南粵控股
NAMYUE HOLDINGS

NAMYUE HOLDINGS LIMITED
南粵控股有限公司

(Formerly known as Guangdong Tannery Limited)
(前稱粵海制革有限公司)
(Incorporated in Hong Kong with limited liability)
(於香港註冊成立之有限公司)
Stock Code 股份代號：01058

Annual Report
2022 年報

Contents

Corporate Information

As at 29 March 2023

BOARD OF DIRECTORS

Executive Directors
Zhou Hao *(Chairman)*
Sun Jun *(Managing Director)*

Non-Executive Directors
Huang Junfeng
Kuang Hu

Independent Non-Executive Directors
Yeung Man Lee *BBS, JP*
Leung Luen Cheong
Yang Ge

AUDIT COMMITTEE

Yang Ge *(Chairman)*
Yeung Man Lee
Leung Luen Cheong

REMUNERATION COMMITTEE

Leung Luen Cheong *(Chairman)*
Yeung Man Lee
Yang Ge

NOMINATION COMMITTEE

Zhou Hao *(Chairman)*
Yeung Man Lee
Leung Luen Cheong
Yang Ge

COMPANY SECRETARY

Cheung Hoi Yin

AUDITOR

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

REGISTERED OFFICE

29th Floor, Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

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Facsimile	: (852) 2789 0451
Website	: www.namyueholdings.com

SHARE REGISTRAR

Tricor Tengis Limited
17th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong
Customer Service Hotline: (852) 2980 1333

SHARE INFORMATION

Place of Listing	: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	: 01058
Board Lot	: 2,000 shares
Financial Year End	: 31 December

Highlights

	For the year ended 31 December		
	2022	2021	Change
Sales volume of cowhides (in thousand square feet)	**5,802**	12,262	-52.7%
Revenue (in thousand HK$)	**86,050**	196,231	-56.1%
Loss for the year (in thousand HK$)	**(43,929)**	(19,943)	-120.3%
Basic loss per share (in HK cents)	**(8.16)**	(3.71)	-119.9%

Key Indicators (As at 31 December)	**2022**	2021	Change
Current ratio[1]	**2.42 times**	3.40 times	-28.8%
Quick ratio[2]	**0.95 times**	1.57 times	-39.5%
Debt to asset ratio[3]	**31.0%**	23.5%	+31.9%
Total assets (in thousand HK$)	**174,007**	228,284	-23.8%
Net asset value per share (HK$)	**0.22**	0.32	-31.3%

Notes:

1. $\frac{\text{Current assets}}{\text{Current liabilities}}$

2. $\frac{\text{Current assets - inventories}}{\text{Current liabilities}}$

3. $\frac{\text{Total liabilities}}{\text{Total assets}}$

Chairman's Statement

RESULTS

I would like to present to the shareholders (the "Shareholders") that the consolidated loss attributable to shareholders of Namyue Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for year 2022 was HK$43,929,000 (2021: HK$19,943,000), representing an increase in loss of 120.3%. Basic loss per share was HK8.16 cents (2021: HK3.71 cents).

DIVIDEND

The board (the "Board") of directors (the "Director(s)") of the Company does not recommend the payment of any dividend for the year ended 31 December 2022 (2021: Nil).

REVIEW

The leather production and consumption industry experienced the most difficult year in history in 2022 due to the frequent outbreaks of the COVID-19 pandemic. In the first half of the year, many regions across China were locked down to implement pandemic control and prevention measures, quality orders were unavoidably lost, and product seasonal adjustments were slow. With sporadic cases occurring in the second half of the year, production chains of downstream enterprises were severely impacted, while market demand shrank sharply. Focusing on the State's requirements of "two stabilities, one excellence, three innovations"(兩穩一優三新), the Group adhered to the work deployment strategies which were formulated at the beginning of the year and upheld the idea of maintaining a stable operation and development. In addition, the Group abided by the main development line of ensuring production, stability and cash flow in operation by ways of adjusting production layout, optimizing its management and organization structures to promote highest development growth, aiming to meet the State's requirements of "preventing the pandemic, stabilizing the economy and securing the development" and overcome the adverse impact of the pandemic. Although the overall operating environment remained sluggish, and the scale of operations also contracted substantially as compared to last year, the business operations and the work team of the Group remained stable.

During the year, due to the impact of the pandemic, closed production management was implemented, procurement and production were unavoidably got out of touch with the market and affected subsequent production arrangements significantly. In response to the above difficulties, the Group strived to maintain its competitive edges on footwear leather through the utilization of its existing inventory to match perfectly with customer orders and the implementation of precise production schedule based on orders received. In addition, the Group has also strengthened its quality control during the whole production procedures and provided employees with more trainings on product quality and professional skills to fully leverage on its technology advantages, with an aim to establish its position as "keeping abreast of market developments and maintaining stable product quality". Meanwhile, the Group was also able to lower production and management costs by continuously expanding into external processing business using excess production capability, thereby effectively supporting all production units and securing a stable labour force. Moreover, the Group also strived to do its best on environmental protection, and tackled aging equipment issues, achieved better coordination of sludge disposal business, and enhanced its risk control measures on environmental protection to ensure a safe and stable production environment.

PROSPECTS

Looking ahead, the business environment is expected to remain challenging in 2023. With the lifting of the lockdown restrictions, people mobility and economic activities will gradually resume. Nevertheless, the footwear leather market is still facing many difficulties including overcapacity, emerging of new replacements, shrinkage in demand and narrowing of profit margin. Coupled with increasing policy requirements on environmental protection, the overall situation remains challenging and the pressure on production operations caused a severe drag to leather processing companies. Adhering to the operational strategy of "ensuring stable operations" for the future, the Group will actively explore more in-depth market and industry information, product development trends, and conduct product research and analysis to reduce market risks. On the other hand, the Group will strictly control and manage costs and expenses, enhance product quality, optimize labour force to promote efficiency and effectiveness. At the same time, the Group will also establish various mechanisms to stimulate internal growth and development, optimize overall risk management, and strengthen the establishment of mechanisms over key risks, including environmental protection, safety and funding to ensure a safe, stable and smooth operation of production operations so as to achieve its goal of minimizing loss.

In addition to focusing on the existing business, the Group also takes an open approach and actively explores any potential opportunities beneficial to the Group's development, in hopes of bringing new energy to the Group and benefits to the Shareholders in the long term. During the year, following the approval of the change of company name by the Shareholders by way of special resolution at the extraordinary general meeting of the Company on 17 June 2022, the Chinese name of the Company has been changed from "粵海制革有限公司" to "南粵控股有限公司" and the English name of the Company has been changed from "GUANGDONG TANNERY LIMITED" to "NAMYUE HOLDINGS LIMITED", with effect from 25 July 2022. The Directors believe the change of the company name will better reflect the current corporate culture of the Group, our strategic business planning and the direction of our future development, thus bringing a clearer brand image and identity for the Group to grasp potential business opportunities, and is beneficial to the business diversification of the Group in the future.

Last but not least, on behalf of the Board, I would like to take this opportunity to express my gratitude to our Shareholders and business partners for their strong support, and to the senior management and employees of the Group for their continuous patronage and dedication to strive for better performance over the last year.

Zhou Hao
Chairman

Hong Kong, 29 March 2023

Management Discussion and Analysis

RESULTS

The Group's consolidated loss attributable to Shareholders for the year ended 31 December 2022 was HK$43,929,000, representing an increase in loss of HK$23,986,000 or 120.3% from HK$19,943,000 for the corresponding period last year.

The net asset value of the Group as at 31 December 2022 was HK$120,013,000, representing a decrease of HK$54,523,000 and HK$29,694,000 as compared to the net asset value as at 31 December 2021 and 30 June 2022, respectively.

The Board does not recommend the payment of any dividend for the year ended 31 December 2022 (2021: Nil).

BUSINESS REVIEW

With the adverse impacts of the COVID-19 pandemic lingering in 2022, the cowhide footwear leather market was severely disrupted that year, resulting in loss of orders and a sharp decline in sales revenue. Affected by the Russo-Ukrainian war and global economic volatility, downstream footwear companies focusing on central and eastern Europe were operated under capacity due to sluggish market demand and declining orders. Coupled with constant emergence of leather substitutes, genuine leather is continuously being replaced, which caused cowhide footwear leather market to shrink continuously and fierce peer competition in the industry. During the year, the Group abided by its core objectives of maintaining stable operations and overcoming the negative impacts brought by the COVID-19 pandemic. On one hand, the Group promoted the establishment of a decision-making mechanism that is market-based, in order to shorten research and development, promotion and mass production cycle of new products. On the other hand, the Group made continuous efforts on reduction of raw material procurement, optimization of materials and labour cost, while ensuring production requirements are met. The Group optimized the layout of the production management to enhance efficiency in order to reduce costs, and implement strict control on waste. Meanwhile, the Group strengthened the establishment of its technology team, so as to ensure stable operation of the Group in a complex economic environment.

In terms of environmental protection, in recent years, China has stepped up its efforts to strengthen environmental protection management in the industry, and as a result, the environmental protection requirements and enforcement have become higher and stricter. With the continuous rise of wastewater discharge standards, more stringent air emission standards, increasingly difficult industrial waste treatment, and the demand for improvement of a series of environmental protection requirements, the Group increased its investment continuously in business operations, resulting in high operating costs. In response to the requirements on environmental protection management, the Group deployed its capital investment on environmental protection related equipment, enhanced the wastewater treatment techniques as well as clean production technology, and also developed chrome-free tanning technology to ensure a safe and stable production environment.

During the year, the total production volume of cowhides was 5,180,000 sq.ft., representing a decrease of 6,526,000 sq.ft. or 55.7% as compared to 11,706,000 sq.ft. last year. The production volume of grey hides was 1,973 tons, representing a decrease of 3,733 tons or 65.4% as compared to 5,706 tons last year. During the year, the total sales volume of cowhides was 5,802,000 sq.ft., representing a decrease of 6,460,000 sq.ft. or 52.7% as compared to 12,262,000 sq.ft. last year. The sales volume of grey hides was 1,973 tons, representing a decrease of 3,733 tons or 65.4% as compared to 5,706 tons last year.

BUSINESS REVIEW (CONTINUED)

In 2022, the Group's consolidated turnover was HK$86,050,000, representing a decrease of HK$110,181,000 or 56.1% from HK$196,231,000 last year, of which, the sales of cowhides was HK$74,365,000 (2021: HK$171,485,000), representing a decrease of 56.6%; grey hides and other products were HK$11,685,000 (2021: HK$24,746,000), representing a decrease of 52.8%. Against the backdrop of strict prevention and control measures under the pandemic, the Group faced with increasing challenges on sales and marketing efforts. During the year, the Group took the initiatives to call on its customers, analyzed market trends in response to the market demand in order to regain the orders that were lost previously. In addition, the Group conducted in-depth market research and analyzed its positions on market, proactively adjusted its sales and marketing strategies to promote production through increasing sales.

In terms of procurement, the Group purchased raw materials according to the strategy of "procurement based on sales" with reference to sales order, inventory and product structure, as well as the actual production conditions to meet production requirements, thereby reducing its commodities procurement and capital deployment. In addition, the Group strived to reduce the procurement cost by means of exploring reasonably priced high quality chemical materials. During the year, the total procurement amounted to HK$67,406,000, representing a decrease of 61.1% as compared to the same period last year.

As at 31 December 2022, the Group's consolidated inventory amounted to HK$73,028,000 (31 December 2021: HK$91,534,000), representing a decrease of HK$18,506,000 or 20.2% as compared to that as at 31 December 2021. In 2022, the Group continued to take inventory reduction as a priority. Against the backdrop of shrinking market demand, the Group made a strict control on raw leather procurement, actively looked for potential customers in the downstream, analyzed customers' needs to carry out product ratification and integration. In addition, the Group also conducted in-depth market research, maintained communications with customers and matched its inventory with sales. The Group had reassessed the value of inventory based on its aging and net realizable value and made a net provision for inventory of HK$1,131,000 for 2022 (2021: reversal of net provision for inventory of HK$2,106,000).

As at 31 December 2022, the Group's property, plant and equipment amounted to HK$42,846,000 (31 December 2021: HK$45,434,000), representing a decrease of HK$2,588,000 or 5.7% as compared to that as at 31 December 2021. 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$1,908,000 was made for 2022 (2021: HK$4,499,000).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2022, the Group's cash and cash equivalents amounted to HK$9,463,000 (31 December 2021: HK$18,942,000), representing a decrease of HK$9,479,000 or 50.0% as compared to 31 December 2021, of which 11.1% were in Hong Kong dollars, 87.2% in Renminbi and 1.7% in United States dollars. Net cash outflow from operating activities for the year was HK$6,364,000, which was mainly attributable to the decrease in bills receivable. Net cash outflow from investing activities was HK$1,941,000, which was mainly attributable to the payment for purchase of machinery and equipment. Net cash outflow from financing activities was HK$106,000, which was mainly attributable to the payment of rental expenses.

As at 31 December 2022 and 31 December 2021, the Group did not have any interest-bearing borrowings. On 28 September 2021, the then immediate holding company entered into a deed of waiver to waive the rights and entitlements of the Group to the repayment of the outstanding principal and interest accrued under its long-term unsecured loans.

As at 31 December 2022 and 31 December 2021, the Group's gearing ratio of interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was nil. The annual interest rate of the borrowings during the year was 2.0% to 4.3%. During the year, the Group's interest expenses amounted to HK$107,000, representing a decrease of 94.6% as compared with the same period of last year, which was mainly due to the interests on its long-term unsecured loans recorded from the first quarter to the third quarter in 2021 and the decrease in bank borrowings during 2022, attributable to decrease in interest expenses on loans accordingly.

