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: 264)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual results announcement of China International Development Corporation Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2023 (the "**2023 Annual Results Announcement**") and the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2023 Annual Results Announcement and the 2023 Annual Report.

This announcement is made by the Company to provide supplemental information to the 2023 Annual Results Announcement and the 2023 Annual Report regarding (i) the Company's business strategies and plans; and (ii) impairment loss recognised by the Group for the year ended 31 December 2023 ("**FY2023**").

THE COMPANY'S BUSINESS STRATEGIES AND PLANS

In order to improve the Company's principal businesses and thus its financial performance, the Company has formulated certain business strategies and plans.

Leather Manufacture Business

Regarding the manufacturing and distribution of leather products (the "**Leather Manufacturing Business**"), the Group strives to maintain and expand its customer base. The management will closely monitor and evaluate the recovery status of the markets and allocate marketing resources to markets with a faster recovery pace. Since 2024, the Group has been negotiating with various well-known brands as an effort to redefine its brand positioning by targeting mid-to-high-end markets and customer groups, with the support of marketing activities. The Group will also actively expand high-end brands of the Group with higher margin. The Board is of the view that the active expansion of high-end brands will be a positive step towards capturing value from higher-margin customer groups.

The management will also identify inefficiency in the manufacturing workflow and implement lean manufacturing principles, such as just-in-time production, to optimise production flow and reduce waste. Meanwhile, the management will analyse and identify areas of excessive spending, explore options for optimizing energy consumption and streamlining production processes, and implement cost-saving measures in areas such as logistics and overhead expenses, in order to reduce costs without compromising quality. The Board is of the view that the aforementioned measures will enhance production efficiency and reduce waste, leading to cost savings and increase in gross profit.

Leather Retail Business

Regarding the retail of fashion apparel, footwear and leather accessories (the "**Leather Retail Business**"), the management will constantly and critically review the performance of the Group's retail stores in Hong Kong and the market preferences globally, in order to develop new leatherware products that cater to new market segments or niche markets, such as products with new designs, materials, or functionalities.

Furthermore, the Group is actively expanding its e-commerce market and identifying potential sales channels that align with the Group's target markets. This could involve livestream commerce on platforms such as Taobao by inviting influential figures (e.g. key opinion leaders) to demonstrate and sell the Group's products, in order to reach new consumer segments, build consumer engagement and increase consumers' purchase intention; and partnering with distributors, retailers, or e-commerce platforms (e.g. Amazon and Taobao) to expand the reach of the leatherware products in Mainland China and other regions with high demand for leather goods. The Board is of the view that such measures align with the Group's objective of expanding market reach and have significant growth potential.

Also, the management is developing marketing strategies, including attracting customers through advertising, promotions, social media, etc., and considering the use of search engine optimisation (SEO) and search engine marketing (SEM) to improve the online store's ranking in search engines. The Board is of the view that such measures would enhance brand awareness and drive sales.

Industrial Hemp Planting Business

As disclosed in the 2023 Annual Report, the Group has undertaken plans to diversify into the business of industrial hemp planting and production of hemp fabric products (the "**Industrial Hemp Planting Business**"). Due to the strict control over industrial hemp in Mainland China, the mosaics and leaves harvested from industrial hemp are classified as drugs-related crops. The planting, sales, transportation and processing of industrial hemp must be carried out in accordance with the relevant provisions of the Yunnan Provincial Measures for the Management of Industrial Hemp (《雲南省工業大麻管理辦法》) and must be supervised by the public security authorities. In addition, the COVID-19 pandemic has led to stagnation in the experimental cultivation stage and inability to carry out large-scale experimental cultivation plan in the past three years. However, the Group kept minimal effort and input so as to maintain the Industrial Hemp Planting Business in the past three years and has been preparing to resume the experimental cultivation of industrial hemp.

Although the current Industrial Hemp Planting Business is limited by domestic legal controls and unsatisfactory international trade, the Group believes that industrial hemp has huge potential in textile and other fields in the future. Therefore, the Group remains committed to investing and engaging in ongoing cultivation in the industrial hemp industry, with a view to seizing an advantage in the industry boom stage in the future, and diversifying the Group's product portfolio and revenue sources, thereby contributing to improve long-term profitability of the Group. The Group has resumed experimental cultivation of industrial hemp "Yunma No. 8" since late May of 2024, and the experimental cultivation cycle of industrial hemp "Yunma No. 8" is approximately 6 to 8 months.

