivalent to approximately HK$21,678,000 in aggregate, collectively the "**Shareholder Loans**"), out of which, aggregate outstanding loan principal amounts of RMB4,500,000 (equivalent to approximately HK$5,076,000) are repayable on or before June 2023 (the "**2023 Due Loans**") while the remaining balance of the loans is due in 2024. On 10 March 2023, the Group and Mr. Zhao entered into certain supplemental agreements, agreeing to extend the terms of the 2023 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 (the "**Shareholder Facility**") to the Company for a term of two years. On 17 May 2022, the Company and Mr. Zhao agreed to extend the expiry date of the loan facility to 27 May 2024. As at 31 December 2022 and the date of approving these consolidated financial statements, none of the Shareholder Facility has been utilised.

(v) The Company and an independent third party (the "**Lender**") licenced under the Money Lenders Ordinance, entered into a loan facility agreement on 30 March 2023, pursuant to which, the Lender granted a loan facility up to HK$30,000,000 (the "**External Financing Facility**") to the Company for a term of 14 months, extendable to 26 months. Any amounts drawn down under the External Financing Facility will bear interest at 20% per annum and are unsecured. As at the date of approving these consolidated financial statements, the External Financing Facility has not been drawn down.

(vi) The Company has 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$9,135,000 as at 31 December 2022 until the Group is in a position to do so. Mr. Zhao has also confirmed his willingness to further provide for adequate financial resources as is necessary to enable the Group both to meet its financial obligations as and when they fall due and to carry on its business for at least 24 months from 31 December 2022.

The consolidated financial statements do not include any adjustments 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, and/or the External Financing Facility, which indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Should the Group be unable to continue in business as a going concern, adjustments would have been made to restate the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a contract
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, HKAS 41 and Illustrative Examples accompanying HKFRS 16

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "**Conceptual Framework**") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK (IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK (IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

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 as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts entering into during the year and other contracts for which it has not yet fulfilled all its obligations at 1 January 2022. The amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or 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 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
HKFRS 17	Insurance Contracts and the related Amendments[1, 5, 6]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the "**2020 Amendments**")[2, 4]
Amendments to HKAS 1	Non-current Liabilities with Covenants (the "**2022 Amendments**")[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

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

2 *Effective for annual periods beginning on or after 1 January 2024*

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

4 *As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, 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 to align the corresponding wording with not 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*

6 *An entity that choose to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17*

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 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 HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. 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. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa.

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 revisiting the accounting policy disclosures to ensure consistency with the amendments.

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

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 in HKAS 12 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 (provided that sufficient taxable profit is available) 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 deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented.

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 SIGNIFICANT 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 SIGNIFICANT 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 SIGNIFICANT 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 SIGNIFICANT 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 SIGNIFICANT 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 SIGNIFICANT 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 that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

2.4 SUMMARY OF SIGNIFICANT 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 SIGNIFICANT 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial liabilities (Continued)

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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 SIGNIFICANT 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.

ii. Interest income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 SIGNIFICANT 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 SIGNIFICANT 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 and the External Financing Facility. 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; (ii) retail of fashion apparel, footwear and leather accessories; and (iii) the industrial hemp planting and production of hemp fabric products (the "**Industrial Hemp Planting Business**"). However, the Industrial Hemp Planting Business did not form a separate reportable segment during the years as it has not built its scale and was considered immaterial by the management of the Group.

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

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	
	2022	2021	**2022**	2021	**2022**	2021
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**54,542**	46,016	**1,500**	3,176	**56,042**	49,192
Inter-segment revenue	**100**	482	**–**	–	**100**	482
Reportable segment revenue	**54,642**	46,498	**1,500**	3,176	**56,142**	49,674
Reportable segment loss	**(7,391)**	(9,468)	**(3,655)**	(5,787)	**(11,046)**	(15,255)
Depreciation of property, plant and equipment	**683**	856	**23**	72	**706**	928
Depreciation of right-of-use assets	**2,865**	3,836	**192**	332	**3,057**	4,168
Finance cost	**968**	1,041	**135**	320	**1,103**	1,361
Impairment of trade and other receivables	**36**	13	**–**	55	**36**	68
Impairment of property, plant and equipment and right-of-use assets	**–**	–	**303**	606	**303**	606
Additions to non-current assets (note)	**1,438**	17,104	**24**	1,525	**1,462**	18,629
Reportable segment assets	**27,533**	35,325	**2,220**	4,839	**29,753**	40,164
Reportable segment liabilities	**20,212**	22,070	**42,218**	41,347	**62,430**	63,417