As at 31 December 2022, the Group had banking facilities of HK$44,780,000 in total (31 December 2021: HK$48,924,000) which are all unutilized. 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 2022, the net amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK$54,098,000, representing a decrease of HK$3,958,000 over the net value of HK$58,056,000 as at 31 December 2021. The capital expenditure for the year amounted to HK$2,058,000 (2021: HK$5,755,000) in total, which was mainly attributable to the payment of acquisition of machinery and equipment to meet the production needs of the Group.

Pledge of Assets

As at 31 December 2022, the Group's bank deposits of nil (31 December 2021: HK$123,000), buildings of HK$37,859,000 (31 December 2021: HK$39,482,000) and leasehold land of HK$11,252,000 (31 December 2021: HK$12,622,000) were pledged to a bank to secure general banking facilities.

FINANCIAL REVIEW (CONTINUED)

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 2022, the Group had 327 staff (31 December 2021: 364). 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.

Biographical Details of Directors and Senior Management

(A) EXECUTIVE DIRECTORS

Mr. Zhou Hao, aged 42, was appointed an Executive Director, the Chairman of the Board and the chairman and a member of the nomination committee of the Company with effect from 16 December 2021. Mr. Zhou graduated from Lingnan College, Sun Yat-sen University, the People's Republic of China (the "PRC") and held a Bachelor degree in Economics (International Economic and Trading Discipline) and a Master's degree in Economics (Financial Discipline) conferred by Sun Yat-Sen University. He worked for the Guangzhou Branch of Shanghai Pudong Development Bank from 2003 to 2005, and served in various positions in 廣東省人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Guangdong Provincial People's Government*) from 2005 to 2018. He joined 廣東南粵集團有限公司 (Guangdong Nam Yue Group Corporation Limited*) ("Nam Yue Group"), the ultimate controlling shareholder of the Company, in 2018 and served as deputy head and head of the investment and development department as well as the capital operation department. In addition, Mr. Zhou acted as an executive director and general manager of 廣東南粵資本投資有限公司 (Guangdong Nam Yue Capital Investment Limited*) and chairman of 廣東南粵健康科技有限公司 (Guangdong Nam Yue Health Technology Limited*), both companies are subsidiaries of Nam Yue Group.

From April 2019 to February 2023, Mr. Zhou was the chairman of the supervisory board of Macau Chinese Bank. Mr. Zhou also acts as a director of certain wholly-owned subsidiaries of the Company, including Team Up Profits Limited, Namyue (Hong Kong) Limited (formerly known as Gold Star Assets Limited), 徐州南海皮廠有限公司 Xuzhou Nanhai Leather Factory Co., Ltd., 廣州南粵生物醫藥科技有限公司 Guangzhou Namyue Biomedical Technology Co., Ltd.* (formerly known as 粵海制革(徐州)有限公司 Guangdong Tannery (Xuzhou) Limited), 徐州港威皮革有限公司 Xuzhou Gangwei Leather Co., Ltd. and 南粵控股澳門有限公司 Nam Yue Holding Macau Limited.

Mr. Sun Jun, aged 49, was appointed an Executive Director and the Managing Director of the Company on 5 February 2010. He is an economist in the PRC. He graduated from 西安公路學院 (Xian Highway College*) (now known as 長安大學 (Chang'an University*)) and obtained a bachelor's degree in 工程機械與起重運輸 (Mechanical Engineering and Lifting Transportation Program*). Mr. Sun worked with certain companies of GDH Limited ("GDH") from November 2002 to August 2003. He then worked with the Company and its subsidiaries in September 2003 and was appointed to certain posts, including, inter alia, acting as assistant general manager, deputy general manager and Chairman of the Company from March 2004 to December 2005, from July 2007 to February 2010 and from February 2016 to September 2019, respectively. Mr. Sun also holds positions of certain wholly-owned subsidiaries of the Company, including acting as director of Team Up Profits Limited, Namyue (Hong Kong) Limited (formerly known as Gold Star Assets Limited) and 南粵控股澳門有限公司 Nam Yue Holding Macau Limited, acting as legal representative and general manager of 徐州南海皮廠有限公司 Xuzhou Nanhai Leather Factory Co., Ltd., and acting as general manager of 徐州港威皮革有限公司 Xuzhou Gangwei Leather Co., Ltd..

(B) NON-EXECUTIVE DIRECTORS

Mr. Huang Junfeng, aged 42, was appointed a Non-Executive Director of the Company with effect from 23 December 2021. Mr. Huang graduated from the Naval University of Engineering of the PRC with a bachelor's degree in computer science and technology, and holds a master's degree in public administration from the Renmin University of China. From July 2001 to November 2020, he worked at the Immigration Inspection Station in Zhuhai, the PRC, and served as deputy director of the technical department of the station. He also served as deputy director of the Qingmao Immigration Inspection Station. Mr. Huang is currently the head of the operation and management department (legal affairs department) of 南粵(集團)有限公司 (Nam Yue (Group) Company Limited*), the immediate controlling shareholder of the Company.

Mr. Kuang Hu, aged 45, was appointed a Non-Executive Director of the Company on 26 February 2016. He was appointed as Chairman, an Executive Director and the chairman of the Nomination Committee of the Company for the period from September 2019 to December 2021. Mr. Kuang graduated from the Department of International Economics and Trading of Beijing Normal University, the PRC. He obtained a Master's degree in World Economics and a Doctoral degree in Finance from Sun Yat-sen University, the PRC. In July 2003, Mr. Kuang joined 廣東粵海控股集團有限公司 (Guangdong Holdings Limited*) ("Guangdong Holdings") and worked in the strategic development department. From November 2012 to June 2015, he was appointed deputy general manager of the strategic development department of both Guangdong Holdings and GDH. He was appointed general manager of the operation department of Guangdong Holdings and GDH for the period from July 2015 to August 2019; and acted as deputy chief financial officer during the period from September 2019 to December 2021. He has been the executive director and vice chairman of the board of Guangdong Land Holdings Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), since 28 February 2022.

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Man Lee *BBS, JP*, aged 63, was appointed an Independent Non-Executive Director of the Company on 14 August 2020. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Yeung has extensive experience in the building materials industry. He is one of the drafters and a member of the editorial board of the industry standard of "Epoxy Resin-coated Steel Bars" industry standard (JG3042-1997). This type of steel bar is widely used in construction industry and infrastructure such as bridge sand railroads. Mr. Yeung is actively involved in community services in both China and Hong Kong. He is currently serving as a director of the China Overseas Friendship Association, a member of Friends of Hong Kong Association, the executive vice president of The Confucius Academy, Hong Kong, and vice chairperson of Elderly Volunteers Coordination Committee of the Hong Kong Red Cross.

Mr. Leung Luen Cheong, aged 55, was appointed an Independent Non-Executive Director of the Company on 14 August 2020. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Leung graduated from the University of Leicester with first class-honours and holds a Master's degree in Economics from the University of Oxford. He is a Chartered Financial Analyst, a member of The Hong Kong Society of Financial Analysts and also holds the Diploma in Investment Analysis and Portfolio Management. Mr. Leung is the founder of autoPI. He worked for various international financial institutions and has over 30 years working experience in fund performance, investment risk, global investment performance standards and client reporting. Since 1 January 2023, he has been appointed an independent non-executive director of Guangdong Land Holdings Limited, the shares of which are listed on the Stock Exchange.

Mr. Yang Ge, aged 39, was appointed an Independent Non-Executive Director of the Company on 14 August 2020. He is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Yang obtained the Bachelor's degree in Management from Lanzhou Jiaotong University. He is a Certified Public Accountant in the PRC and has over 15 years working experience in accounting firms. He is the executive director and chief accountant of the Guangdong branch of Zhonghua Certified Public Accountants LLP. Mr. Yang is currently the independent director of Grandblue Environment Co., Ltd. (stock code: 600323.SH), Guangdong Yizumi Precision Machinery Co., Ltd. (stock code: 300415.SZ) and PowerTECH Co., Ltd.

(D) SENIOR MANAGEMENT

The senior management of the Group comprises the Executive Directors above, namely Mr. Zhou Hao and Mr. Sun Jun.

* *The English translation of the Chinese name of the company/college/program is for reference only, and such translation may not be accurate and such company/college/program may not have an official English translation/version of these Chinese name.*

Directors' Report

The directors (the "Directors") of Namyue Holdings Limited, formerly known as Guangdong Tannery Limited, (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in the processing and sale of semi-finished and finished leather. The activities of the principal subsidiaries of the Company are set out in note 31 to the financial statements on page 96 of this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2022 and the financial position of the Group at that date are set out in the financial statements on pages 39 to 98 of this Annual Report.

No interim dividend was paid during the year and the board of Directors (the "Board") do not recommend the payment of a final dividend in respect of the year ended 31 December 2022.

DIVIDEND POLICY

The Board adopted a dividend policy on 26 October 2018 with the aims of generating stable and sustainable returns for the Shareholders. In deciding whether to recommend the payment of a dividend and in determining the amount of dividend, the Board will take into account the Group's earnings performance, financial position, investment requirements and future prospects. There can be no assurance that a dividend will be proposed or declared in any given year.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement on pages 4 and 5 and in the Management Discussion and Analysis on pages 6 to 9 of this Annual Report.

The financial risk management objective and policies of the Group are shown in note 5 to the financial statements on pages 58 to 68 of this Annual Report.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Highlights on page 3 of this Annual Report.

Discussion on the Group's environmental issues and compliance with the relevant laws and regulations that have a significant impact on the Company are contained in the Management Discussion and Analysis on pages 6 to 9 of this Annual Report and in the 2022 Environmental, Social and Governance ("ESG") Report (the "2022 ESG Report") published at the same time as this Annual Report.

The Company's key relationships with its employees, customers and suppliers and business associates that have a significant impact on the Company and on which the Company's success depends are shown in the Management Discussion and Analysis under "REMUNERATION POLICY FOR EMPLOYEES" section on page 9 and in the Corporate Governance Report on page 22 to 35 of this Annual Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The following section lists the key risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties apart from the key areas outlined below. In addition, this Annual Report is not intended to provide any advice or opinion to any person on making investments in the securities of the Company. Investors should exercise their own judgment or consult their investment advisors before investing in the securities of the Company.

Market risk

Market risk mainly arose from changes in internal and external conditions, such as the effect of the COVID-19 pandemic, changes in macroeconomics, geopolitics, market supply and demand, competition and relationships with business partners. The COVID-19 outbreak across the PRC and the impact of the Russia-Ukraine war have significantly increased the downward pressure on the industry. In addition, as the tannery industry witnessed a de-capacity trend, coupled with further stringent environmental protection requirements and the changes in consumers' spending behaviour, the market demand for footwear leather has been trimming down continuously, and in turn brought additional risks and uncertainties to the Group's production, operations and profitability. Accordingly, in response to the continuously shrinking market demand for shoe leather, the Group adhered to a market-oriented principle and conducted in-depth market research and communication with customers to understand the changing market dynamics and product trends. Product research and development have been actively carried out to adjust our product structure in conjunction with the market while taking into account the analysis of both the market and our own situation. Together with product renovation, our brand value and industry competitiveness have been enhanced.

Environmental compliance risk

Environmental compliance risk mainly arose from the prescriptive requirements under the environmental policies, laws and regulations of the PRC. In recent years, the central and local governments constantly stepped-up law enforcement in environmental protection, which in turn increased the operating costs and legal risks of the Group. In this regard, the Group took active steps in promoting the application of clean production technology and ramping up the standard of its waste processing technology in conjunction with enhancing communication with local government departments to establish long-term, effective and good communication channels in a bid to ensure compliance of laws and regulations.

Cost fluctuation risk

The cost elements of the Group mainly include the cost of cowhides, chemicals and labour and the expenses relating to production. Price fluctuation of cowhides, under-development of products and inconsistent quality could possibly increase the likelihood of inventory impairment risk for the Group. In this regard, the Group placed the most stringent control on the procurement size and closely monitored dynamic changes and trends of price and quality in the market of raw materials. By factoring in the current inventory status according to the order level, the procumbent was made in a timely manner. In the meantime, the Group conducted research on the sources of leather inventory and focused on developing product types for destocking, in an effort to mitigate inventory risk and alleviate cash flow pressure.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Liquidity risk

Insufficient fund availability is a significant constraint for enterprises to carry out necessary activities. When any liability falls due, the contract performance risk may be increased. In recent years, demand in the tannery market witnessed a year-on-year slippage. Downstream footwear manufacturers were frequently found encountering difficulties in operations or having shut the operations down, which could possibly result in receivables being unable to be recovered. Instability in the financial market may lead to an increase in both interest rate and exchange rate risks. In this regard, in managing liquidity risk, the Group has set out higher risk consciousness, timely monitor and analyse interest rate and exchange rate movements in the market, create a model to calculate and forecast cash flows, ensure the formation of a cash flow-oriented production, supply and sales model, take active steps in reducing current inventory level and guarantee cash flows for normal business operations so as to mitigate the impact arising from cash flow fluctuations.

Environmental protection and legal compliance

The Group devotes to protecting the environment where it operates. Also, it is committed to ensuring compliance with the environmental standards and the relevant laws and regulations that are applicable to its business operation from time to time. During the year, the Group has obtained the requisite permits and environmental approvals for its business and production facilities and has complied with the relevant laws, rules and regulations. For further information on the work done by the Group with respect to environmental protection and legal compliance, please refer to the Management Discussion and Analysis in this Annual Report and the 2022 ESG Report.