The Group will make effort to implement the aforementioned measures to improve the Group's revenue performance and financial position. The Board will constantly evaluate the business environment and identify new viable business opportunities to diversify the existing business portfolio of the Group and income streams and improve the profitability of the Group.

Required capital to finance the Company's business strategies and plans and source of funding

Regarding the aforementioned business strategies and plans, no significant capital expenditures investment is required at this stage. The Group may make further capital investment based on the development and actual needs of the business strategies and plans.

The source of funding for the Company's business strategies and plans mainly comprises shareholder loans from Mr. Zhao Jingfei (the chairman, executive Director and the ultimate controlling shareholder of the Company) and external loan facilities. For details, please refer to Note 2.1 to the consolidated financial statements for the year ended 31 December 2023 as set out in the 2023 Annual Report. In 2024, Mr. Zhao Jingfei has further provided cash advance in the aggregate sum of HK$2.35 million as the working capital to support the implementation of the Company's business plans. The Board is confident that the Group will have sufficient working capital to finance its operations and business plans, and to meet its financial obligations as and when they fall due for at least 12 months from 31 December 2023.

IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT ("PPE") AND RIGHT-OF-USE ASSETS ("ROA")

Reasons and circumstances leading to recognition of impairment loss for FY2023

(A) Impairment loss on the Manufacturing PPE and the Manufacturing ROA

The Directors considered that there were impairment indicators on the Manufacturing PPE and the Manufacturing ROA, because of the substantial loss of approximately HK$17,659,000 (or approximately HK$10,393,000, excluding the impairment loss of the Manufacturing PPE and the Manufacturing ROA of approximately HK$2,964,000 and HK$4,302,000, respectively) incurred in the Leather Manufacturing Business for FY2023, representing a significant increase from a loss of approximately HK$7,391,000 for the year ended 31 December 2022 ("**FY2022**"), mainly resulted from the decrease in revenue of the Leather Manufacturing Business from approximately HK$54,542,000 for FY2022 to approximately HK$29,547,000 for FY2023 (representing a decrease of approximately 45.8%). There were no extraordinary events or circumstances leading to a significant decrease in the revenue and profitability of the Leather Manufacturing Business in FY2023 and therefore the recognition of the impairment of the Manufacturing PPE and the Manufacturing ROA as at 31 December 2023. Such decease was mainly due to (i) consumers were scaling back on retail spending and discretionary consumption because of high inflation rate; (ii) high inflation and weak demand have resulted in a decrease in retailers' sales volume. The continuous decline in sales had prompted retailers to maintain a prudent and conservative attitude towards retail business, which had a negative impact on the Leather Manufacturing Business of the Group; (iii) sales orders are not as expected, especially the demand for orders from branded customers in the United States, the Group's most significant market (affected by the ever-intensified tensions between Mainland China and the United States) and Europe, which had decreased significantly; and (iv) the leatherware industry has been changed by multiple factors, including demographic trends, consumption behaviour and preferences. As such, the revenue of the Leather Manufacturing Business decreased significantly and resulting in an abnormal phenomenon that the revenue recognised in the second half of FY2023 was less than the first half of FY2023, deviated from the usual trend that higher revenue is recorded in the second half than the first half of the year.

(B) Impairment loss on the Retail ROA

There were no Retail PPE and Retail ROA for the Group's retail store as at 31 December 2023. Upon the renewal of lease in June 2023, impairment loss on the Retail ROA for the Group's workshop (the "**Retail Workshop**") of approximately HK$896,000 was recognised. The Directors considered that there were impairment indicators on the Retail ROA of the Retail Workshop because of the continued loss incurred by the Retail Workshop for FY2022 and FY2023, which was in turn primarily due to the adverse retail environment of Hong Kong largely due to the keen competition from rivals and online sales.

(C) Impairment loss on the Corporate ROA

The Corporate ROA was fully impaired in FY2022. For FY2023, in view of the continued loss incurred by the Group, the Directors considered that no write back of impairment loss on the previous fully impaired Corporate ROA was necessary.