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	2022 HK$'000	2021 HK$'000
Revenue		
Reportable segment revenue	**56,142**	49,674
Elimination of inter-segment revenue	**(100)**	(482)
Consolidated revenue	**56,042**	49,192
Loss before tax		
Reportable segment loss	**(11,046)**	(15,255)
Elimination of inter-segment losses	**–**	–
Interest income	**–**	1
Unallocated corporate expenses (note (i))	**(7,890)**	(5,733)
Consolidated loss before tax	**(18,936)**	(20,987)
Depreciation of property, plant and equipment		
Reportable segment depreciation	**706**	928
Depreciation of unallocated property, plant and equipment	**–**	–
Consolidated depreciation of property, plant and equipment	**706**	928
Depreciation of right-of-use assets		
Reportable segment depreciation	**3,057**	4,168
Depreciation of unallocated right-of-use assets	**303**	–
Consolidated depreciation of right-of-use assets	**3,360**	4,168

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	2022 HK$'000	2021 HK$'000
Finance costs		
Reportable segment finance cost	**1,103**	1,361
Interest on unallocated lease liabilities	**116**	60
Imputed interest on loans from ultimate controlling shareholder	**1,221**	501
Consolidated finance costs	**2,440**	1,922
Impairment of trade and other receivables		
Reportable segment impairment	**36**	68
Unallocated impairment of trade and other receivables	**–**	–
Consolidated impairment of trade and other receivables	**36**	68
Impairment of property, plant and equipment and right-of-use assets		
Reportable segment impairment	**303**	606
Unallocated impairment of property, plant and equipment and right-of-use assets	**1,519**	–
Consolidated impairment of property, plant and equipment and right-of-use assets	**1,822**	606
Additions to non-current assets (note (ii))		
Reportable segment additions	**1,462**	18,629
Unallocated additions to non-current assets	**1,822**	–
Consolidated additions to non-current assets	**3,284**	18,629
Assets		
Reportable segment assets	**29,753**	40,164
Elimination of inter-segment assets	**(147)**	(18)
Tax recoverable	**268**	291
Unallocated corporate assets	**708**	749
Consolidated total assets	**30,582**	41,186
Liabilities		
Reportable segment liabilities	**62,430**	63,417
Elimination of inter-segment liabilities	**(40,652)**	(36,793)
Unallocated corporate liabilities	**54,820**	45,097
Consolidated total liabilities	**76,598**	71,721

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	
	2022	2021	**2022**	2021
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**7,950**	7,287	**1,014**	338
United States of America	**32,655**	29,888	**–**	–
Europe	**9,852**	7,130	**–**	–
The PRC	**718**	810	**10,543**	14,902
Other countries	**4,867**	4,077	**–**	–
Total	**56,042**	49,192	**11,557**	15,240

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:

	2022	2021
	HK$'000	HK$'000
Customer A*	**34,424**	27,046
Customer B*	**6,341**	7,516
	40,765	34,562

* Customer arising from the Leather Manufacturing Business segment.

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, retail of fashion apparel, footwear and leather accessories, and Industrial Hemp Planting Business. However, the Industrial Hemp Planting Business is still in a preliminary development stage and no revenue has been generated during the years.

An analysis of revenue is as follows:

	2022	2021
	HK$'000	HK$'000
Revenue from contracts with external customers		
Sale of goods		
Manufacturing and distribution of leather products	**54,542**	46,016
Retail of fashion apparel, footwear and leather accessories	**1,500**	3,176
	56,042	49,192

(i) *Disaggregated revenue information*

	2022	2021
	HK$'000	HK$'000
Timing of revenue recognition		
Manufacturing and distribution of leather products recognised when control of goods is transferred	**54,542**	46,016
Retail of fashion apparel, footwear and leather accessories when control of goods is transferred	**1,500**	3,176
Goods transferred at a point in time	**56,042**	49,192

(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:

	2022 HK$'000	2021 HK$'000
Movements in contract liabilities		
Balance as at 1 January	**294**	420
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	**(294)**	(420)
Increase in contract liabilities as a result of receipts in advance from customers during the year	**279**	294
Balance as at 31 December	**279**	294

