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NAMYUE HOLDINGS LIMITED

南粵控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01058)

2023 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	For the year ended 31 December		
	2023	2022	Change
Sales volume of cowhides (in thousand square feet)	6,219	5,802	+7.2%
Revenue (in thousand HK\$)	82,060	86,050	-4.6%
Loss for the year (in thousand HK\$)	(66,449)	(43,929)	-51.3%
Basic loss per share (in HK cents)	(12.35)	(8.16)	-51.3%
Key Indicators (As at 31 December)	2023	2022	Change
Current Ratio	1.08 times	2.42 times	-55.4%
Quick Ratio	0.44 times	0.95 times	-53.7%
Debt to asset ratio	61.0%	31.0%	+96.8%
Total assets (in thousand HK\$)	135,537	174,007	-22.1%
Net asset value per share (HK\$)	0.10	0.22	-54.5%

FINANCIAL RESULTS

The board of directors (the "Board") of Namyue Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023 together with comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
REVENUE	4	82,060	86,050
Cost of sales		<u>(110,963)</u>	<u>(93,857)</u>
Gross loss		(28,903)	(7,807)
Other income and losses, net	5	(1,581)	(535)
Selling and distribution expenses		(1,991)	(1,600)
Administrative expenses		(29,657)	(31,317)
Impairment on items of plant and equipment		(746)	(1,908)
Other operating expenses, net	5	(3,053)	(886)
Finance costs		<u>(879)</u>	<u>(107)</u>
LOSS BEFORE TAX	6	(66,810)	(44,160)
Income tax credit	7	<u>361</u>	<u>231</u>
LOSS FOR THE YEAR		<u>(66,449)</u>	<u>(43,929)</u>
LOSS PER SHARE	8		
- Basic		<u>HK(12.35) cents</u>	<u>HK(8.16) cents</u>
- Diluted		<u>HK(12.35) cents</u>	<u>HK(8.16) cents</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
LOSS FOR THE YEAR	(66,449)	(43,929)
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>		
Surplus on revaluation of buildings	1,627	4,258
Income tax effect	<u>(407)</u>	<u>(1,064)</u>
	1,220	3,194
<i>Other comprehensive expenses that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<u>(1,873)</u>	<u>(13,788)</u>
OTHER COMPREHENSIVE EXPENSES FOR THE YEAR, NET OF TAX	<u>(653)</u>	<u>(10,594)</u>
TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR	<u>(67,102)</u>	<u>(54,523)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2023	2022
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		40,248	42,846
Right-of-use assets		10,795	11,252
		<u>51,043</u>	<u>54,098</u>
CURRENT ASSETS			
Inventories		50,457	73,028
Receivables, prepayments and deposits	<i>10</i>	26,873	37,418
Pledged bank balances		25	-
Cash and bank balances		7,139	9,463
		<u>84,494</u>	<u>119,909</u>
CURRENT LIABILITIES			
Trade payables	<i>11</i>	34,113	24,054
Other payables, accruals and provision	<i>12</i>	27,896	24,261
Tax payable		-	21
Interest-bearing bank borrowings		14,811	-
Due to a PRC joint venture partner		1,131	1,131
		<u>77,951</u>	<u>49,467</u>
NET CURRENT ASSETS		<u>6,543</u>	<u>70,442</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>57,586</u>	<u>124,540</u>
NON-CURRENT LIABILITIES			
Other payables, accruals and provision		81	-
Deferred tax liabilities		4,594	4,527
		<u>4,675</u>	<u>4,527</u>
NET ASSETS		<u>52,911</u>	<u>120,013</u>
EQUITY			
Share capital		75,032	75,032
Reserves		(22,121)	44,981
TOTAL EQUITY		<u>52,911</u>	<u>120,013</u>

Notes:

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for buildings classified as property, plant and equipment and bills receivable which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

The financial information relating to the years ended 31 December 2023 and 31 December 2022 included in this preliminary announcement of annual results for the year ended 31 December 2023 does not constitute the Company's statutory annual consolidated financial statements for those years, but in respect of the year ended 31 December 2022, is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2023 in due course.

Going Concern

The Group incurred a loss of approximately HK\$66,449,000 and operating cash outflow of approximately HK\$15,686,000 for the year ended 31 December 2023. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have been undertaking a number of plans and measures to improve the Group's liquidity and financial position, including:

- (i) the Group had renewed the pledged bank facilities amounting to RMB35,000,000 up to March 2027 with Bank of Nanjing Co., Ltd. to finance daily operation;
- (ii) the Directors are currently strengthening and implementing a variety of measures to improve the working capital and cash flows of the Group, including closely monitoring the manufacturing costs, selling and distribution expenses, and general administrative and operating expenses; and
- (iii) the Directors are actively seeking new business opportunities to achieve profitable and abundant working capital, and increase income sources.