FINANCIAL SUMMARY

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements. The summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2022	2021	2020	2019	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**86,050**	196,231	191,404	178,020	238,317
(Loss)/Profit from operating activities	**(44,053)**	(17,692)	2,020	(33,234)	(75,062)
Finance costs	**(107)**	(1,994)	(4,644)	(5,694)	(5,973)
Loss before tax	**(44,160)**	(19,686)	(2,624)	(38,928)	(81,035)
Income tax credit/(expenses)	**231**	(257)	(127)	(66)	(206)
Loss for the year	**(43,929)**	(19,943)	(2,751)	(38,994)	(81,241)

FINANCIAL SUMMARY (CONTINUED)

Assets and liabilities

	As at 31 December				
	2022	2021	2020	2019	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Non-current assets	**54,098**	58,056	55,452	53,692	58,516
Current assets	**119,909**	170,228	196,076	185,041	226,220
Total assets	**174,007**	228,284	251,528	238,733	284,736
Liabilities					
Current liabilities	**49,467**	50,028	62,569	61,537	79,424
Non-current liabilities	**4,527**	3,720	161,015	161,453	146,219
Total liabilities	**53,994**	53,748	223,584	222,990	225,643
Net Assets	**120,013**	174,536	27,944	15,743	59,093

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARES ISSUED

Details of the Company's shares issued during the year are set out in note 25 to the financial statements.

EQUITY-LINKED AGREEMENTS

During the year, the Company had not entered into any equity-linked agreements.

PURCHASE, SALE OR 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 during the year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2022, no reserves of the Company, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance, is available for cash distribution.

CHARITABLE CONTRIBUTIONS

The Group did not make any charitable contributions during the year (2021: Nil).

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors
Zhou Hao *(Chairman)*
Sun Jun *(Managing Director)*

Non-Executive Directors
Huang Junfeng
Kuang Hu

Independent Non-Executive Directors
Yeung Man Lee
Leung Luen Cheong
Yang Ge

In accordance with articles 82 to 84 of the articles of association of the Company (the "Articles"), Mr. Yeung Man Lee and Mr. Leung Luen Cheong will retire by rotation at the forthcoming annual general meeting of the Company to be held on Friday, 16 June 2023 and, being eligible, have offered themselves for re-election.

DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the board of directors of the subsidiaries of the Company during the year ended 31 December 2022 and up to the date of this report are set out below:

Sun Jun 孫軍
Zhou Hao 周昊*
Kuang Fu 鄺虎#
Lee Wai Mei 李慧薇#
Wang Xia Chen 王夏晨#
Zhou Hao 周浩#

* appointed as a director of certain subsidiaries during the year
\# ceased to be a director of certain subsidiary(ies) during the year

DIRECTORS' SERVICE CONTRACT

No Director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Indemnity provision within the meaning of permitted indemnity provision under the Hong Kong Companies Ordinance for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2022. In addition, the Company has taken out and kept in force appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2022, none of the Directors was interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2022, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Interests and Short Positions in the Company

Interests in ordinary shares

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held *(Note)*
Sun Jun	Personal	40,000	Long position	0.007%

Note: The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, to the knowledge of the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2022, so far as is known to any Director or the chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held *(Note 1)*
廣東南粵集團有限公司 (Guangdong Nam Yue Group Corporation Limited) *(Note 2)*	Interest in controlled corporation	279,769,880	Long position	52%
Guangdong Assets Management (BVI) No. 11 Limited *(Note 3)*	Interest in controlled corporation	279,769,880	Long position	52%
南粵(集團)有限公司 (Nam Yue (Group) Company Limited)	Beneficial owner	279,769,880	Long position	52%
廣東粵海控股集團有限公司 (Guangdong Holdings Limited) *(Note 4)*	Interest in controlled corporation	104,050,120	Long position	19.34%
GDH Limited	Beneficial owner	104,050,120	Long position	19.34%

Notes:

1. The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 31 December 2022.

2. The attributable interest which 廣東南粵集團有限公司 (Guangdong Nam Yue Group Corporation Limited) has in the Company is held through its 100% direct interest in Guangdong Assets Management (BVI) No. 11 Limited.

3. The attributable interest which Guangdong Assets Management (BVI) No. 11 Limited has in the Company is held through its 70% direct interest in 南粵(集團)有限公司 (Nam Yue (Group) Company Limited).

4. The attributable interest which 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.

Save as disclosed above, as at 31 December 2022, so far as is known to any Director or the chief executive of the Company, there were no other persons (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDER

Save as disclosed in note 29 to the financial statements, the Group and the controlling shareholders of the Company had not entered into any other contracts of significance during the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries, its holding companies or its fellow subsidiaries a party to any arrangements to enable the Directors or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business of the Group are provided under note 29 to the financial statements. None of the related party transactions constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022, the amount of purchases attributable to the Group's largest supplier represented approximately 17% of the Group's total purchases; and the aggregate amount of purchases (excluding the purchases of items of a capital nature) attributable to the Group's five largest suppliers represented approximately 52% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented approximately 9% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented approximately 37% of the Group's total turnover. None of the Directors or their associates, or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

CHANGE OF COMPANY NAME

With effect from 25 July 2022, the Company has by way of special resolution changed its name from "GUANGDONG TANNERY LIMITED 粵海制革有限公司" to "NAMYUE HOLDINGS LIMITED 南粵控股有限公司".

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors.

AUDITOR

Following the resignation of Ernst & Young ("EY") as the auditor of the Company on 28 November 2022, ZHONGHUI ANDA CPA Limited ("ZH") was appointed by the Board as the auditor of the Company to fill the casual vacancy arising from the resignation of EY.

The consolidated financial statements of the Group for the year ended 31 December 2022 have been audited by ZH who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting for the re-appointment of ZH as the auditor of the Company.

By Order of the Board
Zhou Hao
Chairman

Hong Kong, 29 March 2023

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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 14 to the Listing Rules.

In the opinion of the Directors, 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 2022, save as disclosed below:

Due to travel restrictions as a result of the COVID-19 pandemic, the chairman of the Board, the chairman of the Nomination Committee and the chairman of the Audit Committee were unable to attend the 2022 annual general meeting of the Company held on 17 June 2022 in person as required by Code Provision F.2.2. Nevertheless, with the consent of other Directors, Mr. Leung Luen Cheong, an Independent Non-Executive Director of the Company and chairman of the Remuneration Committee, chaired the 2022 annual general meeting of the Company.

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 following the resignation of Mr. Chong Yuk Fai as the company secretary of the Company 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 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.

BOARD OF DIRECTORS

The Board, which is accountable to the Shareholders, is responsible for the leadership and control of the Company and it oversees the Group's businesses, strategic decisions and performances. The management is entrusted by the Board with the authority and responsibility for the day-to-day management of the Group and assumes full accountability to the Board for the operation of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for the Board's approval before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements, rules and regulations. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

BOARD OF DIRECTORS (CONTINUED)

The Company has established internal policies (including but not limited to the Articles, and Terms of References of the Audit Committee, Remuneration Committee and Nomination Committee) to ensure that the Board has access to independent views and opinions. These policies cover the Company's procedures and selection criteria for the election and appointment of Directors (including Independent Non-Executive Directors), the mechanism for Directors to abstain from voting on relevant proposals considered by the Board, and the authority of the Board committees to obtain outside legal or other independent professional advice. The Company has reviewed the implementation and effectiveness of the aforesaid mechanisms and believes that the aforesaid mechanisms can ensure the independent views and opinions of the Board.

Board Composition

As at the date of this Annual Report, the Board comprises two Executive Directors, being Mr. Zhou Hao (Chairman) and Mr. Sun Jun (Managing Director); two Non-Executive Directors, being Mr. Huang Junfeng and Mr. Kuang Hu; and three Independent Non-Executive Directors, being Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. At least one of the Independent Non-executive Directors possesses the appropriate professional accounting qualifications and financial management expertise, which complies with the requirements of the Listing Rules. During the year, the number of Independent Non-executive Directors represents not less than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgement.

Chairman and Managing Director

Mr. Zhou Hao has been appointed Chairman of the Company since 16 December 2021. Mr. Sun Jun acts as the Managing Director of the Company. The roles of the Chairman and the Managing Director of the Company are clearly defined and segregated to ensure independence and proper checks and balances.

On top of his executive responsibilities, the Chairman provides leadership to the Board and oversees its functioning to ensure that it acts in the best interests of the Group and that Board meetings are planned and conducted effectively. He is also responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by the Directors and the Company Secretary. With the support of the other Executive Director, the Company Secretary and the management, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and provided with adequate and accurate information in a timely manner. The Chairman promotes a culture of openness and actively encourages Directors to voice their opinion and be fully engaged in the Board's affairs so as to contribute to the Board's effective functioning. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and taken appropriate steps to ensure effective communication with Shareholders and other stakeholders as outlined in the latter part of this report.

Under the guidance and instructions of the Board, the Managing Director, leading the management of the Company, is accountable to the Board for the implementation of the Company's strategies and the day-to-day management of the Group.

BOARD OF DIRECTORS (CONTINUED)

Board Meetings

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Company, and to review and approve the Company's annual, interim and quarterly results. During the year ended 31 December 2022, four Board meetings were held and attendance of each Director at the Board meetings is set out in the section headed "BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETINGS" of this report. In addition, the Chairman had held a meeting with the Independent Non-Executive Directors without the presence of other Directors as required under Code Provision C.2.7 of the Listing Rules.

Regular Board meetings in each year are scheduled well in advance to facilitate maximum attendance of Directors. At least fourteen days' notice of a Board meeting is normally given to all Directors who are provided with an opportunity to include matters for discussion in the agenda.

The Company Secretary assists the Chairman in preparing the agenda for meetings to comply with all applicable rules and regulations. The agenda and the accompanying Board papers are normally sent to Directors at least three days before the intended date of a Board meeting. Draft and final versions of minutes are sent to all Directors for their comment and records respectively, within a reasonable time after the Board meeting is held. All minutes are kept by the Company Secretary and are open for inspection at reasonable time on reasonable notice by any Director.

According to the current Board practice, if a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by the Board at a duly convened board meeting rather than by a written resolution. The Articles also stipulate that save for the exceptions as provided therein, a Director shall abstain from voting and not be counted in the quorum at meetings for approving any transaction, contract or arrangement in which such Director or any of his/her associates (as defined in the Listing Rules) has a material interest. Every Director is entitled to have access to the Board papers and related materials as well as to the advice and services of the Company Secretary.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All Directors, including Non-Executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after his appointment and shall then be eligible for re-election.

Moreover, all Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a term of not more than approximately three years expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that Director, or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that Director and in any event, subject to earlier determination in accordance with the Articles and/or applicable laws and regulations.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year and up to the date of this report, the Company has complied with the requirements under Rule 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received confirmation of independence from each of the three Independent Non-Executive Directors, namely Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge, in accordance with Rule 3.13 of the Listing Rules.

The Board as well as the Nomination Committee have reviewed the independence of all Independent Non-Executive Directors and have concluded that all of them are independent within the definition of the Listing Rules. Further, up to the date of this report, the Board is not aware of the occurrence of any events which would cause it to believe that the independence of any Independent Non-Executive Director has been impaired.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointment to the Board, each new Director receives an 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 is sufficiently aware of his responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company encourages the Directors to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong ordinances and corporate governance practices so that they can continuously update and further improve their relevant knowledge and skills. Some Directors attended seminars and conferences organized by government authorities, professional bodies and industrial organizations in relation to corporate governance, updates on laws, rules and regulations, accounting, financial, management or other professional skills. The Company organized a seminar for the Directors on 26 August 2022 with topic titled as "Notifiable and Connected Transactions". Reading materials have also been provided to the Directors to develop and refresh their professional skill.

According to the records kept by the Company, the Directors attended the following trainings during the year ended 31 December 2022.

Name of Director	Seminars and Conferences	Reading materials
Executive Directors		
Zhou Hao	✓	✓
Sun Jun	✓	✓
Non-Executive Directors		
Huang Junfeng	✓	✓
Kuang Hu	✓	✓
Independent Non-Executive Directors		
Yeung Man Lee	✓	✓
Leung Luen Cheong	✓	✓
Yang Ge	✓	✓

DIVERSITY

The Board has adopted a board diversity policy (the "Board Diversity Policy") on 23 August 2013 which sets out the approach to achieve diversity on the Board.

The Company recognizes and embraces the benefits of having a diversified Board and sees increasing diversity at Board level as an essential element in supporting the attainment of the Company's strategic objectives and sustainable development.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Company also takes into consideration its own business model and specific needs from time to time. All Board appointments are based on meritocracy, and candidates are considered against objective criteria, having due regard to the benefits of diversity on the Board.

The Nomination Committee of the Board has set the measurable objectives based on five focused areas: gender, age, length of service, professional experience and skills and knowledge for the implementation of Board diversity of the Company. The Nomination Committee reviews the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

As at the date of this report, the Board comprises seven Directors. Three of them are Independent Non-Executive Directors, thereby promoting critical review and control of the management process. The Board has maintained a balanced composition in terms of age, professional experience, skills and knowledge, and has performed effectively. It has performed effectively by providing sound judgment on strategic issues and effective oversight of and guidance to management. The biographies of the Directors as at the date of this report set out in pages 10 to 12 of this Annual Report demonstrate a diversity of skills, expertise, experience and qualifications.

The Company noted that under the newly introduced requirement under Rule 13.92 of the Listing Rules, while diversity of board members can be achieved through consideration of a number of factors (including but not limited to gender, age, cultural and educational background, or professional experience), the Stock Exchange will not consider diversity to be achieved for a single gender board. To ensure there is gender diversity on the Board, the Board has set a target that the Company, currently with a single gender Board, will appoint at least a director of a different gender on the Board no later than 31 December 2024.

To develop a pipeline of potential female successors to the Board, our Company will (i) ensure that there is emphasis on gender diversity when recruiting staff at mid to senior levels; and (ii) engage fair resources in training female staff with the aim of promoting them to be members of senior management or the Board. Through this, the Company is committed to identifying suitable female candidates both internally and externally in order to achieve the abovementioned target.