Other income

	2022 HK$'000	2021 HK$'000
Interest income (note 7(a))	**–**	1
Rent concessions from landlords, as direct consequence from COVID-19 pandemic (note 22(c))	**135**	836
Government subsidies*	**8**	–
Foreign exchange gain, net	**356**	–
Sundry income	**176**	501
	675	1,338

* The Group received unconditional government subsidies of HK$8,000 during the year ended 31 December 2022 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

	2022 HK$'000	2021 HK$'000
Interest on lease liabilities (note 22(b))	**1,219**	1,421
Imputed interest on loans from ultimate controlling shareholder (note 21)	**1,221**	501
	2,440	1,922

31 December 2022

7(a). LOSS BEFORE TAX

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

	2022 **HK$'000**	2021 HK$'000
Auditor's remuneration		
– Audit and other assurance related services	**1,160**	1,330
– Under-provision for prior year	**200**	200
Cost of inventories*	**45,781**	39,372
Employee costs*, excluding directors' emoluments (note 8)		
– Salaries, allowance and other benefits	**17,199**	18,613
– Retirement scheme contributions	**1,159**	1,441
	18,358	20,054
Depreciation of property, plant and equipment* (note 12)	**706**	928
Depreciation of right-of-use assets* (note 22(a))	**3,360**	4,168
Impairment of trade receivable (note 14)	**40**	25
(Write-back of)/provision for impairment of other receivable (note 15)	**(4)**	43
Provision for onerous short-term lease contracts (note 22(c))	**576**	536
Foreign exchange (gains)/losses, net	**(356)**	684
Interest income (note 5)	**–**	(1)

* Cost of inventories included HK$8,876,000 (2021: HK$10,479,000) for the year ended 31 December 2022 relating to employee costs, depreciation of property, plant and equipment and depreciation of right-of-use assets, which amounts are also included in the respective total amounts disclosed above for each of these types of expenses.

7(b). OTHER (LOSSES)/GAINS

	2022 **HK$'000**	2021 HK$'000
Impairment loss on right-of-use assets (note 22(a))	**(1,822)**	(606)
Sales of scrap	**–**	1,328
	(1,822)	722

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 2022					
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 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

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.

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

(b) *Five highest paid individuals*

Of the five individuals with the highest emoluments in the Group, none (2021: none) is a director of the Company. The emoluments of the five (2021: five) highest paid individuals are as follows:

	2022 **HK$'000**	2021 HK$'000
Salaries, allowances and benefits in kind	**2,504**	2,522
Retirement scheme contributions	**69**	70
	2,573	2,592

The emoluments of the top five (2021: five) highest paid individuals were within the following bands:

	2022	2021
Nil to HK$1,000,000	**5**	5

During the years ended 31 December 2022 and 2021, 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:

	2022	2021
Nil to HK$1,000,000	**7**	7

9. INCOME TAX EXPENSE

Under the Hong Kong two-tiered profits tax rates regime, the first HK$2,000,000 of profits arising in Hong Kong of one subsidiary of the Group, which is a qualifying group entity operating in Hong Kong, is taxed at 8.25%, and its remaining assessable profits is taxed at 16.5% during the years ended 31 December 2022 and 2021. Other group entities operating in Hong Kong are taxed at 16.5%.

According to the Announcement of the State Administration of Taxation on Issues Relating to Implementation of Inclusive Income Tax Relief Policy for Small Low-profit Enterprises, a lower corporate income tax ("**CIT**") rate is applicable to small scale enterprises with low profitability that meet certain conditions, pursuant to which, (i) the first RMB1,000,000 of assessable profits (the "**1st Assessable Profits**") of these subsidiaries are effective taxable at 2.5% (i.e. 20% CIT rate on 12.5% of the 1st Assessable Profits) (2021: 2.5% (i.e. 20% CIT rate on 12.5% of the 1st Assessable Profits)); and (ii) the remaining assessable profits not over RMB3,000,000 (the "**Remaining Assessable Profits**") are taxable at 5% (i.e. 20% CIT rate on the 25% of the Remaining Assessable Profits) (2021: 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 2022 and 2021.