Based on the cash flow projection of the Group and having taken into account the available financial resources of the Group and the above measures, the Directors consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2023. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs issued by HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2023. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

No separate analysis of operating segment information is presented by the Group as over 90% of the Group's revenue, results and assets related to the processing and sale of semi-finished and finished leather in the People's Republic of China (the "PRC" or "Mainland China") during the year.

Information about major customer

Revenue from the following customer individually contributed over 10% of the consolidated revenue of the Group is as follows:

	2023	2022
	HK\$'000	HK\$'000
Customer A	<u>8,400</u>	<u>N/A*</u>

* The revenue from Customer A contributed not over 10% of the Group's revenue in 2022, therefore the amount is not disclosed.

4. REVENUE

An analysis of revenue is as follows:

	2023	2022
	HK\$'000	HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of processed leather in Mainland China	<u>82,060</u>	<u>86,050</u>

(i) Disaggregated revenue information

Revenue is recognised when goods are transferred at a point in time to customers. The amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period was HK\$8,000 (2022: Nil).

The Group sells processed leather to the customers. Sales are recognised when control of the processed leather has transferred, being when the processed leather are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the processed leather and the customer has obtained legal titles to the processed leather.

(ii) Performance obligations

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

Sale of goods

The performance obligation is satisfied upon delivery of the goods at a point in time and payment is generally due within 90 to 180 days from the date of delivery, except for new customers, where payment in advance is normally required. A receivable is recognised when the processed leather is delivered to customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

5. OTHER INCOME AND LOSSES, AND OTHER OPERATING EXPENSES, NET

(a) Other income and losses, net

	2023	2022
	HK\$'000	HK\$'000
Finance income	21	18
Sale of scrap materials in Mainland China	370	399
Government grants*	8	475
Net losses from subcontracted leather processing in Mainland China	(1,514)	(1,183)
Net exchange losses	(451)	(354)
Others	(15)	110
	<u>(1,581)</u>	<u>(535)</u>

* During the year ended 31 December 2023, the Group received approximately HK\$8,000 (2022: HK\$475,000) from the PRC local government as a support to the Group's PRC operations. There are no unfulfilled conditions or contingencies relating to these grants.

(b) Other operating expenses, net

	2023	2022
	HK\$'000	HK\$'000
Impairment on right-of-use assets	(158)	(79)
Impairment of trade receivables	(3,215)	(1,156)
Impairment of other receivables	-	(379)
Reversal of accruals and payables	320	728
	<u>(3,053)</u>	<u>(886)</u>

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Cost of inventories sold	89,449	92,726
Auditor's remuneration	730	750
Depreciation of property, plant and equipment	3,254	3,106
Depreciation of right-of-use assets	299	392
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	22,583	25,210
Pension scheme contributions (defined contribution schemes)*	<u>4,760</u>	<u>5,289</u>
	<u>27,343</u>	<u>30,499</u>
Provision for inventories**	21,514	1,131
Expenses related to short-term leases	<u>108</u>	<u>91</u>

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

** This item is included in the "Cost of sales" on the face of the consolidated statement of profit or loss.

7. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2023 and 2022. Taxes on profits assessable in the PRC have been calculated at the rate of tax prevailing in the PRC in which the Group operates.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current - Mainland China		
Charge for the year	-	26
Over-provision in prior years	<u>(21)</u>	<u>-</u>
	<u>(21)</u>	26
Deferred tax liabilities	<u>(340)</u>	<u>(257)</u>
Total tax credit for the year	<u><u>(361)</u></u>	<u><u>(231)</u></u>

8. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year and the weighted average number of ordinary shares of 538,019,000 (2022: 538,019,000) in issue during the year.

The calculation of basic loss per share is based on:

	2023	2022
	HK\$'000	HK\$'000
Loss		
Loss for the year, used in the basic loss per share calculation	<u>66,449</u>	<u>43,929</u>
	Number of shares	
	2023	2022
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	<u>538,019</u>	<u>538,019</u>

No adjustment has been made to the calculation of the basic loss per share amounts presented for the years ended 31 December 2023 and 2022 as there was no dilutive event during the years ended 31 December 2023 and 2022.

9. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2023 (2022: Nil).

10. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
Trade receivables	(i)	21,629	31,719
Bills receivables	(i)	4,460	4,874
Prepayments, deposits and other receivables	(ii)	784	825
		<u>26,873</u>	<u>37,418</u>

Notes:

- (i) The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, where the terms are extended to 150 days. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. The carrying amounts of trade and bills receivables approximate their fair values.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2023 HK\$'000	2022 HK\$'000
Within 3 months	20,777	17,217
3 to 6 months	374	7,687
6 to 12 months	5,000	8,245
1 to 2 years	4,225	4,554
	<u>30,376</u>	<u>37,703</u>
Impairment	(4,287)	(1,110)
	<u>26,089</u>	<u>36,593</u>

- (ii) As at 31 December 2023, a provision of approximately HK\$625,000 (2022: HK\$714,000) was made for other receivables.

The carrying amounts of other receivables approximate their fair values.

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the date of receipt of goods, is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 3 months	6,745	5,967
3 to 6 months	9,052	6,126
Over 6 months	18,316	11,961
	34,113	24,054

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 90 days. The carrying amounts of trade payables approximate their fair values.

12. OTHER PAYABLES, ACCRUALS AND PROVISION

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current		
Other payables	4,367	3,892
Accruals	10,126	6,906
Deposits received	1,431	1,212
Other tax payables	681	1,568
Provision (Note)	9,642	9,782
Contract liabilities	1,572	820
Lease liabilities	77	81
	27,896	24,261
Non-Current		
Lease liabilities	81	-

Note:

As at 31 December 2023, the balance included (i) a provision in relation to an early termination of a joint venture agreement of approximately HK\$3,310,000 (2022: HK\$3,359,000) and (ii) a provision for penalty of approximately HK\$6,332,000 (2022: HK\$6,423,000).

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

Opinion

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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with HKFRSs issued by HKICPA and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Material Uncertainty Related to the Going Concern

We draw attention to note 1 to this results announcement which states that the Group incurred a loss of approximately HK\$66,449,000 and operating cash outflow of approximately HK\$15,686,000 for the year ended 31 December 2023. These conditions indicate a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

CHAIRMAN'S STATEMENT

RESULTS

I would like to present to the shareholders that the consolidated loss attributable to shareholders of the Group for year 2023 was HK\$66,449,000 (2022: HK\$43,929,000), representing an increase in loss of 51.3%. Basic loss per share was HK12.35 cents (2022: HK8.16 cents).

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2023 (2022: Nil).

REVIEW

In 2023, the economy experienced a slow recovery following the COVID-19 pandemic. The footwear leather market faced overcapacity, and the development trends of the domestic leather industry were gradually affected by eco-leather and leather substitutes. At the same time, the increasing environmental regulations imposed a heavy burden on the production and operations of leather processing enterprises. Furthermore, consumer market dynamics were shaped by individualistic preferences and a demand for novelty, further leading to a contraction in demand for genuine footwear leather. Faced with the shrinking footwear leather market, the Group adhered to the high-quality development plan set at the beginning of the year and implemented a new development concept, actively tapping into the production potential. With a pragmatic attitude, the Group explored new approaches and flexible business strategies, with a focus on energy conservation and consumption reduction while actively expanding its subcontracting business to make use of the excess production capacity. This ensured a normal operation of production and maintained the stability of the workforce, endeavouring to overcome difficulties and build up strength for development.

Facing the contraction of the footwear leather market, the Group adopted a flexible operational mechanism in response to market changes. During the year, on one hand, the Group strove for more market visits and timely adjusted marketing strategies. The Group implemented a sales approach that combines self-manufacturing and subcontracting, actively expanding the business avenues and effectively reducing management costs. On the other hand, in the fourth quarter of 2023, the Group established a fair competition mechanism through sunshine procurement to enhance procurement efficiency and implemented end-to-end tracking of raw material procurement to ensure the quality of raw materials and reduce procurement costs. At the same time, the Group made adjustments to the management organizational structure and strengthened its production capacity. The Group has implemented strict control measures for product quality, optimized its workforce and focused on building research and development capabilities. Production safety and effective environmental risk prevention and control measures were also prioritized to ensure a safe and stable production environment.