Impairment assessment conducted by the Company and the determination of the amount of the impairment

(A) Impairment assessment conducted by the Company

As required by Hong Kong Accounting Standard 36 ("**HKAS 36**"), the Directors measured the recoverable amount of the Manufacturing PPE, the Manufacturing ROA, the Retail PPE and the Retail ROA when there is indication of impairment. The relevant items of the Manufacturing PPE and the Manufacturing ROA, and the Retail PPE and the Retail ROA are grouped together to constitute the Manufacturing CGU and the Retail CGU, respectively, for the purpose of the impairment assessment. The Directors assessed the recoverable amounts of the Manufacturing PPE, the Manufacturing ROA, the Retail PPE and the Retail ROA, which were higher of the value in use (the "**VIU**") and the fair value less costs of disposal (the "**FVLCS**"). Majority of the PPE are the leasehold improvements attached to the lease premises which are not sellable. The disposal (transfer of the lease) of the Manufacturing ROA and the Retail ROA are not allowed under the lease agreements and the consent for such disposal by the landlords is generally not straight-forward. Based on the above, the FVLCS of the PPE and ROA are considered as minimal, and the recoverable amounts of the Manufacturing CGU and the Retail CGU are therefore determined based on the respective VIUs.

According to the results of VIU calculation, the recoverable amounts of the Manufacturing PPE, the Manufacturing ROA, the Retail PPE and the Retail ROA were estimated to be zero, respectively and therefore, the impairment was recognised for the year ended 31 December 2023.

(B) Valuation method adopted and the reasons for adopting such method

According to HKAS 36 Impairment of Assets, the VIU is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. To comply with the corresponding accounting standard, the Income Approach has been adopted consistently year over year for both the valuation of the Manufacturing CGU and the Retail CGU. Under income approach, the VIU is developed through the application of the discount cash flow method to devolve the values of expected future income generated by the assets into a present value, which is consistent with the VIU defined by HKAS 36.

(C) Valuation of the Manufacturing CGU

The Company engaged an independent valuer (the "**Valuer**") with relevant qualification and experience to determine the VIU of the Manufacturing CGU as at 31 December 2023, the details of which were set out in the valuation report dated 27 March 2024.

Set out below are the major valuation inputs and assumptions for the valuation of the Manufacturing CGU:

(i) Cash Flow Forecast

Growth rate

With reference to the leather goods market research carried out by various research reports, which projected the global leather goods market to record an annual growth of a range of 6.2% to 9.5% (a mean of 7.31%) throughout the period of 2023 to 2030, the Directors applied a judgemental revenue growth rate of 7.5% (which was judgementally selected by the Directors to be slightly higher than the mean of 7.31%) to the forecast period of 2024 and 2025.

Gross profit margin ("**GP Margin**")

The GP Margin in FY2023 was 17.3%, decreased significantly when comparing with the adjusted GP Margin for FY2022 of 26.9%, adjusted for non-recurring factors including (i) the provision for obsolete inventories; and (ii) the extra production costs incurred from the instability of raw material supply caused by the COVID-19 pandemic. The decrease in GP Margin in FY2023 was mainly resulted by the failure in achieving economies of scale resulted by a low production volume.

In the forecasts for the year ended 31 December 2024 ("**FY2024**") and the year ended 31 December 2025 ("**FY2025**"), the unit manufacturing costs were forecasted to be reduced by streamlining the production line with better planned production schedules as well as further control of the production costs. Therefore, the GP Margin of 23.5% and 24.5% were applied by the Directors in the cash flow forecasts of 2023 and 2024, respectively.

(ii) Discount rate

The discount rate (13.37%*), which is the weighted average cost of capital ("**WACC**"), is determined as below:

Cost of Equity	14.76%
Cost of Debt	5.88%
Weight of Equity Value to Enterprise Value	85.88%
Weight of Debt Value to Enterprise Value	14.12%
Statutory Corporate Tax Rate	16.5%
WACC	**13.37%***

* A rounded-down figure of 13% was used for disclosure in the 2023 Annual Results Announcement and the 2023 Annual Report

(a) Certain underlying data and assumptions of the WACC are derived from the market data of the following guideline public companies, which are principally providing leather goods related businesses similar to those of the Manufacturing CGU.

Stock Code	**Company Name**
1910 HK Equity	Samsonite International S.A.
1023 HK Equity	Sitoy Group Holdings Limited
1058 HK Equity	Namyue Holdings Limited

The guideline public companies were selected primarily based on the following criteria:

(1) these companies are principally engaged in leather goods related businesses;

(2) shares of these companies are listed on a major stock exchange and have been actively traded for a reasonable period of time; and

(3) detailed financial and operational information in respect of these companies are available at Bloomberg or other publicly available sources.

(b) The cost of equity (14.76% is applied) is calculated based on the Capital Asset Pricing Model, with additional premium adjustment for company size and company specific risk.

(c) The assumed cost of debt is the Hong Kong prime rate, which is 5.88%.

(iii) Changes in the value of inputs and assumptions from those previously adopted and the underlying reasons

A much lower growth rate was applied for FY2024 and FY2025 in the forecast of CGU revenue from external customers made in 2023 (the "**2023 Forecast**") as compared with the forecast CGU revenue from external customers made in 2022 (the "**2022 Forecast**"). As discussed in the "Reasons and circumstances leading to recognition of impairment loss for FY2023" above, the performance of the Manufacturing CGU has significantly deteriorated during FY2023. Therefore, the Directors (i) based on low actual 2023 revenue level and (ii) adjusted the forecast sales amounts and the growth rates for FY2024 and FY2025 from 10% to 20% in the 2022 Forecast to 7.5%* in the 2023 Forecast as of 31 December 2023.

Apart from the above-mentioned changes in the forecast sales amounts and the growth rates, there has been no significant change in the value of input or assumptions compared to those in the previous year.

* A rounded-up figure of 8% was used for disclosure in the 2023 Annual Results Announcement and the 2023 Annual Report

(D) Valuation of the Retail CGU

The VIU calculation of the Retail PPE and the Retail ROU in the Retail Workshop as at 31 December 2023 was prepared by the Directors under the same methodology being used in the Leather Manufacturing Business. No valuer was engaged for the valuation of the recoverable amounts of the Retail Workshop.

Set out below are the major valuation inputs and assumptions for the valuation of the Retail CGU:

(i) Cash Flow Forecast

Growth rate

The Directors made reference to the Hong Kong Retail Outlook 2024 carried out by PwC and considering the general world GDP growth in 2025 projected by the International Monetary Fund, the Directors forecasted a rebound in the Leather Retail Business after the stagnant growth in FY2023 and applied a growth rate of 10% to the forecast period of FY2024 and FY2025.

GP Margin

Considering that the high GP Margin of the Leather Retail Business for FY2023 was resulted by using existing inventories that had been substantially impaired in prior years, the Directors applied a more realistic GP Ratio of 40% for FY2024 and FY2025. The GP Margin was taking reference to the actual GP Margin of 44% in FY2019, when the local retail market has not been crippled by the outbreak of COVID-19 and inventory turnover rate was relatively normal when compared with that for the last couple of years.

(ii) *Discount rate*

The discount rate used in the VIU calculation of Leather Retail Business was calculated using the same methodology as Leather Manufacturing Business, as summarized below.

The discount rate (12.84%*), which is the weighted average cost of capital (the "**WACC**"), is determined as below:

Cost of Equity	14.21%
Cost of Debt	5.88%
Weight of Equity Value to Enterprise Value	85.32%
Weight of Debt Value to Enterprise Value	14.68%
Statutory Corporate Tax Rate	16.5%
WACC	**12.84%***

* A rounded-up figure of 13% was used for disclosure in the 2023 Annual Results Announcement and the 2023 Annual Report

(a) Certain underlying data and assumptions of the WACC are derived from the market data of the following guideline public companies, which are principally providing leather goods related businesses similar to those of the Retail CGU.

Stock Code	**Company Name**
709 HK Equity	Giordano International Limited
1150 HK Equity	Milan Station Holdings Limited
592 HK Equity	Bossini International Holdings Limited
128 HK Equity	ENM Holdings Ltd

The guideline public companies were selected primarily based on the following criteria:

(1) these companies are principally engaged in leather goods related businesses;

(2) shares of these companies are listed on a major stock exchange and have been actively traded for a reasonable period of time; and

(3) detailed financial and operational information in respect of these companies are available at Bloomberg or other publicly available sources.

(b) The cost of equity (14.21% is applied) is calculated based on the Capital Asset Pricing Model, with additional premium adjustment for company size and company specific risk.

(c) The assumed cost of debt is the Hong Kong prime rate, which is 5.88%.

(iii) Changes in the value of inputs and assumptions from those previously adopted and the underlying reasons

There has been no significant change in the value of input or assumptions compared to those in the previous year.

Save as disclosed above, the contents of the 2023 Annual Results Announcement and the 2023 Annual Report remain unchanged.

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

Hong Kong, 3 June 2024

As at the date of this announcement, the executive Directors are Mr. Zhao Jingfei, Mr. Fan Xin and Mr. Qin Bohan; and the independent non-executive Directors are Ms. Han Yu, Ms. Jia Lixin and Mr. Rong Yi.