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:

	2022		2021	
	HK$'000	**%**	HK$'000	%
Loss before tax	**(18,936)**		(20,987)	
Tax at the statutory tax rate of 16.5%	**(3,124)**	**16.5**	(3,463)	16.5
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,719)**	**9.1**	(1,588)	7.6
Tax effect of expenses not deductible	**2,597**	**(13.7)**	1,658	(7.9)
Tax effect of income not taxable	**(66)**	**0.3**	(30)	0.1
Tax effect of tax losses not recognised	**4,390**	**(23.2)**	4,952	(23.6)
Tax effect of utilisation of tax losses previously not recognised	**(2,115)**	**11.2**	(1,010)	4.8
Tax effect of deductible temporary differences not recognised	**37**	**(0.2)**	(519)	2.5
Tax charge at the Group's effective rate	**–**	**–**	–	–

9. INCOME TAX EXPENSE (CONTINUED)

As at 31 December 2022, the Group had unused tax losses of approximately HK$108,931,000 (2021: HK$95,879,000) and other deductible temporary differences of approximately HK$8,461,000 (2021: HK$9,625,000). The unused tax losses of approximately HK$72,950,000 (2021: HK$69,631,000) can be carried forward indefinitely, while the remaining unused tax losses of approximately HK$35,981,000 (2021: HK$26,248,000) 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 2022, no deferred tax liability has been recognised on the temporary difference in relation to the undistributed earnings of approximately HK$10,802,000 (31 December 2021: HK$11,813,000) 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.

10. DIVIDEND

The Directors do not recommend the payment of any dividend for the years ended 31 December 2022 and 2021.

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$18,936,000 (2021: approximately HK$20,987,000) and the number of ordinary shares of 382,704,000 (2021: 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 2022 and 2021 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 2022					
Cost					
At 1 January 2022	**3,770**	**2,647**	**10,077**	**766**	**17,260**
Additions	**4**	**25**	**–**	**–**	**29**
Reclassification	**1**	**255**	**(256)**	**–**	**–**
Write off	**–**	**(268)**	**(1,998)**	**–**	**(2,266)**
Exchange realignment	**(188)**	**(15)**	**(399)**	**(60)**	**(662)**
At 31 December 2022	**3,587**	**2,644**	**7,424**	**706**	**14,361**
Accumulated depreciation and impairment					
At 1 January 2022	**3,095**	**2,561**	**5,416**	**739**	**11,811**
Depreciation (note 7(a))	**100**	**72**	**527**	**7**	**706**
Reclassification	**–**	**27**	**(27)**	**–**	**–**
Eliminated upon write off	**–**	**(268)**	**(1,998)**	**–**	**(2,266)**
Exchange realignment	**(139)**	**(5)**	**(58)**	**(58)**	**(260)**
At 31 December 2022	**3,056**	**2,387**	**3,860**	**688**	**9,991**
Net carrying amounts					
At 31 December 2022	**531**	**257**	**3,564**	**18**	**4,370**
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

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leather Retail Business

As at 31 December 2021 and 2022, the Directors considered that there were impairment indicators on the property, plant and equipment (the "**Retail PPE**") and the ROA (note 22(a)) (the "**Retail ROA**") of the Leather Retail Business because of the substantial loss incurred during the years ended 31 December 2021 and 2022. 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 2021, the value in use (the "**2021 Retail Valuation**") of the Retail CGU as at 31 December 2021 has 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 ROA of approximately HK$606,000 (note 22(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 as they have been fully impaired in prior year. As at 31 December 2021, the net carrying amounts of the Retail PPE and Retail ROA were nil and approximately HK$522,000, respectively, after accumulated impairment of approximately HK$1,770,000 and HK$3,734,000, respectively.

For the year ended 31 December 2022, the value in use (the "**2022 Retail Valuation**") of the Retail CGU as at 31 December 2022 has been determined by the management by using the discounted cash flow projections for a period covered from 2023 to 2024. The key assumptions used in the 2022 Retail Valuation included growth rate of 10% to 62%, gross profit margin of 40% and discount rate of 15%. Based on the 2022 Retail Valuation, impairment loss on the Retail ROA of approximately HK$303,000 (note 22(a)), was recognised in the consolidated statement of profit or loss for the year ended 31 December 2022; and no further impairment on the Retail PPE is considered necessary as they have been fully impaired in prior year. As at 31 December 2022, the net carrying amounts of the Retail PPE and Retail ROA were nil, after accumulated impairment of approximately HK$6,000 and HK$909,000, respectively.