PROSPECTS

Over the past year, the global economy faced challenges such as inflation, trade friction, and geopolitical risks. The COVID-19 pandemic had a negative impact on China's economy and consumer demand, leading to a more conservative consumer sentiment. However, the shifting environment has only strengthened the Group's determination to adapt to and seek for changes. In view of the current challenges and difficulties, the Group will adopt "Building a New Ecosystem" as the guiding principle for its operations in 2024. The Group will explore potential opportunities, challenge traditional business thinking, optimize operational structure, and implement flexible business mechanisms, with a focus on reducing losses as the Group works towards creating a new foundation for sharing and collaboration. The Group will intensify its efforts in innovation and research and development to enhance its technological capabilities. The Group believes that challenges can be overcome through management innovation and product innovation. Furthermore, the Group will actively explore various innovative mechanisms such as cooperative production to expand its business opportunities in both upstream and downstream markets.

In addition to consolidating and expanding the leather business, the Group is open to various opportunities that are beneficial to its diversified development. The Group is actively exploring and evaluating business opportunities to introduce profitable ventures that enhance its profitability, increase shareholder returns, and optimize asset allocation, with a view to injecting new momentum into the Group and bringing long-term benefits to its shareholders.

APPRECIATIONS

On behalf of the Board, I would like to take this opportunity to express my gratitude to the shareholders and business partners for their strong support, and to the members of the management team and employees of the Group for their dedication and commitment over the years.

Zhou Hao

Chairman and Managing Director

Hong Kong, 27 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated loss attributable to shareholders for the year ended 31 December 2023 was HK\$66,449,000, representing an increase in loss of HK\$22,520,000 or 51.3% from HK\$43,929,000 for the corresponding period last year, which was mainly attributable to the significant increase in provision for inventories.

The net asset value of the Group as at 31 December 2023 was HK\$52,911,000, representing a decrease of HK\$67,102,000 and HK\$42,202,000 as compared to the net asset value as at 31 December 2022 and 30 June 2023, respectively.

The Board does not recommend the payment of any dividend for the year ended 31 December 2023 (2022: Nil).

Business Review

The footwear leather market has been facing an oversupply situation, with consumer market conditions remaining sluggish. In the post-pandemic era, there are no signs of market recovery, making market development challenging. The entire industry chain struggled to regain production momentum, while experiencing fewer production orders and decreased sales revenue. Besides, the continuous emergence of leather substitutes further aggravated the market shrinkage for cowhide footwear leather. Throughout the year, the Group has adopted the primary business approach of "ensuring stable operations." On the one hand, the Group delved into market information, product trends, and advanced product research and development to mitigate market risks. On the other hand, the Group implemented strict cost management, proactive workforce optimization and enhancement of comprehensive risk management, as well as strengthened the construction of systems relating to key risks such as environmental protection and security, ensuring safe and stable productions and operations.

In respect of environmental protection, the State has been ramping up its efforts in environmental protection management. To stabilize the production of the tannery industry, it is necessary to upgrade the technology and increase the investment in environmental protection, which increases the operating costs. During the year, the Group adhered to the bottom line of the environmental protection system, operated under the law and met the emission standards for all types of production processes. During the year, the Group made use of the time during the production slack season to repair, replace and renovate the gas collection and treatment emission pipelines, systems and other facilities, effectively improving the operation and maintenance capability and ensuring the safety and stability of the production environment.

During the year, the total production volume of cowhides was 4,613,000 sq.ft., representing a decrease of 567,000 sq.ft. or 10.9% as compared to 5,180,000 sq.ft. last year. The production volume of grey hides was 2,414 tons, representing an increase of 441 tons or 22.4% as compared to 1,973 tons last year. During the year, the total sales volume of cowhides was 6,219,000 sq.ft., representing an increase of 417,000 sq.ft. or 7.2% as compared to 5,802,000 sq.ft. last year. The sales volume of grey hides was 2,414 tons, representing an increase of 441 tons or 22.4% as compared to 1,973 tons last year.

In 2023, the Group's consolidated turnover was HK\$82,060,000, representing a decrease of HK\$3,990,000 or 4.6% from HK\$86,050,000 last year, of which, the sales of cowhides was HK\$69,701,000 (2022: HK\$74,365,000), representing a decrease of 6.3%; grey hides and other products were HK\$12,359,000 (2022: HK\$11,685,000), representing an increase of 5.8%. During the year, the Group focused on driving sales in weaker markets and closely monitoring changes in the domestic market of footwear leather. The Group also leveraged its existing sources of leather to secure orders for its entire product range. In addition, the Group continued to expand its sales channels by capitalizing on its advantages in certain products and explored niche markets, further utilizing the strengths of the Company's platform to shape a unique joint venture system for products.