As at 31 December 2022, all Board members are male. Having reviewed the implementation of the Board Diversity Policy and the structure, size and composition of the Board, and the measurable target to appoint a director of different gender and the commitment to develop a pipeline of potential female successors to the Board, the Nomination Committee considered that the requirement of the Board Diversity Policy had been met.

As at 31 December 2022, the gender ratio in the workforce of the Group (including senior management of the Company) comprised 74% male and 26% female. As the Group's nature of operation requires significant manual labour, the Group believes that the gender ratio of the workforce is within a reasonable range. The Group will review the effectiveness of the measures and practices against the actual circumstances of the Group and will adopt new policies when considered necessary. In particular, it will continue to monitor the gender ratio and will aim at achieving a greater gender diversity in hiring all positions across the Group where practical.

CORPORATE GOVERNANCE FUNCTIONS

It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

The duties of the Board performing corporate governance functions are set out below:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of Directors and senior management of the Company;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and

5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year, the Board considered the following corporate governance issues:

1. compiled with the "comply or explain" provisions set out in Part B of the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules for the year of 2022; and

2. reviewed the effectiveness of the internal controls and risk management systems of the Company (including ESG risks) through the Audit Committee.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in June 2005. The terms of the Remuneration Committee were revised on 30 December 2022 to adopt the following model of Remuneration Committee described in Code Provision E.1.2(c) of the CG Code: "to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment". The terms of reference of the Remuneration Committee detailing its authorities and duties are available on the Company's website.

The Remuneration Committee comprises three Independent Non-Executive Directors, being Mr. Leung Luen Cheong, Mr. Yeung Man Lee and Mr. Yang Ge. Mr. Leung Luen Cheong is the Chairman of the Remuneration Committee.

REMUNERATION COMMITTEE (CONTINUED)

The Remuneration Committee advises on policies in regard to the remuneration of Directors and senior management of the Company and is authorised to make recommendations to the Board on the remuneration packages for individual Executive Directors and senior management with reference to their duties, responsibilities and performance, and the results of the Group. No Director shall be involved in deciding his/her own remuneration.

During the year ended 31 December 2022, the Remuneration Committee did not hold any physical meeting due to travel restrictions as a result of the COVID-19 Pandemic, and instead, dealt with the remuneration matters of the Directors and senior management of the Company by way of passing written resolutions.

The work performed by the Remuneration Committee during the year ended 31 December 2022 comprises the followings:

– reviewed the remuneration of Directors and senior management; and

– assessed performance of Executive Directors.

Details of the remuneration to Directors and members of senior management by band for the year 2022 are set out in note 12 to the financial statements.

NOMINATION COMMITTEE

The Company established the Nomination Committee in June 2005. The terms of reference of the Nomination Committee detailing its authority and duties are available on the Company's website.

The Nomination Committee comprises one Executive Director, being Mr. Zhou Hao and three Independent Non-Executive Directors, being Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, assisting the Board in the development and review of the Board Diversity Policy and Directors' nomination policy, identifying individuals suitably qualified to become Board members, assessing the independence of its Independent Non–Executive Directors in accordance with the criteria prescribed under the Listing Rules and the CG Code, considering the appointment and re-election of Directors and succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters.

NOMINATION COMMITTEE (CONTINUED)

The Board adopted a nomination policy (the "Nomination Policy") on 26 October 2018 to formally set out the criteria and process in the nomination and appointment of Directors. According to the Nomination Policy, the ultimate responsibility for selection and appointment of Directors rests with the entire Board or the Shareholders in general meeting, as the case may be. The Board has delegated the relevant screening and evaluation process to the Nomination Committee, which identifies suitably qualified Director candidates and recommends them to the Board. In assessing the suitability of a proposed candidate, the Nomination Committee takes into consideration the candidate's character and integrity, qualifications, skills, knowledge, experiences relevant to the Company's business and corporate strategy, his/her commitment to enhancing shareholder value and devoting sufficient time to effectively carry out their duties, fulfilment of the independence requirements as set out in the Listing Rules (for Independent Non-Executive Directors) and diversity on the Board. After reaching its decision, the Nomination Committee nominates relevant Director candidates to the Board for approval and appointment. As said above, all Directors appointed to fill a casual vacancy or as an addition to the existing Board shall hold office until the first general meeting after his or her appointment and shall be eligible for re-election. The Board will make recommendation to Shareholders in respect of the proposed re-election of Directors at general meeting.

During the year ended 31 December 2022, the Nomination Committee had held one meeting to (i) to review the structure, size and composition of the Board and the implementation of the Board Diversity Policy; (ii) to assess the independence of Independent Non-Executive Directors; and (iii) to make recommendations to the Board for the re-election of Directors. The attendance of each member of the Nomination Committee is set out in the section headed "BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETINGS" of this report.

AUDIT COMMITTEE

The Audit Committee was established in September 1998. The terms of reference of the Audit Committee detailing the authority and duties are available on the Company's website.

The Audit Committee comprises all three Independent Non-Executive Directors, being Mr. Yang Ge, Mr. Yeung Man Lee and Mr. Leung Luen Cheong. Mr. Yang Ge possesses the required experience and knowledge in the accounting profession and acts as Chairman of the Audit Committee.

During the year ended 31 December 2022, the Audit Committee held four meetings to review the 2021 annual results, the 2022 interim and quarterly results of the Company before their submission to the Board and monitored the integrity of such financial statements/financial information and the change of external auditor of the Company. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and work and approving their fees. In addition to the four meetings as aforesaid, the Audit Committee also had a private meeting with the external auditors without the presence of the management to discuss any area of concern. The Audit Committee further ensures that the management has put in place effective systems of risk management and internal control and maintains an overview of the Group's risk assessment, control and management processes. It reviews the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit, financial reporting functions and related ESG performance and reporting, and their training programmes and budgets. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out in the section headed "BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETINGS" of this report.

BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETINGS

The individual attendance records of each Director at the meetings of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee as well as the general meetings during the year ended 31 December 2022 are set out below:

Name of Director	Board Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Audit Committee Meeting	General Meeting
Executive Directors					
Zhou Hao	4/4	1/1	–	–	*3/3
Sun Jun	4/4	–	–	–	*3/3
Non-Executive Directors					
Huang Junfeng	4/4	–	–	–	*3/3
Kuang Hu	4/4	–	–	–	*3/3
Independent Non-Executive Directors					
Yeung Man Lee	4/4	1/1	–	4/4	0/3
Leung Luen Cheong	4/4	1/1	–	4/4	3/3
Yang Ge	4/4	1/1	–	4/4	*3/3

* Due to travel restrictions as result of the COVID-19 Pandemic, Mr. Zhou Hao, Mr. Sun Jun, Mr. Huang Junfeng, Mr. Kuang Hu and Mr. Yang Ge attended the general meetings by video conferencing.

AUDITORS' REMUNERATION AND AUDITOR RELATED MATTERS

During the year, the remuneration paid/payable to the Company's auditor, ZHONGHUI ANDA CPA Limited, was as follows:

Services rendered	Fee paid/ payable *HK$'000*
Audit services – 2022 final results	750
Non-audit services	–

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements of the Company for the year ended 31 December 2022, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2022, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements and, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis.

The Company endeavors to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual, interim and quarterly results of the Company are announced in a timely manner within the limit of three months, two months and 45 days respectively after the end of the relevant periods in accordance with the Listing Rules.

As for all information and representations contained in the financial statements of the Company for the year ended 31 December 2022, the Directors have acknowledged that the Company has adopted all reasonable measures including preparation and verification respectively by the financial personnel and the management of the Company, and approval by the Board; the preparation of the statements is the responsibility of the Board.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls, risk management and their effectiveness. The internal control system has been designed to mitigate the Group's risk exposure; to facilitate the effectiveness and efficiency of operations; to safeguard the assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information and ensuring compliance with applicable laws and regulations.

The management under the supervision of the internal audit department and the Board has reviewed, among other things, the profile of the significant risks (including ESG risks) and identified, evaluated and managed the significant risks faced by the Group including the changes in the nature and extent of significant risks, and the ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems, and updating the systems of risk management and internal control when there are changes to business environment or regulatory guidelines. In addition, the management review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committee which enables it to assess control of the Group and the effectiveness of risk management, any significant failing or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Group's processes for financial reporting and Listing Rules compliance.

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

The risk management and internal control systems of the Group comprises a well-established organizational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each operational unit to ensure adequate checks and balances. The management assists the Board in the implementation of the Board's relevant policies and procedures on risk and control by identifying and assessing the risks (including ESG risks) faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the system of risk management and internal control and assessing the effectiveness of internal control include the following:

A defined management structure is maintained with specified limits of authority and control responsibilities, which is designed to (a) safeguard assets from inappropriate use; (b) maintain proper accounts; (c) ensure compliance with regulations; and (d) identify, manage and mitigate key risks to the Group.

The Audit Committee is established to, inter alia, review the financial controls, risk management and internal control systems of the Group and any significant internal control issues identified by the internal audit department, external auditor, regulatory authorities and management. It also conducts review of the internal audit functions with particular emphasis on the scope and quality of the internal audits and independence of the internal audit department. During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit, financial reporting functions, and related ESG performance and reporting, and their training programmes and budgets.

The internal audit department monitors compliance with policies and procedures and the effectiveness of the risk management and internal control systems, and highlight significant findings in respect of any non-compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. Using a risk-based approach, the internal audit department plans its internal audit schedules annually with audit resources being focused on higher risk areas. It carried out an entity-level risk assessment which includes identification, evaluation and prioritization of risk factors that the Company is facing. It completed the risk assessment and has submitted the assessment results (including the annual internal audit plan) to the management of the Company for review and reported to the Audit Committee and the Board for approval. The internal audit department issues reports to the Board and relevant management covering various operational and financial processes of the Group and provides summary reports to the Audit Committee together with the status of implementation of their recommendation in each Audit Committee meeting.

The Board has conducted an annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls and risk management system (including ESG risks). The Board is satisfied that the systems of risk management and internal control in place for the year and up to the date of issuance of this Annual Report and accounts are reasonably effective and adequate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Upon specific enquiry by the Company, all Directors confirmed that they had complied with the required standard as set out in the Model Code during the year.

There are also procedures including pre-clearance on dealing in the Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors and relevant employees, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

COMPANY SECRETARY

Following the resignation of Ms. Chan Miu Ting ("Ms. Chan") as the Company Secretary of the Company on 21 April 2022, Mr. Chong Yuk Fai ("Mr. Chong") was appointed the Company Secretary of the Company. On 18 January 2023, Mr. Chong resigned and Ms. Cheung Hoi Yin was appointed the Company Secretary of the Company in his place. Ms. Chan was not a full-time employee of the Company and the primary contact person of the Company with Ms. Chan was Mr. Sun Jun, the Managing Director of the Company. The Company Secretary of the Company reports to the Chairman of the Company.

During the year, the Company Secretary took no less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Shareholders Convening an Extraordinary General Meeting

Pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), Shareholders holding not less than 5% of the total voting rights of all the members having a right to vote at general meeting may request the Directors to call a general meeting of the Company. The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form; and must be authenticated by the person or persons making it. Directors of the Company must call a meeting with 21 days after the date on which they become subject to the requirement. The meeting being called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the Directors fail to call the meeting, the Shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting. The meeting must be called for a date not more than three months after the date on which the Directors become subject to the requirement to call a meeting.

Details of the procedures for Shareholders to propose a person for election as a Director of the Company are available on the Company's website.

SHAREHOLDERS' RIGHTS (CONTINUED)

Shareholders' Enquiries and Proposals

Shareholders may direct their enquiries about their shareholdings to the Company's Share Registrar, Tricor Tengis Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or call its customer service hotline at (852) 2980 1333.

Shareholders may also send written enquiries to the Company, for the attention of the Company Secretary of the Company by mail. The contact details of the Company are set out in the "Contact Us" section of the Company's website at www.namyueholdings.com. In addition, the Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and to strengthen communications with both the Shareholders and the public.

INVESTOR RELATIONS

Communication with Shareholders

The Company has adopted a Shareholders' communication policy which aims at (a) promoting effective communication with the Shareholders and other stakeholders; (b) encouraging the Shareholders to engage actively with the Company; and (c) enabling the Shareholders to exercise their rights as Shareholders effectively.

The Company is committed to providing clear and full information on the Company to Shareholders and potential investors in a timely manner through a number of formal channels, which include quarterly, interim and annual reports, announcements and circulars. The general meetings of the Company are valuable forum for the Company to communicate directly with the Shareholders. The Shareholders are encouraged to attend the general meetings of the Company. Moreover, additional information on the Company is also available to Shareholders and stakeholders through the Company's website at www.namyueholdings.com.

The Board conducted a review of the implementation and effectiveness of the communication policy for Shareholders and external parties. Having considered the multiple channels of communication in place and the timely disclosure of inside information and quarterly results on voluntary basis, the Board is satisfied that the Shareholders' communication policy has been properly implemented during 2022 and is effective.

Constitutional Documents

A special resolution was passed at an extraordinary general meeting of the Company held on 17 June 2022 to amend the Articles to (i) reflect and align with the latest requirements under the Listing Rules; (ii) allow all general meetings to be held by physical, hybrid or electronic meetings; and (iii) make certain housekeeping changes. Save as disclosed above, there were no changes to the constitutional documents of the Company during the year. An up-to-date consolidated version of the Articles is available on the Company's website.

ENVIRONMENTAL PROTECTION AND LEGAL COMPLIANCE

The Group devotes to protect the environment where it operates. Also, it is committed to ensuring compliance of the environmental standards and the relevant laws and regulations that are applicable to its business operation from time to time. During the year, except for those disclosed in note 22a (ii) to the financial statements, the Group has obtained the requisite permits and environmental approvals for its business and production facilities, and has complied with the relevant laws, rules and regulations. For further information on the work done by the Group in respect to environmental protection and legal compliance, please refer to the Management Discussion and Analysis on pages 6 to 9 in this Annual Report and the 2022 ESG Report.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that our employees, customers and suppliers and business associates are key stakeholders to the Company's success. We strive to achieve corporate sustainability through engaging our employees, providing quality services to our customers, collaborating with business partners (including suppliers and contractors) to deliver quality sustainable products and services and supporting our community.

By Order of the Board
Zhou Hao
Chairman

Hong Kong, 29 March 2023

Independent Auditor's Report

TO THE SHAREHOLDERS OF NAMYUE HOLDINGS LIMITED
(Formerly known as Guangdong Tannery Limited)
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Namyue Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 98, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

Property, plant and equipment, and right-of-use assets

Refer to Note 16 and Note 17 to the consolidated financial statements

The Group tested the amounts of property, plant and equipment, and right-of-use assets for impairment. This impairment test is significant to our audit because the balances of property, plant and equipment, and right-of-use assets of approximately HK$42,846,000 and HK$11,252,000 respectively as at 31 December 2022 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgment and is based on assumptions and estimates.

KEY AUDIT MATTERS (CONTINUED)

Property, plant and equipment, and right-of-use assets (continued)

Our audit procedures included, among others:

- Assessing the identification of the related cash generating units;
- Assessing the arithmetical accuracy of the value-in-use calculations;
- Comparing the actual cash flows with the cash flow projections;
- Assessing the reasonableness of the key assumptions (including average annual growth rate, gross margins, discount rates and long term growth rate);
- Checking input data to supporting evidence;
- Subjecting the key assumptions to sensitivity analysis;
- Assessing the competence, independence and integrity of the external valuer engaged by client;
- Obtaining the external valuation report to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgements and assumptions applied in the valuation model;
- Checking key assumptions and input data in the valuation model to supporting evidence;
- Checking arithmetical accuracy of the valuation model; and
- Assessing the disclosure of the fair value measurement in the consolidated financial statements.

We consider that the Group's impairment test for property, plant and equipment, and right-of-use assets is supported by the available evidence.

Inventories

Refer to Note 18 to the consolidated financial statements

The Group tested the amount of inventories for impairment. This impairment test is significant to our audit because the balance of inventories of approximately HK$73,028,000 as at 31 December 2022 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on ordering and holding of inventories;
- Evaluating the Group's impairment assessment;
- Assessing the marketability of the inventories;
- Assessing the ageing of the inventories;
- Assessing the net realisable values of the inventories; and
- Checking subsequent sales and usage of the inventories.

We consider that the Group's impairment test for inventories is supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:
https://www.hkicpa.org.hk/en/Standards-setting/Standards/Our-views/auditre
This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Li Shun Fai
Audit Engagement Director
Practising Certificate Number P05498
Hong Kong, 29 March 2023

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	7	**86,050**	196,231
Cost of sales		**(93,857)**	(178,030)
Gross (loss)/profit		**(7,807)**	18,201
Other income and (losses)/gains, net	8	**(535)**	1,814
Selling and distribution expenses		**(1,600)**	(1,683)
Administrative expenses		**(31,317)**	(32,510)
Impairment on items of plant and equipment	16	**(1,908)**	(4,499)
Other operating (expenses)/income, net	8	**(886)**	985
Finance costs	9	**(107)**	(1,994)
Loss before tax	10	**(44,160)**	(19,686)
Income tax credit/(expense)	11	**231**	(257)
Loss for the year		**(43,929)**	(19,943)
Loss per share	15		
– Basic		**HK(8.16) cents**	HK(3.71) cents
– Diluted		**HK(8.16) cents**	HK(3.71) cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Loss for the year		**(43,929)**	(19,943)
Other comprehensive (expenses)/income			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Surplus on revaluation of buildings	16	**4,258**	1,330
Income tax effect	24	**(1,064)**	(333)
		3,194	997
Other comprehensive (expenses)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(13,788)**	6,205
Other comprehensive (expenses)/income for the year, net of tax		**(10,594)**	7,202
Total comprehensive expenses for the year		**(54,523)**	(12,741)

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment	16	42,846	45,434
Right-of-use assets	17	11,252	12,622
		54,098	58,056
Current assets			
Inventories	18	73,028	91,534
Receivables, prepayments and deposits	19	37,418	59,629
Pledged bank balances	20	–	123
Cash and bank balances	20	9,463	18,942
		119,909	170,228
Current liabilities			
Trade payables	21	24,054	25,068
Other payables, accruals and provision	22	24,261	23,757
Tax payable		21	72
Due to a PRC joint venture partner	23	1,131	1,131
		49,467	50,028
Net current assets		70,442	120,200
Total assets less current liabilities		124,540	178,256
Non-current liability			
Deferred tax liabilities	24	4,527	3,720
NET ASSETS		120,013	174,536
EQUITY			
Share capital	25	75,032	75,032
Reserves	26	44,981	99,504
TOTAL EQUITY		120,013	174,536

Zhou Hao
Director

Sun Jun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share Capital	Equity component of convertible notes	General reserve fund	Reserve funds	Capital reserve	Exchange translation reserve	Property revaluation reserve	Special capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(note 26 (i))	*(note 26 (iii))*	*(note 26 (iv))*			*(note 26 (ii))*		
At 1 January 2021	75,032	5,545	167,746	20,054	8,587	73,870	8,826	–	(331,716)	27,944
Loss for the year	–	–	–	–	–	–	–	–	(19,943)	(19,943)
Other comprehensive income for the year:										
– Changes in fair value of buildings, net of tax	–	–	–	–	–	–	997	–	–	997
– Exchange differences on translation of foreign operations	–	–	–	–	–	6,205	–	–	–	6,205
Total comprehensive income/ (expenses) for the year	–	–	–	–	–	6,205	997	–	(19,943)	(12,741)
Capital contribution from the then immediate holding company	–	–	–	–	159,333	–	–	–	–	159,333
Transfer from retained profits of a subsidiary established in the PRC	–	–	–	112	–	–	–	–	(112)	–
At 31 December 2021 and 1 January 2022	75,032	5,545*	167,746*	20,166*	167,920*	80,075*	9,823*	–*	(351,771)*	174,536
Loss for the year	–	–	–	–	–	–	–	–	(43,929)	(43,929)
Other comprehensive (expenses)/ income for the year:										
– Changes in fair value of buildings, net of tax	–	–	–	–	–	–	3,194	–	–	3,194
– Exchange differences on translation of foreign operations	–	–	–	–	–	(13,788)	–	–	–	(13,788)
Total comprehensive (expenses)/ income for the year	–	–	–	–	–	(13,788)	3,194	–	(43,929)	(54,523)
Transfer from accumulated losses in accordance with the undertaking	–	–	–	–	–	–	–	374	(374)	–
Transfer from retained profits of a subsidiary established in the PRC	–	–	–	73	–	–	–	–	(73)	–
Transfer from property revaluation reserve to accumulated losses	–	–	–	–	–	–	(1,028)	–	1,028	–
At 31 December 2022	75,032	5,545*	167,746*	20,239*	167,920*	66,287*	11,989*	374*	(395,119)*	120,013

* These reserve accounts comprise the consolidated reserve of approximately HK$44,981,000 (2021: HK$99,504,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 *HK$'000*	2021 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(44,160)**	(19,686)
Adjustments for:		
Finance costs	**107**	1,994
Finance income	**(18)**	(93)
Depreciation of property, plant and equipment	**3,106**	2,163
Depreciation of right-of-use assets	**392**	324
Provision/(reversal of provision) for inventories	**1,131**	(2,106)
Impairment/(reversal of impairment) of trade receivables	**1,156**	(573)
Impairment on items of plant and equipment	**1,908**	4,499
Impairment of right-of-use assets	**79**	–
Impairment of other receivables	**379**	26
Reversal of accruals and payables	**(728)**	(438)
Operating cash flows before working capital changes	**(36,648)**	(13,890)
Change in inventories	**10,068**	(26,949)
Change in receivables, prepayments and deposits	**16,326**	15,096
Change in trade payables	**1,116**	(19,655)
Change in other payables, accruals and provision	**2,935**	6,785
Change in interest-bearing bank borrowings	**–**	(391)
Cash used in operations	**(6,203)**	(39,004)
Interest received	**18**	93
Interest paid	**(107)**	(278)
PRC tax paid	**(72)**	(216)
Net cash flows used in operating activities	**(6,364)**	(39,405)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(2,058)**	(5,755)
Change in pledged bank balances	**117**	2,515
Net cash flows used in investing activities	**(1,941)**	(3,240)
CASH FLOWS FROM A FINANCING ACTIVITY		
Principal portion of lease payments	**(106)**	(415)
Net cash flows used in a financing activity	**(106)**	(415)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(8,411)**	(43,060)
Cash and cash equivalents at beginning of year	**18,942**	60,939
Effect of foreign exchange rate changes, net	**(1,068)**	1,063
CASH AND CASH EQUIVALENTS AT END OF YEAR	**9,463**	18,942
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**9,463**	18,942

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. GENERAL INFORMATION

Namyue Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office and principal place of business of the Company is located at 29/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and the Group was principally engaged in the processing and sale of semi-finished and finished leather. The principal activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements.

In the opinion of the directors of the Company (the "Directors"), as at the date of issue of these consolidated financial statements, Nam Yue (Group) Company Limited, a company incorporated in Macao, is the immediate holding company of the Company; and 廣東南粵集團有限公司 (Guangdong Nam Yue Group Corporation Limited), which is established in the People's Republic of China (the "PRC"), is the ultimate holding company of the Company.

At the extraordinary general meeting of the shareholders of the Company held on 17 June 2022, a special resolution was passed to change the name of the Company from "Guangdong Tannery Limited 粵海制革有限公司" to "Namyue Holdings Limited 南粵控股有限公司". A certificate of change of name of the Company was issued by the Companies Registry in Hong Kong on 25 July 2022 confirming the registration of the new name "Namyue Holdings Limited 南粵控股有限公司" of the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. 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. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the 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.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the buildings classified as property, plant and equipment and bills receivable which are carried at fair values. These consolidated financial statements are presented in Hong Kong dollars (the "HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. The areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and presentation currency.

Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

All property, plant and equipment, except buildings, are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is 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. All other repairs and maintenance are recognised in consolidated profit or loss during the period in which they are incurred.

Buildings are stated at valuation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of buildings are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the consolidated statement of profit or loss. Any subsequent revaluation surplus is credited to the consolidated statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the property revaluation reserve to accumulated losses is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	4% to 10%
Leasehold improvements	4% to 20%
Plant and machinery	10% to 12.5%
Electronic equipment	20%
Furniture, fixtures and equipment	15% to 20%
Motor vehicles	15% to 20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in consolidated profit or loss.

Construction in progress represents buildings, leasehold improvements, and plant and machinery under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land	50 years
Office properties	2 years

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to consolidated profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in consolidated profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

– Financial assets at amortised cost; and

– Debt investments at fair value through other comprehensive income

Financial assets at amortised cost

Financial assets (including other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Debt investments at fair value through other comprehensive income

Debt investments are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling assets; and

- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at fair value. Interest income calculated using the effective interest method is recognised in profit or loss.

The assets are treated as monetary items. A foreign currency asset is treated as an asset measured at amortised cost in the foreign currency. Exchange differences on the amortised cost are recognised in profit or loss.

Other gains or losses are recognised in other comprehensive income and accumulated in the debt investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the debt investment revaluation reserve are reclassified to profit or loss.

The loss allowance for expected credit losses is recognised in other comprehensive income and does not reduce the carrying amount of the assets.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and debt investments at fair value through other comprehensive income. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument (“lifetime expected credit losses”) for receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Group's performance 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 a performance obligation is satisfied over time, revenue is recognised 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 product or service.

Other revenue

Financial income is recognised using the effective interest method.

Net losses/gains from subcontracted leather processing is recognised over time when the processing services are rendered.

Income from the sales of scrap materials is recognised at the point in time when control of goods is transferred to the customer, generally on delivery of the goods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in consolidated profit or loss in the period in which they are incurred.

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the consolidated statement of profit or loss by way of a reduced depreciation charge.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

For the purposes of measuring deferred tax for buildings classified as property, plant and equipment that are measured using the fair value model, the carrying amounts of such buildings are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the buildings are depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the buildings over time, rather than through sale. If the presumption is rebutted, deferred tax for such buildings are measured based on the expected manner as to how the buildings will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

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 the key management personnel of the Company or of a parent of the Company.

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

   (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

   (iii) Both entities 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 employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also 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 the key management personnel of the entity (or of a parent of the entity); or

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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 is remote. Possible obligations, whose existence 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 is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. KEY ESTIMATES

Key sources of estimation uncertainty

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

Provision for inventories

Management reviews the condition of inventories of the Group at the end of each reporting period and makes provision for obsolete and slow-moving inventory items. Management also estimates the net realisable value for such inventories based primarily on the ageing of inventories, historical sales performances, post year-end sales, latest selling prices and expectation of future saleability of the inventories. Management reassesses the estimation at the end of each reporting period. The carrying amount of inventories as at 31 December 2022 was approximately HK$73,028,000 (2021: HK$91,534,000). Further details are set out in note 18 to the consolidated financial statements.

Provision for expected credit losses on trade receivables

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 and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The application of forward-looking adjustment is a significant estimate. 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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the consolidated financial statements. The carrying amount of trade receivables was approximately HK$31,719,000 (2021: HK$35,140,000).

Impairment of plant and equipment and leased properties

The Group assesses whether there is any indication that plant and equipment, and leased properties included in right-of-use assets may be impaired. If any indication exists, the Group estimates the recoverable amount of the Group's cash-generating unit (the "CGU") to which the plant and equipment, and the leased properties belong to. The Group measures the recoverable amount of the CGU with reference to the higher of fair value less cost of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the plant and equipment and leased properties and apply a suitable discount rate in order to calculate their present values. As at 31 December 2022, the carrying amount of plant and equipment, and leased properties was nil (2021: Nil). Further details are set out in notes 16 and 17 to the consolidated financial statements.

4. KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (continued)

Estimation of fair value of land and buildings

In the absence of current prices in an active market for similar land and buildings, the Group considers information from a variety of sources, including:

(i) current prices in an active market for land and buildings of a different nature, condition or location, adjusted to reflect those differences;

(ii) recent prices of similar land and buildings on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) the depreciated replacement cost method based on the estimated hard and soft costs of construction per square metre supported by current construction costs for similar buildings in the neighbourhood and estimated construction period with adjustments to reflect current conditions of the assets.

The carrying amounts of land and buildings at 31 December 2022 were approximately HK$11,252,000 (2021: HK$12,622,000) and approximately HK$42,846,000 (2021: HK$45,434,000), respectively. Further details are set out in notes 16 and 17 to the consolidated financial statements.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currencies. Approximately 44% (2021: 49%) of the Group's purchases were denominated in currencies other than the functional currencies of the operating units making the purchases, whilst all sales were denominated in the units' functional currency.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollars (the "US$")-Renminbi (the "RMB") exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the equity of the Group.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate	Decrease/ (increase) in loss before tax
	%	*HK$'000*
31 December 2022		
If RMB strengthens against US$	**3**	**797**
If RMB weakens against US$	**(3)**	**(797)**
31 December 2021		
If RMB strengthens against US$	3	1,095
If RMB weakens against US$	(3)	(1,095)

(b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2022 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its receivables and deposits, pledged bank balances, and cash and bank balances. In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. The credit risk on pledged bank balances and cash and bank balances are limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

At the end of the reporting period, the Group had certain concentrations of credit risk as approximately 25% (2021: 27%) of the Group's trade receivables were due from a customer.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

– internal credit rating;

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;

– actual or expected significant changes in the operating results of the customer;

– significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a repayment plan with the Group. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12-month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

31 December 2022	**On demand** *HK$'000*	**Less than 3 months** *HK$'000*	**Total** *HK$'000*
Trade payables	**5,967**	**18,087**	**24,054**
Other payables and accruals (excluding lease liabilities)	**8,192**	**–**	**8,192**
Due to a PRC joint venture partner	**1,131**	**–**	**1,131**
	15,290	**18,087**	**33,377**

31 December 2021	On demand *HK$'000*	Less than 3 months *HK$'000*	Total *HK$'000*
Trade payables	8,440	16,628	25,068
Other payables and accruals (excluding lease liabilities)	11,253	–	11,253
Due to a PRC joint venture partner	1,131	–	1,131
	20,824	16,628	37,452

(d) Interest rate risk

The Group's exposure to fair value interest rate risk arises primarily from the Group's lease liabilities which carry interest at fixed rates.

The Group's exposure to interest-rate risk arises from its bank deposits. These bank deposits bear interests at variable rates varied with the then prevailing market condition.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Categories of financial instruments at 31 December

	2022 *HK$'000*	2021 *HK$'000*
Financial assets:		
Debt investments at fair value through other comprehensive income	**4,874**	23,005
Financial assets at amortised cost (including cash and cash equivalents)	**42,007**	54,512
	46,881	77,517
Financial liabilities:		
Financial liabilities at amortised cost	**33,377**	36,429

(f) Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2022, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Endorsed Bills") with a carrying amount of approximately RMB350,000 (equivalent to HK$392,000) (2021: RMB3,770,000 (equivalent to HK$4,611,000)) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills to which the suppliers have recourse was approximately RMB350,000 (equivalent to HK$392,000) (2021: RMB3,770,000 (equivalent to HK$4,611,000)) as at 31 December 2022.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Transfers of financial assets (continued)

Transferred financial assets that are derecognised in their entirety

At 31 December 2022, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount of approximately RMB3,697,000 (equivalent to HK$4,139,000) (2021: RMB19,974,000 (equivalent to HK$24,430,000)). The Derecognised Bills had a maturity from one to four months (2021: from one to nine months) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills may exercise the right of recourse against any, several or all of the persons liable for the Derecognised Bills, including the Group, in disregard of the order of precedence (the "Continuing Involvement"). In the opinion of the Directors, the risk of the Group being claimed by the holders of the Derecognised Bills is remote in the absence of a default of the accepted banks. The Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2022 and 2021, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

(g) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value (continued)

(i) Disclosures of level in fair value hierarchy:

Description	**Fair value measurements using**			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2022				
Property, plant and equipment				
– Buildings held for own use – PRC	**–**	**–**	**42,846**	**42,846**
Debt investments at fair value through other comprehensive income ("DIFVOCI")				
– Bills receivable	**–**	**4,874**	**–**	**4,874**
	–	**4,874**	**42,846**	**47,720**
At 31 December 2021				
Property, plant and equipment				
– Buildings held for own use – PRC	–	–	45,434	45,434
DIFVOCI				
– Bills receivable	–	23,005	–	23,005
	–	23,005	45,434	68,439

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value (continued)

(ii) Reconciliation of assets measured at fair value based on level 3:

Buildings held for own use

	2022
	HK$'000
At 1 January	**45,434**
Depreciation charge for the year	**(2,956)**
Gain from fair value measurement recognised in other comprehensive income	**4,258**
Exchange realignment	**(3,890)**
At 31 December	**42,846**

	2021
	HK$'000
At 1 January	42,871
Transfer for the year	1,003
Depreciation charge for the year	(1,910)
Gain from fair value measurement recognised in other comprehensive income	1,330
Exchange realignment	2,140
At 31 December	45,434

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value (continued)

(iii) Disclosures of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2022 and 2021:

The head of the finance department of the Group is responsible for determining the policies and procedures for the fair value measurement, including level 3 fair value measurements. The head of the finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee once a year for annual financial reporting (2021: twice a year for interim and annual financial reporting).

For level 3 fair value measurements on buildings, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations. Management has discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at annual reporting date for the year ended 31 December 2022 (2021: at each interim and annual reporting date).

The Group's buildings held for own use were revalued at 31 December 2022 and 2021 by independent professionally qualified valuer, Vigers Appraisal & Consulting Limited (the "Vigers"), who has the recent experience in the location and category of properties being valued. The fair value measurement is based on the properties' highest and best use, which does not differ from their actual use.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value (continued)

(iii) Disclosures of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2022 and 2021: (continued)

Level 3 fair value measurements

Key unobservable inputs used in level 3 fair value measurements are mainly:

Description	Valuation techniques	Significant unobservable inputs	Range As at 31 December 2022	Range As at 31 December 2021	Effect on fair value for increase of inputs	Fair value 2022 *HK$'000*	Fair value 2021 *HK$'000*
Buildings held for own use	Depreciated replacement cost method	Estimated hard cost of construction per square metre	RMB500-RMB1,500	RMB500-RMB1,300	Increase	42,846	45,434
		Estimated construction period	6 months to 1 year	6 months to 1 year	Increase		
		Estimated soft cost of construction	2.5% to 4% on estimated hard cost of construction	2.5% to 4.35% on estimated hard cost of construction	Increase		

Depreciated replacement cost approach was adopted in assessing the buildings. Due to the fact that the nature of the buildings cannot be valued on the basis of market value; they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar properties in the locality, with allowance for accrued depreciation as evidenced by an observed condition or obsolescence percent, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for properties in the absence of a known market based on comparable sales.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value (continued)

(iii) Disclosures of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2022 and 2021: (continued)

Level 2 fair value measurements on bills receivable

			Fair value	
Description	Valuation techniques	Inputs	2022 HK$'000	2021 HK$'000
Bills receivable	Discount cash flow	Discount rate	4,874	23,005

During the years ended 31 December 2022 and 2021, there were no changes in the valuation techniques used.

During the years ended 31 December 2022 and 2021, there was no transfer between Level 1, Level 2 or transfer into or out of Level 3.

6. 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 PRC during the year.

Information about major customers

Revenues from the following customers individually contributed over 10% of the consolidated revenue of the Group are as follows:

	2022 HK$'000	2021 HK$'000
Customer A	N/A*	34,286
Customer B	N/A*	28,446
Customer C	N/A*	25,809

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

7. REVENUE

An analysis of revenue is as follows:

	2022 HK$'000	2021 HK$'000
Revenue from contracts with customers		
Sale of processed leather in the PRC	86,050	196,231

(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 nil (2021: HK$19,000).

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.

8. OTHER INCOME AND (LOSSES)/GAINS, AND OTHER OPERATING (EXPENSES)/INCOME, NET

(a) Other income and (losses)/gains, net

	2022 *HK$'000*	2021 *HK$'000*
Finance income	18	93
Sale of scrap materials in the PRC	399	656
Government grants*	475	777
Net (losses)/gains from subcontracted leather processing in the PRC	(1,183)	164
Net exchange (losses)/gains	(354)	96
Others	110	28
	(535)	1,814

* During the year ended 31 December 2022, the Group received approximately HK$475,000 (2021: HK$777,000) 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)/income, net

	2022 *HK$'000*	2021 *HK$'000*
Impairment on right-of-use assets	(79)	–
(Impairment)/reversal of impairment of trade receivables	(1,156)	573
Impairment of other receivables	(379)	(26)
Reversal of accruals and payables	728	438
	(886)	985

9. FINANCE COSTS

	2022 HK$'000	2021 HK$'000
Discounting bills receivable to banks	**101**	255
Lease liabilities	**6**	23
Loans from the then immediate holding company	**–**	1,276
Due to the then immediate holding company	**–**	440
	107	1,994

10. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2022 HK$'000	2021 HK$'000
Cost of inventories sold	**94,988**	180,136
Auditor's remuneration	**750**	1,500
Depreciation of property, plant and equipment	**3,106**	2,163
Depreciation of right-of-use assets	**392**	324
Employee benefit expense		
(excluding directors' remuneration *(note 12)*):		
Wages and salaries	**25,210**	27,341
Pension scheme contributions (defined contribution schemes)*	**5,289**	4,817
	30,499	32,158
Provision/(reversal of provision) for inventories**	**1,131**	(2,106)
Expenses related to short-term leases	**91**	4

* 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.

11. INCOME TAX (CREDIT)/EXPENSE

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 2022 and 2021. Taxes on profits assessable in the PRC have been calculated at the rate of tax prevailing in the PRC in which the Group operates.

	2022 ***HK$'000***	2021 *HK$'000*
Current – the PRC		
Charge for the year	**26**	257
Deferred tax liabilities	**(257)**	–
Total tax (credit)/charge for the year	**(231)**	257

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2022	**Hong Kong** ***HK$'000***	**The PRC** ***HK$'000***	**Total** ***HK$'000***
Loss before tax	**(6,325)**	**(37,835)**	**(44,160)**
Tax at the statutory tax rate	**(1,044)**	**(9,459)**	**(10,503)**
Income not subject to tax	**(40)**	**(203)**	**(243)**
Temporary difference not recognised	**–**	**(815)**	**(815)**
Tax concession on prescribed expenses	**–**	**(861)**	**(861)**
Expenses not deductible for tax	**117**	**1,156**	**1,273**
Tax losses not recognised	**967**	**9,951**	**10,918**
Tax credit at the Group's effective rate	**–**	**(231)**	**(231)**

2021	Hong Kong *HK$'000*	The PRC *HK$'000*	Total *HK$'000*
Loss before tax	(5,908)	(13,778)	(19,686)
Tax at the statutory tax rate	(975)	(3,444)	(4,419)
Income not subject to tax	–	(807)	(807)
Temporary difference not recognised	–	(728)	(728)
Tax concession on prescribed expenses	–	(1,291)	(1,291)
Expenses not deductible for tax	390	4,378	4,768
Tax losses not recognised	585	2,149	2,734
Tax charge at the Group's effective rate	–	257	257

12. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022	2021
	HK$'000	*HK$'000*
Fees	**450**	450
Other emoluments:		
Salaries, allowances and benefits in kind	**1,012**	778
Pension scheme contributions	**355**	123
	1,367	901
	1,817	1,351

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2022	2021
	HK$'000	*HK$'000*
Mr. Yeung Man Lee	**150**	150
Mr. Leung Luen Cheong	**150**	150
Mr. Yang Ge	**150**	150
	450	450

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2022 and 2021.

12. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2022				
Executive directors:				
Mr. Zhou Hao (Chairman)#	–	518	191	709
Mr. Sun Jun (Managing Director)	–	494	164	658
	–	1,012	355	1,367
Non-executive directors:				
Mr. Huang Junfeng+	–	–	–	–
Mr. Kuang Hu**	–	–	–	–
	–	–	–	–
	–	1,012	355	1,367

12. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors (continued)

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2021				
Executive directors:				
Mr. Zhou Hao (Chairman)#	–	–	–	–
Mr. Sun Jun (Managing Director)	–	778	123	901
	–	778	123	901
Non-executive directors:				
Mr. Ding Yatao@	–	–	–	–
Mr. Qiao Jiankang@	–	–	–	–
Mr. Huang Junfeng+	–	–	–	–
Mr. Kuang Hu**	–	–	–	–
	–	–	–	–
	–	778	123	901

\# Mr. Zhao Hao was appointed as an executive director of the Company on 16 December 2021.

** Mr. Kuang Hu was re-designated from an executive director to a non-executive director of the Company on 16 December 2021.

@ Mr. Ding Yatao and Mr. Qiao Jiankang resigned as non-executive directors of the Company on 23 December 2021.

\+ Mr. Huang Junfeng was appointed as a non-executive director of the Company on 23 December 2021.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2022 and 2021.

During the years ended 31 December 2022 and 2021, there was no emoluments paid to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2022 included two (2021: one) director, details of whose remuneration are set out in note 12 above. Details of the remuneration for the year ended 31 December 2022 of the remaining three (2021: four) highest paid employees who are not directors of the Company are as follows:

	2022 HK$'000	2021 HK$'000
Salaries and allowances	1,302	1,458
Pension scheme contributions	137	305
	1,439	1,763

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2022	2021
Nil to HK$1,000,000	3	4

During the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

The board of directors (the "Board") of the Company does not recommend the payment of any dividend for the years ended 31 December 2022 and 2021.

15. 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 (2021: 538,019,000) in issue during the year.

The calculation of basic loss per share is based on:

	2022 ***HK$'000***	2021 *HK$'000*
Loss		
Loss for the year, used in the basic loss per share calculation	**43,929**	19,943

	Number of shares	
	2022 ***'000***	2021 *'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**538,019**	538,019

No adjustment has been made to the calculation of the basic loss per share amounts presented for the years ended 31 December 2022 and 2021 as there was no dilutive event during the years ended 31 December 2022 and 2021.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Electronic equipment *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2022								
At 31 December 2021 and 1 January 2022								
Cost or valuation	45,434	26,528	117,564	3,689	444	6,149	553	200,361
Accumulated depreciation and impairment	–	(26,528)	(117,564)	(3,689)	(444)	(6,149)	(553)	(154,927)
Net carrying amount	45,434	–	–	–	–	–	–	45,434
At 1 January 2022, net of accumulated depreciation and impairment	45,434	–	–	–	–	–	–	45,434
Additions	–	285	683	61	–	135	894	2,058
Surplus on revaluation	4,258	–	–	–	–	–	–	4,258
Impairment *(note (b))*	–	(286)	(1,157)	(56)	–	(106)	(303)	(1,908)
Depreciation provided during the year	(2,956)	(24)	(92)	(5)	–	(29)	–	(3,106)
Transfer	–	25	566	–	–	–	(591)	–
Exchange realignment	(3,890)	–	–	–	–	–	–	(3,890)
At 31 December 2022, net of accumulated depreciation and impairment	42,846	–	–	–	–	–	–	42,846
At 31 December 2022								
Cost or valuation	42,846	24,579	109,400	3,435	444	5,970	573	187,247
Accumulated depreciation and impairment	–	(24,579)	(109,400)	(3,435)	(444)	(5,970)	(573)	(144,401)
Net carrying amount	42,846	–	–	–	–	–	–	42,846
Analysis of cost or valuation:								
At cost	–	24,579	109,400	3,435	444	5,970	573	144,401
At 31 December 2022 valuation	42,846	–	–	–	–	–	–	42,846
	42,846	24,579	109,400	3,435	444	5,970	573	187,247

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2021								
At 1 January 2021								
Cost or valuation	42,871	26,120	110,082	3,506	444	6,037	1,966	191,026
Accumulated depreciation and impairment	–	(26,120)	(110,082)	(3,506)	(444)	(6,037)	(1,966)	(148,155)
Net carrying amount	42,871	–	–	–	–	–	–	42,871
At 1 January 2021, net of accumulated depreciation and impairment	42,871	–	–	–	–	–	–	42,871
Additions	–	1,291	309	79	–	–	4,076	5,755
Surplus on revaluation	1,330	–	–	–	–	–	–	1,330
Impairment *(note (b))*	–	(1,155)	(3,027)	(76)	–	–	(241)	(4,499)
Depreciation provided during the year	(1,910)	(136)	(114)	(3)	–	–	–	(2,163)
Transfer	1,003	–	2,832	–	–	–	(3,835)	–
Exchange realignment	2,140	–	–	–	–	–	–	2,140
At 31 December 2021, net of accumulated depreciation and impairment	45,434	–	–	–	–	–	–	45,434
At 31 December 2021								
Cost or valuation	45,434	26,528	117,564	3,689	444	6,149	553	200,361
Accumulated depreciation and impairment	–	(26,528)	(117,564)	(3,689)	(444)	(6,149)	(553)	(154,927)
Net carrying amount	45,434	–	–	–	–	–	–	45,434
Analysis of cost or valuation:								
At cost	–	26,528	117,564	3,689	444	6,149	553	154,927
At 31 December 2021 valuation	45,434	–	–	–	–	–	–	45,434
	45,434	26,528	117,564	3,689	444	6,149	553	200,361

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) Had these buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2022 would have been approximately HK$25,397,000 (2021: HK$29,897,000).

(b) The weakening demand and keen competition in the tannery market persisted during the years ended 31 December 2022 and 2021. As a result, the Group's operating results for the years ended 31 December 2022 and 2021 have been adversely affected.

In light of the performance of the manufacture and sale of leather business, the Directors of the Company reassessed the recoverable amounts of the Group's cash-generating unit (the "CGU") as at 31 December 2022 and 31 December 2021 to which the plant and equipment, and leased properties were allocated with reference to their value in use (the "VIU") as at 31 December 2022 and 31 December 2021. Based on the VIU, impairment losses of approximately HK$1,908,000 (2021: HK$4,499,000) and HK$79,000 (2021: Nil) on plant and equipment, and leased properties were recognised in the consolidated statement of profit or loss for the year ended 31 December 2022, respectively.

According to the VIU, the recoverable amount of nil (2021: Nil) as at 31 December 2022 was determined based on discounted cash flow calculations which were derived from the present value of expected future cash flows to be generated from the sale of semi-finished and finished leather. The pre-tax discount rate applied to the projected cash flows was 14% for 2022 (2021: 14%).

(c) At 31 December 2022, certain of the Group's buildings with a net carrying amount of approximately HK$37,859,000 (2021: HK$39,482,000) were pledged to secure general banking facilities granted to the Group.

17. LEASES AND RIGHT-OF-USE ASSETS

The Group as a lessee

The Group has lease contracts for various items of properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office properties generally have lease terms of 2 years (2021: 2 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The leases of office properties agreements do not impose any covenants and the leased office properties may not be used as security for borrowing purposes.

The Group's leasehold land is held under medium term leases and is situated in the PRC.

(i) Right-of-use assets

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

	Leasehold land *HK$'000*	**Office properties** *HK$'000*	**Total** *HK$'000*
As at 1 January 2021	12,581	–	12,581
Depreciation charge	(324)	–	(324)
Exchange realignment	365	–	365
As at 31 December 2021 and 1 January 2022	**12,622**	**–**	**12,622**
Addition	**–**	**158**	**158**
Depreciation charge	**(313)**	**(79)**	**(392)**
Impairment *(note 16 (b))*	**–**	**(79)**	**(79)**
Exchange realignment	**(1,057)**	**–**	**(1,057)**
As at 31 December 2022	**11,252**	**–**	**11,252**

At 31 December 2022, the Group's leasehold land with a net carrying amount of approximately HK$11,252,000 (2021: HK$12,622,000) were pledged to secure general banking facilities granted to the Group.

A valuation was performed by Vigers on the fair value of the leasehold land as at 31 December 2022 and 2021. In the valuation of the land, reference has been taken to the sales comparables in the locality. No impairment loss was recognised in the consolidated statement of profit or loss for the year ended 31 December 2022 (2021: nil) based on the valuation from Vigers.

17. LEASES AND RIGHT-OF-USE ASSETS (CONTINUED)

The Group as a lessee (continued)

(ii) Lease liabilities

The carrying amount of lease liabilities (included under other payables, accruals and provision) and the movements during the year are as follows:

	2022 HK$'000	2021 HK$'000
Carrying amount at 1 January	31	441
Addition	158	–
Accretion of interest recognised during the year	6	23
Payments	(112)	(438)
Exchange realignment	(2)	5
Carrying amount at 31 December	81	31
Analysed into:		
Current portion	81	31
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
Less than 1 year	83	31

At 31 December 2022, the average effective borrowing rate was 5% (2021: 5%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

17. LEASES AND RIGHT-OF-USE ASSETS (CONTINUED)

The Group as a lessee (continued)

(iii) Disclosures of lease-related items

	2022 ***HK$'000***	2021 *HK$'000*
Interest on lease liabilities	**6**	23
Depreciation charge of right-of-use assets	**392**	324
Expense relating to short-term leases (included in administrative expenses)	**91**	4
Impairment of right-of-use assets	**79**	–
Total amount recognised in profit or loss	**568**	351
With operating activities	**97**	27
With financing activities	**106**	415
The total cash outflow for leases included in the statement of cash flows	**203**	442
Lease commitments of short-term leases	**17**	–
Additions to right-of-use assets	**158**	–

18. INVENTORIES

	2022 ***HK$'000***	2021 *HK$'000*
Raw materials	**7,383**	16,895
Work in progress	**49,236**	52,106
Finished goods	**16,409**	22,533
	73,028	91,534

In view of the changes in selling prices and product demand during the year, management reassessed the net realisable value of inventories and a provision of approximately HK$1,131,000 (2021: reversal of provision of HK$2,106,000) was made for the year ended 31 December 2022.

19. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Notes	2022 HK$'000	2021 HK$'000
Trade receivables	(i)	**31,719**	35,140
Bills receivables	(i)	**4,874**	23,005
Prepayments, deposits and other receivables	(ii)	**825**	1,484
		37,418	59,629

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:

	2022 HK$'000	2021 HK$'000
Within 3 months	**17,217**	51,711
3 to 6 months	**7,687**	5,931
6 to 12 months	**8,245**	503
1 to 2 years	**4,554**	–
	37,703	58,145
Impairment	**(1,110)**	–
	36,593	58,145

19. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (continued)

(i) (continued)

Movements in the loss allowance for impairment of trade receivables are as follows:

	2022 HK$'000	2021 HK$'000
At 1 January	–	565
Impairment/(reversal of impairment) loss	1,156	(573)
Exchange realignment	(46)	8
At 31 December	1,110	–

The increase (2021: decrease) in the loss allowance of approximately HK$1,110,000 (2021: HK$565,000) for the year ended 31 December 2022 is the result of an increase (2021: a decrease) in trade receivables which were past due as at 31 December 2022.

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on share credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

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

		Past due		
	Current	Less than 6 months	Between 6 and 12 months	Total
As at 31 December 2022				
Weighted average expected credit loss rate	–	8.4%	6.1%	
Gross carrying amount (HK$'000)	18,042	9,078	5,709	32,829
Expected credit losses (HK$'000)	–	(760)	(350)	(1,110)
As at 31 December 2021				
Weighted average expected credit loss rate	–	–	–	
Gross carrying amount (HK$'000)	35,040	100	–	35,140
Expected credit losses (HK$'000)	–	–	–	–

An impairment analysis is performed at each reporting date for bills receivables by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The Group estimated the expected loss rate of bills receivable was minimal as at 31 December 2022 and 31 December 2021.

19. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (continued)

(ii) As at 31 December 2022, a provision of approximately HK$714,000 (2021: HK$383,000) was made for other receivables with a gross carrying amount of approximately HK$714,000 (2021: HK$383,000).

Movements in the provision for impairment of other receivables are as follows:

	2022 **HK$'000**	2021 HK$'000
At 1 January	**383**	346
Impairment	**379**	26
Exchange realignment	**(48)**	11
At 31 December	**714**	383

The ECLs as at 31 December 2022 were estimated by applying a loss rate approach with reference to the historical loss record of the Group as at 31 December 2022. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2022 was 57.4% (2021: 42.6%).

The carrying amounts of other receivables approximate their fair values.

20. CASH AND BANK BALANCES, AND PLEDGED BANK BALANCES

	2022 **HK$'000**	2021 HK$'000
Cash and bank balances	**9,463**	19,065
Less: Pledged bank balances*	**–**	(123)
Cash and cash equivalents	**9,463**	18,942

* As at 31 December 2022, there were bank balances of nil (2021: approximately HK$123,000) pledged to a bank for banking facilities granted to the Group.

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$8,248,000 (2021: HK$15,520,000). The RMB is not freely convertible into other currencies; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and bank balances approximate their fair values.

21. 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:

	2022	2021
	HK$'000	*HK$'000*
Within 3 months	**5,967**	16,628
3 to 6 months	**6,126**	5,440
Over 6 months	**11,961**	3,000
	24,054	25,068

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.

22. OTHER PAYABLES, ACCRUALS AND PROVISION

		2022	2021
	Notes	***HK$'000***	*HK$'000*
Current			
Other payables		**3,892**	3,321
Accruals		**6,906**	8,294
Deposits received		**1,212**	1,263
Other tax payables		**1,568**	1,165
Provision	*(a)*	**9,782**	9,038
Contract liabilities	*(b)*	**820**	645
Lease liabilities	*17*	**81**	31
		24,261	23,757

22. OTHER PAYABLES, ACCRUALS AND PROVISION (CONTINUED)

Notes:

(a) As at 31 December 2022, the balance included (i) a provision in relation to an early termination of a joint venture agreement of approximately HK$3,359,000 (2021: HK3,901,000) and (ii) a provision for penalty of approximately HK$6,423,000 (2021: HK$5,137,000).

(i) With respect to the Group's decision in August 2001 to curtail the operations of 青島南海皮廠有限公司 (Qingdao Nanhai Tannery Co., Ltd.) ("Qingdao Tannery"), a subsidiary of the Group, due to its continuous losses, provisions of RMB3,000,000 were made for (a) staff redundancy payments of RMB2,000,000; and (b) compensation of RMB1,000,000 to the PRC joint venture partner for early termination of the joint venture agreement with Qingdao Tannery. These provisions were determined based on the relevant employment contracts and the terms of the joint venture agreement.

Qingdao Tannery is a Sino-foreign co-operative joint venture. Pursuant to the joint venture agreement, the registered capital of Qingdao Tannery was solely contributed by the Company. The PRC joint venture partner contributed its plant and equipment for the operations of Qingdao Tannery. The Company is entitled to all its distributable profits after the payment of an agreed annual fee to the PRC joint venture partner.

During the year ended 31 December 2004, the arbitration proceedings undertaken by the Group and the PRC joint venture partner were concluded by the China International Economic and Trade Arbitration Commissions in Shenzhen and Beijing. These proceedings determined that (i) the joint venture agreement of Qingdao Tannery was terminated with effect from 23 August 2001; (ii) Qingdao Tannery should be liquidated in accordance with the joint venture agreement and the relevant laws and regulations in the PRC; and (iii) the PRC joint venture partner's claim against the Company for an economic loss of RMB15 million due to the termination of the joint venture agreement was revoked.

As the liquidation of Qingdao Tannery has not been completed, no payment for the provision, additional provision or reversal of provision was made during the year ended 31 December 2022.

(ii) The Group was accused of contravention of certain regulations under 中華人民共和國固體廢物污染環境防治法 during an inspection of 徐州市睢寧生態環境局 in November 2021 as a result of failure to maintain proper records of hazardous wastes produced and to make filings to the local authority, and improper transferral, handling and disposal of these materials. Provision of approximately RMB7,226,000 (equivalent to approximately HK$8,089,000) (2021: RMB4,200,000 (equivalent to approximately HK$5,137,000)) was made for the penalty of violations, of which RMB1,488,000 (equivalent to approximately HK$1,666,000) (2021: Nil) was paid during the year ended 31 December 2022. Up to the approval date of these consolidated financial statements, two (2021: one) summons with penalties of approximately RMB7,226,000 (equivalent to approximately HK$8,089,000) (2021: a penalty of RMB1,488,000 (equivalent to approximately HK$1,820,000)) was received. The provision was determined based on the relevant rules and the legal opinion provided by the Group's legal counsel. In the opinion of the Directors, appropriate provision for the likely outcome was made as at 31 December 2022 and 2021.

(b) Contract liabilities of approximately HK$820,000 as at 31 December 2022 (31 December 2021: HK$645,000; 1 January 2021: HK$463,000) include short-term advances received from customers for the sale of processed leather. The increase in contract liabilities in 2022 (2021: increase) was mainly due to the increase (2021: increase) in short-term advances received from customers in relation to the sale of leather at the end of the year ended 31 December 2022.

As a practical expedient under HKFRS 15, the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2022 and 2021 are not disclosed as all the remaining performance obligations in relation to the sale of processed leather are part of contracts that have an original expected duration of one year or less.

A contract liability represents the Group's obligation to transfer products to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

23. DUE TO A PRC JOINT VENTURE PARTNER

The amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment.

24. DEFERRED TAX LIABILITIES

Movements in deferred tax liabilities of the Group during the year are as follows:

	Revaluation of properties *HK$'000*
At 1 January 2021	3,387
Deferred tax debited to property revaluation reserve	333
At 31 December 2021 and 1 January 2022	**3,720**
Deferred tax debited to property revaluation reserve	**1,064**
Tax effect on transfer from property revaluation reserve to accumulated losses	**(257)**
At 31 December 2022	**4,527**

As at 31 December 2022, the Group has tax losses arising in Hong Kong of approximately HK$107,142,000 (2021: HK$101,288,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2022, the Group had tax losses arising in the PRC of approximately HK$163,201,000 (2021: HK$169,211,000) that would expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2022, the Group has deductible temporary differences of approximately HK$26,818,000 (2021: HK$32,507,000). Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and the Directors considered it is not probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

The unremitted earnings of the subsidiaries in the PRC which represented the aggregate amount of the temporary differences for which deferred tax liabilities have not been recognised were approximately HK$1,202,000 at 31 December 2022 (2021: HK$727,000). At 31 December 2022, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

25. SHARE CAPITAL

	2022	2021
	HK$'000	*HK$'000*
Issued and fully paid:		
538,019,000 (2021: 538,019,000) ordinary shares	**75,032**	75,032

The primary objectives of the Group's capital management are 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 and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may issue new shares. The Group is not subject to any externally imposed capital requirements, except for that to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 2021.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the consolidated financial statements.

(i) The general reserve fund of the Group is an undistributable reserve and may not be treated as realised profits.

On 25 November 1996, a court order confirming the reduction of the share premium account by approximately HK$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the general reserve fund against which goodwill arising on the acquisition of a subsidiary was eliminated in the consolidated financial statements. In the year ended 31 December 2002, there was a release of goodwill of approximately HK$133,349,000 in respect of the impairment of an investment in a subsidiary relating to the goodwill arising from the acquisition of that subsidiary in 1996.

Pursuant to a special resolution passed in the Group's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of the Hong Kong Special Administrative Region of the PRC (the "Court") dated 2 March 1998, the share premium account was reduced by the amount of approximately HK$34,397,000 and, as undertaken by the Group, a general reserve fund was credited in the books of accounts of the Group in the same amount for the purpose of setting off, in the consolidated financial statements of the Group and its subsidiaries, goodwill arising on consolidation in 1997. In 2000 and 2001, there was release of goodwill of approximately HK$12,478,000 and HK$21,919,000, respectively, in respect of the impairment of investments in subsidiaries relating to the goodwill arising from the acquisition of the subsidiaries in 1997.

26. RESERVES (CONTINUED)

(ii) On 1 February 2011, a special resolution was passed by the shareholders of the Company for approving the reduction in share premium of the Company (the "Share Premium Reduction"). The purpose of the Share Premium Reduction is to reduce the credit standing to the share premium account of the Company to the extent of approximately HK$393,346,000 and to apply the credit arising from such reduction to eliminate the accumulated losses of the Company by the same amount.

On 22 March 2011, the Court made an order (the "Order") confirming the Share Premium Reduction. An office copy of the Order was registered with the Registrar of the Companies on 29 March 2011 (the "Effective Date") in accordance with Section 61 of the predecessor Hong Kong Companies Ordinance (Cap. 32). Accordingly, the Share Premium Reduction became effective immediately following the registration of the Order of the Court and the accumulated losses of the Company of approximately HK$393,346,000 were eliminated against the Company's share premium account.

In connection with the application for the Share Premium Reduction (the "Application"), the Company undertakes that in the event of the Company making any future recoveries of the assets identified in the Application for which provision for impairment in value or amortisation was made in the accounts of the Company between 31 December 2000 and 30 June 2010 (the "Assets") beyond their written down values in the Company's accounts as at 30 June 2010, all such recoveries beyond that written down values up to an amount of HK$150,345,170 (the "Limit") will be credited to a special capital reserve in the accounting records of the Company (the "Special Capital Reserve") and the Company undertakes that so long as there shall remain outstanding any debt of or claim against the Company which, if the Effective Date was the date of the commencement of the winding up of the Company, would be admissible to proof in such winding-up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits for the purposes of ss291, 297 and 299 of the new Companies Ordinance (Cap.622 of the Laws of Hong Kong) and shall (for so long as the Company shall remain a listed company) be treated as an undistributable reserve of the Company for the purposes of ss290 and 298 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong), or any statutory re-enactments or modifications thereof provided that:

26. RESERVES (CONTINUED)

(ii) (continued)

(1) the Company shall be at liberty to apply the Special Capital Reserve for the same purposes as a share premium account may be applied;

(2) the Limit in respect of the Special Capital Reserve may be reduced by the amount of any increase, after the Effective Date, in the amount standing to the credit of the share premium account of the Company as a result of the paying up of shares by the receipt of new consideration or the capitalisation of distributable profits;

(3) the Limit in respect of the Special Capital Reserve may be reduced upon the disposal or other realisation, after the Effective Date, of the Assets by the amount of the impairment in value and amortisation made in relation to such asset as at 30 June 2010 less such amount (if any) as is credited to the Special Capital Reserve as a result of such disposal or realisation; and

(4) in the event that the amount standing to the credit of the Special Capital Reserve exceeds the Limit thereof after any reduction of such Limit pursuant to provisions (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

During the year ended 31 December 2022, a reversal of provision for impairment of approximately HK$374,000 (2021: Nil) was made for the Assets. This resulted in a transfer of approximately HK$374,000 (2021: Nil) from the accumulated losses to the Special Capital Reserve.

The Limit as at 31 December 2022 was HK$150,273,970 (2021: HK$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 31 December 2022 was approximately HK$374,000 (2021: Nil).

(iii) Pursuant to the relevant PRC laws and regulations, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted as to use.

(iv) Capital reserve represents the capital contribution from the then immediate holding company.

27. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2022 *HK$'000*	2021 *HK$'000*
Contracted, but not provided for:		
Buildings	–	21
Leasehold improvements	142	179
Plant and machinery	704	1,633
	846	1,833

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year ended 31 December 2021, the Group entered into an agreement with GDH Limited pursuant to which GDH Limited agreed to waive the loans to the Group and accrued interests payable by the Group as at the date of agreement (i.e., 28 September 2021). It resulted in a decrease of other payables and accruals, and a decrease in loans from the then immediate holding company of approximately HK$20,857,000 and HK$138,476,000, respectively. This had no cash flow impact to the consolidated financial statements.

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

(b) Reconciliation of liabilities arising from financing activities

	Lease liabilities *HK$'000*	Loans from the then immediate holding company *HK$'000*	Total *HK$'000*
At 1 January 2021	441	137,200	137,641
Changes from financing cash flows	(415)	–	(415)
Interest paid classified as operating cash flows	(23)	–	(23)
Non-cash changes			
Interest expense	23	1,276	1,299
Waiver of loans	–	(138,476)	(138,476)
Foreign exchange movement	5	–	5
At 31 December 2021 and 1 January 2022	**31**	**–**	**31**
Changes from financing cash flows	**(106)**	**–**	**(106)**
Interest paid classified as operating cash flows	**(6)**	**–**	**(6)**
Non-cash changes			
Additions to lease liabilities	**158**	**–**	**158**
Interest expense	**6**	**–**	**6**
Foreign exchange movement	**(2)**	**–**	**(2)**
At 31 December 2022	**81**	**–**	**81**

29. RELATED PARTY TRANSACTIONS

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

	Notes	2022 HK$'000	2021 HK$'000
Computer system maintenance service fees paid to a then fellow subsidiary	(i)	–	128
Interest expense to the then immediate holding company	(ii)	–	1,716
Company secretarial expense to a then fellow subsidiary	(iii)	–	72

Notes:

(i) The maintenance service fees was charged for the computer system used by the Group based on the contractual terms.

(ii) The interest expense to the then immediate holding company arose from the loans advanced from GDH Limited.

(iii) The company secretarial expense was charged based on the terms mutually agreed by both parties.

30. EVENTS AFTER THE REPORTING PERIOD

There was no significant event happened after the end of the reporting period (2021: Nil).

31. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY

The below table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2022 and formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name of subsidiaries	Place of registration and business	Registered and paid up capital	Percentage of ownership interest/voting power/profit sharing Direct	Principal activities
徐州港威皮革有限公司* (Xuzhou Gangwei Leather Co., Ltd.)	PRC	RMB18,000,000	100%	Lease of plant and machinery
徐州南海皮廠有限公司* (Xuzhou Nanhai Leather Factory Co., Ltd.)	PRC	US$10,450,000	100%	Processing of cowhides and leather trading
廣州南粵生物醫藥科技有限公司* (前稱：粵海制革(徐州)有限公司)* (Guangzhou Namyue Biomedical Technology Co., Ltd.)# (formerly known as Guangdong Tannery (Xuzhou) Limited)	PRC	US$9,000,000	100%	Lease of plant and machinery

* Registered as wholly-foreign-owned enterprises under PRC law.

\# The company name in English is not the official name but a translation for reference only.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 **HK$'000**	2021 HK$'000
Non-current assets		
Property, plant and equipment	**–**	–
Right-of-use assets	**–**	–
Interests in subsidiaries	**198,346**	213,396
	198,346	213,396
Current assets		
Prepayments, other receivables and deposits	**73**	73
Cash and bank balances	**1,206**	3,392
	1,279	3,465
Current liabilities		
Amount due to subsidiaries	**95,316**	102,707
Other payables and accruals	**988**	1,555
	96,304	104,262
Net current liabilities	**(95,025)**	(100,797)
Total assets less current liabilities	**103,321**	112,599
NET ASSETS	**103,321**	112,599
EQUITY		
Share capital	**75,032**	75,032
Reserves	**28,289**	37,567
TOTAL EQUITY	**103,321**	112,599

Zhou Hao
Director

Sun Jun
Director

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

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

	Equity component of convertible notes	General reserve fund	Capital reserve	Special capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2021	5,545	167,746	3,512	–	(225,546)	(48,743)
Total comprehensive expenses for the year	–	–	–	–	(15,136)	(15,136)
Capital contribution from the then immediate holding company	–	–	101,446	–	–	101,446
At 31 December 2021 and 1 January 2022	5,545	167,746	104,958	–	(240,682)	37,567
Total comprehensive expenses for the year	–	–	–	–	(9,278)	(9,278)
Transfer from accumulated losses in accordance with the undertaking	–	–	–	374	(374)	–
At 31 December 2022	5,545	167,746	104,958	374	(250,334)	28,289

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 29 March 2023.

南粵控股
NAMYUE HOLDINGS

NAMYUE HOLDINGS LIMITED
南粵控股有限公司