Leather Manufacturing Business

As at 31 December 2021 and 2022, the Directors considered that there were impairment indicators on the property, plant and equipment (the "**Manufacturing PPE**") and the ROA (note 22(a)) (the "**Manufacturing ROA**") of the Leather Manufacturing Business because of the substantial loss incurred during the years ended 31 December 2021 and 2022. 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 an independent valuer (the "**Valuer**") with recognised qualifications and experiences to determine the value in use of the Manufacturing CGU as at 31 December 2021 and 2022.

For the year ended 31 December 2021, the value in use (the "**2021 Manufacturing Valuation**") of the Manufacturing CGU has been determined by using the discounted cash flow projections for a period covering from 2022 to 2025. The key assumptions used in the 2021 Manufacturing Valuation include 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. As at 31 December 2021, the net carrying amounts of the Manufacturing PPE and Manufacturing ROA were approximately HK$5,449,000 and HK$9,269,000, respectively.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leather Manufacturing Business (Continued)

For the year ended 31 December 2022, the value in use (the "**2022 Manufacturing Valuation**") of the Manufacturing CGU has been determined by using the discounted cash flow projections for a period covering from 2023 to 2025. The key assumptions used in the 2022 Manufacturing Valuation include growth rate of 17% to 20%, gross profit margin of 25% to 28% and discount rate of 14%. Based on the 2022 Manufacturing Valuation, no impairment loss on the Manufacturing PPE and the Manufacturing ROA is considered necessary. As at 31 December 2022, the net carrying amounts of the Manufacturing PPE and Manufacturing ROA were approximately HK$4,370,000 and HK$7,187,000, respectively.

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.

13. INVENTORIES

	2022	2021
	HK$'000	HK$'000
Raw materials	**887**	2,592
Work in progress	**2,040**	4,113
Finished goods	**2,791**	3,861
	5,718	10,566

14. TRADE RECEIVABLES

	2022	2021
	HK$'000	HK$'000
Trade receivables	**9,131**	8,238
Less: Impairment loss	**(1,188)**	(1,148)
Net carrying amounts	**7,943**	7,090

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.

14. TRADE RECEIVABLES (CONTINUED)

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:

	2022 HK$'000	2021 HK$'000
Less than 30 days	**3,833**	1,906
31 to 60 days	**2,317**	3,989
61 to 90 days	**1,631**	1,195
91 to 120 days	**20**	–
121 to 365 days	**142**	–
More than 365 days	**–**	–
	7,943	7,090

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

	2022 HK$'000	2021 HK$'000
At 1 January	**1,148**	1,123
Provision for impairment loss (note 7(a))	**40**	25
At 31 December	**1,188**	1,148

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.

14. TRADE RECEIVABLES (CONTINUED)

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

		Past due					
	Current	1–30 days	31–60 days	61–90 days	91–365 days	Over 365 days	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2022							
Expected credit loss rate	**0.25%**	**2.06%**	**8.74%**	**14.77%**	**81.11%**	**100%**	
Gross carrying amount	**7,797**	**4**	**22**	**162**	**23**	**1,123**	**9,131**
Expected credit losses	**(20)**	**–**	**(2)**	**(24)**	**(19)**	**(1,123)**	**(1,188)**
Net carrying amount	**7,777**	**4**	**20**	**138**	**4**	**–**	**7,943**
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

The increase in the allowance for credit loss to HK$1,188,000 (2021: HK$1,148,000) was mainly due to the increase in trade receivables which were past due for over 60 days and increase in expected credit loss rate.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022	2021
	HK$'000	HK$'000
Prepayments	**461**	716
Rental, utility and other deposits	**1,528**	3,653
Due from former fellow subsidiaries	**8**	8
Other receivables	**835**	2,388
	2,832	6,765
Less: Impairment loss on other receivables	**(231)**	(235)
	2,601	6,530
Less: Rental deposits classified as non-current assets	**(1,194)**	(913)
Current portion	**1,407**	5,617

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

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

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

	2022 HK$'000	2021 HK$'000
At 1 January	**235**	192
(Write-back of)/provision for impairment loss (note 7(b))	**(4)**	43
At 31 December	**231**	235

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. CASH AND CASH EQUIVALENTS

	2022 HK$'000	2021 HK$'000
Cash and bank balances	**2,495**	1,469

The cash and bank balances amounting to approximately HK$249,000 (2021: approximately HK$290,000) 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.

17. 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:

	2022 HK$'000	2021 HK$'000
Less than 30 days	**2,697**	1,023
31 to 60 days	**2,045**	924
61 to 90 days	**1,244**	959
91 to 120 days	**654**	1,265
121 to 365 days	**22**	238
Over 365 days	**370**	354
	7,032	4,763

18. OTHER PAYABLES AND ACCRUALS

	2022 HK$'000	2021 HK$'000
Other payables	**3,469**	5,694
Accrued expenses	**4,452**	5,392
Due to former fellow subsidiaries	**8,171**	8,171
Due to former intermediate holding company	**5,590**	5,590
	21,682	24,847

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

19. 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$9,135,000 (2021: HK$8,791,000), is unsecured, interest-free and has no fixed terms of repayment. Mr. Zhao has confirmed that he will not demand for repayment of the amount due to him until the Group is in a position to do so.

The amount due to a director, namely Mr. Qin, amounting to HK$501,000 as at 31 December 2021 (2022: Nil), was unsecured, interest-free and had no fixed terms of repayment.

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 approximately HK$1,702,000 (2021: HK$1,848,000), is unsecured, interest-free and has no fixed terms of repayment.

20. 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.

21. LOANS FROM ULTIMATE CONTROLLING SHAREHOLDER

	2022 HK$'000	2021 HK$'000
Balance as at 1 January	**9,968**	3,262
New loan agreements entered:		
Principal amounts	**11,544**	7,657
Notional interest saving arising from the interest-free loans	**(2,058)**	(1,008)
Extension agreements for existing loans entered:		
Notional interest saving arising from the interest-free loans	**(1,070)**	–
	18,384	9,911
Imputed interest charged (note 6)	**1,221**	501
Repayment	**–**	(591)
Exchange realignment	**(603)**	147
Balance as at 31 December	**19,002**	9,968
Less: Current portion	**(4,863)**	(5,207)
Non-current portion	**14,139**	4,761

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 (the "**2020 Loan**") to the Group, which was repayable on 30 June 2022. On 17 May 2022, the Group and Mr. Zhao entered into a supplemental agreement to extend the terms of the 2020 Loan with outstanding principal amount of RMB2,510,000 for additional two years. After the extension, the 2020 Loan is repayable on 30 June 2024 and was accounted for at amortised cost, using an effective interest rate of 14%.

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%. 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 Short Term Loans for additional two years up to January 2024 to June 2024 and were accounted for at amortised cost, using an effective interest rate of 8%. On 10 March 2023, the Group and Mr. Zhao entered into certain supplemental agreements, agreeing to extend the terms of the Long Term Loans for additional two years up to March 2025 to June 2025.

In 2022, the Company further entered into certain loan agreements with Mr. Zhao, pursuant to which, Mr. Zhao granted certain interest-free loans with aggregate principal amounts of US$1,480,000 (equivalent to approximately HK$11,544,000) (the "**US$ Loans**") to the Company. The US$ Loans which are repayable during July to August 2024 and were accounted for at amortised cost, using an effective interest of 10%.

22. LEASES

The Group as a lessee

During the year ended 31 December 2022, the Group entered into certain new lease agreements for office premises, retail shop and parcel of farmland used in the Industrial Hemp Planting Business for terms ranging from 1 year to 2 years (2021: 5 months to 5 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 2021	–	–	1,853	1,853
Additions	–	1,453	11,111	12,564
Depreciation (notes 7(a) & 22(c))	–	(332)	(3,836)	(4,168)
Impairment loss provided for the year (notes 7(b) & 22(c))	–	(606)	–	(606)
Exchange realignment	–	7	141	148
At 31 December 2021 and 1 January 2022	**–**	**522**	**9,269**	**9,791**
Additions	**1,822**	**–**	**1,433**	**3,255**
Depreciation (notes 7(a) & 22(c))	**(303)**	**(192)**	**(2,865)**	**(3,360)**
Impairment loss provided for the year (notes 7(b) & 22(c))	**(1,519)**	**(303)**	**–**	**(1,822)**
Exchange realignment	**–**	**(27)**	**(650)**	**(677)**
At 31 December 2022	**–**	**–**	**7,187**	**7,187**

22. LEASES (CONTINUED)

The Group as a lessee (Continued)

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

As detailed in note 12 to the consolidated financial statements, the Group performed an impairment assessment on the right-of-use assets of the retail premises (i.e. the Retail ROA) which formed part of the Retail CGU with impairment loss of approximately HK$303,000 (2021: HK$606,000) recognised in the consolidated statement of profit or loss for the year ended 31 December 2022.

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.

Based on the forecasts and valuation of the Group prepared by the management, the carrying amount of the Corporate ROA was higher than the recoverable amount, therefore, an impairment loss of approximately HK$1,519,000 (2021: Nil) was recognised in the consolidated statement of profit or loss for the year ended 31 December 2022.

(b) Lease liabilities

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

	2022 **HK$'000**	2021 HK$'000
Carrying amount at 1 January	**13,003**	7,386
Additions	**3,255**	12,524
Accrued rent	**–**	18
Interest expenses (note 6)	**1,219**	1,421
Payment of lease liabilities	**(6,658)**	(8,510)
Exchange realignment	**(774)**	164
Carrying amount at 31 December	**10,045**	13,003
Analysed into:		
Current portion	**4,326**	4,335
Non-current portion	**5,719**	8,668
	10,045	13,003

22. 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:

	2022 HK$'000	2021 HK$'000
Interest on lease liabilities (note 6)	**1,219**	1,421
Depreciation of right-of-use assets (notes 7(a) & 22(a))	**3,360**	4,168
Expenses relating to short-term leases	**444**	4,212
Rent concessions from landlords, as direct consequence from COVID-19 pandemic (note 5) relating to:		
– Short-term leases	**(135)**	(836)
Impairment of right-of-use assets (notes 7(b) & 22(a))	**1,822**	606
Provision for onerous short-term lease contracts (note 7(a))	**576**	536
	7,286	10,107

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

	2022 HK$'000	2021 HK$'000
Short-term leases for retail shops	**576**	820

Based on the forecast of the Leather Retail Business prepared by the Directors, the short-term lease for retail shop is regarded as onerous and provision for onerous short-term lease contract of approximately HK$576,000 (2021: approximately HK$536,000) was recognised in the consolidated statement of profit or loss for the year ended 31 December 2022.

23. SHARE CAPITAL

Authorised and issued share capital

	Number of shares	Amount HK$'000
Authorised:		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022 (ordinary shares of HK$0.01 each)	2,000,000,000	20,000
Issued and fully paid:		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022 (ordinary shares of HK$0.01 each)	382,704,000	3,827

24. 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 51 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.

25. 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:

	2022 HK$'000	2021 HK$'000
Short-term benefits	**1,254**	1,248
Retirement scheme contributions	**–**	–
Total compensation paid to key management personnel	**1,254**	1,248

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

26. 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 2021 and 2022, the Group had no forfeited contributions under its retirement benefit schemes which may be used to reduce the existing level of contributions.

27. 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$3,255,000 (2021: HK$12,564,000) and HK$3,255,000 (2021: HK$12,524,000), respectively, in respect of lease arrangements for retail, office and factory premises.

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

(b) Reconciliation of liabilities arising from financing activities during the years ended 31 December 2022 and 2021:

	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 2022	501	1,848	8,791	8,000	9,968	13,003	42,111
Changes from cash flows:							
– Loans from ultimate controlling shareholder	–	–	–	–	11,544	–	11,544
– Advances from ultimate controlling shareholder	–	–	344	–	–	–	344
– Repayment to a director	(501)	–	–	–	–	–	(501)
– Payment of principal portion of lease liabilities	–	–	–	–	–	(5,439)	(5,439)
– Payment of interest portion of lease liabilities	–	–	–	–	–	(1,219)	(1,219)
	(501)	–	344	–	11,544	(6,658)	4,729
Inception of new leases	–	–	–	–	–	3,255	3,255
Accretion of interest recognised during the year	–	–	–	–	1,221	1,219	2,440
Notional interest saving arising from interest-free loans provided by ultimate controlling shareholder	–	–	–	–	(3,128)	–	(3,128)
Exchange realignment	–	(146)	–	–	(603)	(774)	(1,523)
At 31 December 2022	–	1,702	9,135	8,000	19,002	10,045	47,884

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

(b) (Continued)

	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 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

28. COMMITMENTS

Other than the operating lease commitments disclosed in note 22(d) to the consolidated financial statements, the Group had no significant commitments as at the end of the reporting period.