In terms of procurement, the Group conducted targeted cowhides procurement based on inventory and product structure, taking into account the actual needs of production. At the same time, the Group strove to lower procurement costs by searching for cost-effective and high-quality chemicals. In addition, the quality control department was established in the fourth quarter of 2023 to supervise and regulate the procurement, production and sales departments, with the aim to strengthen quality control, ensure that raw material quality is monitored from the source, and improve product quality and volume. During the year, the total procurement amounted to HK\$77,128,000, representing an increase of 14.4% as compared to the same period last year.

As at 31 December 2023, the Group's consolidated inventory amounted to HK\$50,457,000 (31 December 2022: HK\$73,028,000), representing a decrease of HK\$22,571,000 or 30.9% as compared to that as at 31 December 2022. In 2023, the Group analyzed different sources of leather to produce, categorize, rectify and promote them according to market demand, while broadening its sales channels to look for customers in line with the current product sales structure and to match its inventory with sales. In addition, the Group strengthened the research on the sources of leather inventory with the aim of maximizing the value of its products, optimizing the utilization of funds as well as inventory reduction. Notwithstanding the recent decline in the market price of cowhides, the higher inventory costs of the cowhides procured by the Group in the first half of 2023 and the lower grade of certain products, coupled with the high unit cost of production due to insufficient production capacity led to a lack of competitive advantage in terms of cost compared to similar products in the market and instances of declining selling prices for certain products in stock. The Group reassessed the value of inventory based on its aging and net realizable value and made a net provision for inventory of HK\$21,514,000 for 2023 (2022: HK\$1,131,000).

As at 31 December 2023, the Group's property, plant and equipment amounted to HK\$40,248,000 (31 December 2022: HK\$42,846,000), representing a decrease of HK\$2,598,000 or 6.1% as compared to that as at 31 December 2022. In view of the loss of the Group's operating results during the year, the recoverable amount of the plant and equipment was calculated by using value in use based on the discounted cash flow method and an impairment loss on plant and equipment of HK\$746,000 was made for 2023 (2022: HK\$1,908,000).

Financial Review

Liquidity and Financial Resources

As at 31 December 2023, the Group's cash and cash equivalents amounted to HK\$7,139,000 (31 December 2022: HK\$9,463,000), representing a drop of HK\$2,324,000 or 24.6% as compared to 31 December 2022, of which 5.8% were in Hong Kong dollars, 93.8% in Renminbi and 0.4% in United States dollars. Net cash outflow from operating activities for the year was HK\$15,686,000, which was mainly attributable to the decrease in cash inflow from trade receivables. Net cash outflow from investing activities was HK\$891,000, which was mainly attributable to the payment for renovations and purchase of machinery and equipment. Net cash inflow from financing activities was HK\$14,362,000, which was mainly attributable to the increase in interest-bearing bank borrowings.

As at 31 December 2023, the Group had interest-bearing bank borrowings of HK\$14,811,000 (31 December 2022: Nil), of which interest-bearing bank borrowings in Renminbi amounted to HK\$14,346,000 and interest-bearing bank borrowings in US dollars amounted to HK\$465,000, charged at fixed rate. The Group's interest-bearing bank borrowings arose from short-term loans provided by a bank, secured by pledged bank balances, buildings and right-of-use assets of HK\$46,342,000 in total.

As at 31 December 2023, the Group's gearing ratio of interest-bearing bank borrowings to shareholders' equity plus interest-bearing bank borrowings was 21.9% (31 December 2022: Nil). The annual interest rate of the interest-bearing bank borrowings during the year was approximately 5.5% to 6.0%. During the year, the Group's interest expenses amounted to HK\$879,000, representing an increase of 721.5% as compared to the corresponding period of last year, which was mainly attributable to the increase in both the loan amounts and in loan interest rates.

As at 31 December 2023, the Group had banking facilities of HK\$44,140,000 in total (31 December 2022: HK\$44,780,000), of which interest-bearing bank borrowings of HK\$14,811,000 (31 December 2022: Nil) was under such facilities. Taking into account the existing cash resources and available credit facilities, the Group has adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2023, the net amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK\$51,043,000, representing a decrease of HK\$3,055,000 over the net value of HK\$54,098,000 as at 31 December 2022. The capital expenditure for the year amounted to HK\$866,000 (2022: HK\$2,058,000) in total, which was mainly attributable to the payment of renovation of machinery and equipment to meet the production needs of the Group.