29. CONTINGENT LIABILITIES

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

30. 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	
	2022	2021
	HK$'000	HK$'000
Trade receivables	**7,943**	7,090
Prepayments, deposits and other receivables	**2,140**	5,814
Cash and cash equivalents	**2,495**	1,469
	12,578	14,373

Financial liabilities

	Financial liabilities at amortised cost	
	2022	2021
	HK$'000	HK$'000
Trade payables	**7,032**	4,763
Other payables and accruals	**21,682**	24,847
Due to a director	**–**	501
Due to ultimate controlling shareholder	**9,135**	8,791
Due to a related company	**1,702**	1,848
Loan from a director	**8,000**	8,000
Loans from ultimate controlling shareholder	**19,002**	9,968
	66,553	58,718

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

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$'000
31 December 2022		
If RMB strengthens against HK$	**5**	**5**
If RMB weakens against HK$	**(5)**	**(5)**
31 December 2021		
If RMB strengthens against HK$	5	5
If RMB weakens against HK$	(5)	(5)

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.

31. 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 2022 and 2021. The amounts presented are gross carrying amounts for financial assets.

31 December 2022

	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*	–	–	–	9,131	9,131
Financial assets included in prepayments, deposits and other receivables					
– Normal**	2,140	–	–	–	2,140
– Doubtful**	–	231	–	–	231
Cash and cash equivalents					
– Not yet past due	2,495	–	–	–	2,495
	4,635	231	–	9,131	13,997

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

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

* 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".

(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.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Liquidity risk (Continued)

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 2022

	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	7,003	29	–	–	7,032
Other payables and accruals	21,682	–	–	–	21,682
Due to a director	–	–	–	–	–
Due to ultimate controlling shareholder	9,135	–	–	–	9,135
Due to a related company	1,702	–	–	–	1,702
Loan from a director	8,000	–	–	–	8,000
Loans from ultimate controlling shareholder	–	1,128	3,948	16,602	21,678
Lease liabilities	–	1,369	3,763	6,338	11,470
	47,522	2,526	7,711	22,940	80,699

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. 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 2021 and 2022 as the Group was in a net deficiency in assets position as at those respective dates.

32. EVENT AFTER THE REPORTING PERIOD

Apart from External Financing Facility and 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 2022

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 HK$'000	2021 HK$'000
Non-current assets		
Investments in subsidiaries	**1,745**	11,929
Rental deposits	**330**	–
Total non-current assets	**2,075**	11,929
Current assets		
Prepayment, deposits and other receivables	**273**	597
Due from subsidiaries	**986**	28
Cash and cash equivalents	**2**	66
Total current assets	**1,261**	691
Current liabilities		
Other payables and accruals	**15,654**	15,878
Due to subsidiaries	**8,830**	12,214
Due to ultimate controlling shareholder	**4,436**	5,231
Loan from a director	**8,000**	8,000
Lease liabilities	**1,045**	110
Total current liabilities	**37,965**	41,433
Net current liabilities	**(36,704)**	(40,742)
Total assets less current liabilities	**(34,629)**	(28,813)
Non-current liabilities		
Lease liabilities	**9,856**	–
Total non-current liabilities	**9,856**	–
Net liabilities	**(44,485)**	(28,813)
Deficiency in assets		
Share capital (note 25)	**3,827**	3,827
Reserves (note)	**(48,312)**	(32,640)
Total deficiency in assets	**(44,485)**	(28,813)

On behalf of the Board

Zhao Jingfei
Executive Director

Fan Xin
Executive Director

33. 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	Capital reserve HK$'000	Total HK$'000
At 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 and 1 January 2022	125,931	(158,571)	–	(32,640)
Loss and total comprehensive income for the year	–	(17,730)	–	(17,730)
Notional interest of interest-free loans provided by ultimate controlling shareholder	–	–	2,058	2,058
At 31 December 2022	125,931	(176,301)	2,058	(48,312)

34. COMPARATIVE AMOUNTS

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

35. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 31 March 2023.

FIVE YEARS FINANCIAL SUMMARY

31 December 2022

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:

	2022 **HK$'000**	2021 HK$'000	2020 HK$'000	2019 HK$'000	2018 HK$'000
Results					
Loss for the year	**(18,936)**	(20,987)	(21,758)	(18,327)	(31,466)

	2022 **HK$'000**	2021 HK$'000	2020 HK$'000	2019 HK$'000	2018 HK$'000
Assets and liabilities					
Total assets	**30,582**	41,186	32,092	48,642	52,230
Total liabilities	**(76,598)**	(71,721)	(42,979)	(39,137)	(24,173)
Total (deficiency in assets)/equity	**(46,016)**	(30,535)	(10,887)	9,505	28,057