Pledge of Assets

As at 31 December 2023, the Group's bank deposits of HK\$25,000 (31 December 2022: Nil), buildings of HK\$35,522,000 (31 December 2022: HK\$37,859,000) and right-of-use assets of HK\$10,795,000 (31 December 2022: HK\$11,252,000) were pledged to a bank to secure general banking facilities.

Foreign Exchange Exposure

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, United States dollars or Renminbi. The Group is exposed to foreign currency risk primarily from purchases from overseas suppliers that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States dollars against Renminbi. The Group did not hedge its exposure to risks arising from fluctuations in exchange rates during the year. Should the Group consider that its exposure to foreign currency risk justifies hedging, it may use forward or hedging contracts to reduce the risks.

Remuneration Policy for Employees

As at 31 December 2023, the Group had 288 staff (31 December 2022: 327). The Group's remuneration policy is based on its operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees and established an operation assessment mechanism focusing on "accountability and performance". Based on the Group's operating efficiency, the incentive scheme provides bonuses to the management, key officers and outstanding employees according to different ranking and individual performance, which effectively motivates employees to make contributions. In addition, the Group offered social and medical insurance coverage and pension schemes to all employees in different areas.

CORPORATE GOVERNANCE CODE

The Group recognizes the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its business and the best interest of all of its stakeholders and is fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of good corporate governance of the Corporate Governance Code (the “CG Code”) contained in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the opinion of the directors of the Company, the Company had complied with the code provisions and, where appropriate, the applicable recommended best practices in the CG Code throughout the year ended 31 December 2023, save for the deviations explained below:

Code Provision C.2.1

Under the Code Provision C.2.1, there should be a clear division of responsibilities for the roles of chairman and chief executive officer and these two roles should be performed by two persons (the Company regards that the term “chief executive officer” has the same meaning as the Managing Director of the Company). On 20 October 2023, Mr. Sun Jun resigned as an Executive Director and the Managing Director of the Company. Since then, Mr. Zhou Hao, the Chairman of the Company, has taken up the duties of the Managing Director temporarily while the Company is in the process of identifying the new Managing Director.

Note to Code Provision C.6.2

The approval of the appointment of Ms. Cheung Hoi Yin (“Ms. Cheung”) as the company secretary of the Company with effect from 18 January 2023 was dealt with by a written resolution passed by the Board rather than by holding a physical board meeting as required by a note to Code Provision C.6.2 due to the difficulties in scheduling arrangement during the time of COVID-19 pandemic. Although a physical board meeting was not held to discuss the appointment, the directors of the Company were well informed of the educational background and working experiences of Ms. Cheung and were satisfied that Ms. Cheung possesses the required qualifications and expertise of the position.

CHANGE OF DIRECTORS

The following changes were made to the composition of the Board during the year and up to the date of this announcement:

1. Mr. Sun Jun resigned as Executive Director and Managing Director on 20 October 2023;
2. Mr. Zhou Hao, Executive Director and Chairman, was appointed Managing Director on 20 October 2023; and
3. Mr. Liao Siyang, Deputy General Manager, was appointed as Executive Director on 31 January 2024.

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2023 have been reviewed by the Audit Committee of the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on The Stock Exchange of Hong Kong Limited during the year.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The 2024 annual general meeting of the Company (“2024 AGM”) will be held on Friday, 14 June 2024. A circular containing, among other matters, further information relating to the 2024 AGM will be despatched to the shareholders of the Company as soon as practicable.

For the purpose of determining the eligibility of shareholders to attend and vote at the 2024 AGM, the register of members of the Company will be closed from Tuesday, 11 June 2024 to Friday, 14 June 2024 (both days inclusive), during such period no transfer of shares of the Company will be registered.

In order to qualify for attending and voting at the 2024 AGM, unregistered holders of shares of the Company should ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Tengis Limited at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 7 June 2024.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2023 have been audited by ZHONGHUI ANDA CPA Limited (“ZH”) who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company for the re-appointment of ZH as the auditor of the Company.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.namyueholdings.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2023 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and, together with the environmental, social and governance report, will be made available on the abovementioned websites around end of April 2024.

By Order of the Board
Zhou Hao
Chairman and Managing Director

Hong Kong, 27 March 2024

As at the date of this announcement, the Board comprises two Executive Directors, namely, Mr. Zhou Hao and Mr. Liao Siyang; two Non-Executive Directors, namely, Mr. Huang Junfeng and Mr. Kuang Hu; and three Independent Non-Executive Directors, namely, Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge.