南粵控股
NAMYUE HOLDINGS

NAMYUE HOLDINGS LIMITED
南粵控股有限公司

(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

2024
ANNUAL REPORT
年報

Contents

Corporate Information

As at 28 March 2025

BOARD OF DIRECTORS

Executive Directors
Zhou Hao *(Chairman and Managing Director)*
Liao Siyang *(Deputy General Manager)*

Non-Executive Directors
Huang Junfeng
Kuang Hu
Li Jieyu

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

Chan Miu Ting

AUDITOR

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

REGISTERED OFFICE

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

Telephone	: (852) 2308 1013
Website	: www.namyueholdings.com

SHARE REGISTRAR

Tricor Investor Services 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		
	2024	2023	Change
Sales volume of cowhides (in thousand square feet)	**5,343**	6,219	-14.1%
Subcontracted leather processing volume (in thousand square feet)	**18,965**	3,768	+403.3%
Revenue (in thousand HK$)	**89,099**	91,244	-2.4%
Loss for the year (in thousand HK$)	**(33,765)**	(66,449)	+49.2%
Basic loss per share (in HK cents)	**(6.28)**	(12.35)	+49.1%

Key Indicators (As at 31 December)	**2024**	2023	Change
Current Ratio[1]	**0.67 times**	1.08 times	-38.0%
Quick Ratio[2]	**0.35 times**	0.44 times	-20.5%
Debt to asset ratio[3]	**80.4%**	61.0%	+31.8%
Total assets (in thousand HK$)	**97,154**	135,537	-28.3%
Net asset value per share (HK$)	**0.04**	0.10	-60.0%

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 that the consolidated loss attributable to shareholders of Namyue Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for year 2024 was HK$33,765,000 (2023: HK$66,449,000), representing a decrease in loss of 49.2%. Basic loss per share was HK6.28 cents (2023: HK12.35 cents).

DIVIDEND

The board of directors of the Company does not recommend the payment of any dividend for the year ended 31 December 2024 (2023: Nil).

REVIEW

In 2024, China's macroeconomic situation continued to be challenging, with the slow pace of economic recovery and increasing geopolitical tensions adding to the complexity of the market environment. In the footwear leather domestic market, weakening consumer demand and a phenomenon of consumption downgrading have further contributed to the shrinking market demand for genuine footwear leather. However, despite the uncertainties in the external environment and the fierce competition within the industry, the Group has always adhered to the core ideology of being market-oriented and implementing the new development concept by driving development through innovation, proactively adjusting its business layout, flexibly responding to market changes and steadily pushing forward its various operation and management work, which has enabled the Group to maintain its competitiveness amidst the fluctuating market.

Intense competition in the tannery industry has posed certain challenges to the Group's sales and operation management. In order to cope with the predicament in the industry, the Group has repositioned and optimised its business model by actively changing the traditional sales approach and adopting a dual mode of subcontracting in addition to self-manufacturing business, so as to expand its sales channels and further enhance the Group's room for survival. In 2024, the Group had steadily advanced the development strategy of its subcontracting business transformation by focusing on attracting and stabilising subcontracting customers and improving production conditions. This not only significantly increased the production volume, but also effectively reduced energy consumption and unit costs, including expenditures on chemical materials, labour and hardware and machinery materials. The effectiveness of the transformation was significant, and the production and operating conditions improved substantially, while the cash flow also improved gradually.

In terms of environmental protection, the Group has proactively addressed the problem of the aging of tannery wastewater disposal equipment so as to ensure that environmental standards are met and production safety is maintained. In 2024, the Group has commenced cooperation with an external technology research organisation to carry out a comprehensive refurbishment of the wastewater disposal equipment and the production environment of the plant, which has significantly enhanced the wastewater treatment capacity and the overall condition of the plant environment. Meanwhile, the Group has strengthened its refined management by making performance appraisal its core focus, thereby reinforcing the management segments of human resources, finance, procurement and quality inspection, further optimising the production process and lowering the cost of consolidation, and taking a step forward on the road to enhancing economic efficiency and sustainable development.

PROSPECTS

With the changes in the geopolitical situation and the increase in trade barriers, China manufacturing industry will face greater challenges in the global supply chain. As a traditional industry, the tannery industry has suffered from overcapacity and weak demand in recent years, and the industry has continued to experience a downturn, with many tanneries having to reduce production or even withdraw from the market. However, with the advantage of a mega-sized market in Mainland China, a new round of development opportunities will come to the quality enterprises in the industry as excess capacity is gradually cleared. In 2024, the Group has initially relieved its operating pressure through its unremitting efforts, but looking forward to 2025, the Group still needs to proactively address various challenges in order to further enhance its viability.

In the future, the Group will continue to promote the transformation and upgrading of its tannery business, improve the external processing business model, optimise production conditions, enhance customer services, consolidate long-term relationships with quality customers, and continue to liaise with customers with large production volume and high reputation in the market to enhance the utilisation of production capacity. The self-manufacturing business will actively explore the Southeast Asian market, increase the export of half-finished cowhide products, and enhance revenue and gross profit. This will not only help to absorb the inventory, but also revitalise cash flow and further enhance economic efficiency. Meanwhile, the Group will focus on promoting the development of the "cowhide dog chewing gum" business and further explore the pet food market. In 2025, the Group plans to introduce subcontractors, renovate the idle plant to improve the moulding and production section of the "cowhide dog chewing gum" business, so as to achieve mass production of pet snacks, and to further expand the sources of revenue and gross profit.

In terms of management, the Group will continue to deepen reforms, strengthen cost control, implement energy-saving and consumption reduction measures, comprehensively enhance operational efficiency, make steady progress amidst a complex and volatile economic environment at a steady pace, explore various opportunities conducive to the Group's diversified development, optimise its asset allocation, and strive to realise the dual objectives of business diversification and efficiency growth by 2025, thereby bringing greater value returns to all shareholders.

Zhou Hao
Chairman and Managing Director

Hong Kong, 28 March 2025

Management Discussion and Analysis

RESULTS

The Group's consolidated loss attributable to shareholders for the year ended 31 December 2024 was HK$33,765,000 (2023: HK$66,449,000), representing a decrease in loss of HK$32,684,000 or 49.2% from the previous year.

The net asset value of the Group as at 31 December 2024 was HK$19,061,000, representing a decrease of HK$33,850,000 and HK$28,235,000 as compared to the net asset value as at 31 December 2023 and 30 June 2024, respectively.

The Board does not recommend the payment of any dividend for the year ended 31 December 2024 (2023: Nil).

BUSINESS REVIEW

In 2024, the domestic macro-economic recovery was slow and the problem of insufficient consumer confidence was still prominent. The overall performance of the domestic footwear leather market was weak, with intensified industry competition further compressing profit margins. The pressure on the operation of enterprises continued to increase, and the overall operation of the industry still faced great challenges. The market environment and consumer demand needed to be revived. Enterprises were required to response to market pressure by continue innovation along with improving product quality and service standard so as to meet the diversified market demand, and promote the steady development of the industry. In such circumstances, the Group actively responded to market changes by continuously implementing high-quality development plan, steadily promoting business model transformation, enhancing the development of subcontracting business as well as exploring new opportunities in the pet market. At the same time, with inventory and cost reduction as its core tasks, and strengthening the full-process management, the Group enhanced its ability to respond to market fluctuations. In May 2024, the Group successfully passed the environmental auditing protocol of The Leather Working Group (LWG) and was accredited with the Gold Rating, which marked significant progress in brand building of the Company. The certification not only further enhanced customers confidence and boosted the production volume of the subcontracting business, but also assisted the Group in benchmarking against international standards and improved its overall management standard.

During the year, the Group continued to promote inventory management through diversified channels, focusing on the strategy of inventory deleveraging by selling some of the higher cost and lower grade inventories from last year at their best price to achieve optimal inventory management. In addition, the newly established project task force in the current year further facilitated customer orders by accurately sourcing raw materials based on the order status of the downstream customers, which, combined with the benefits brought about by the growth in the subcontracting business, brought about a positive gross profit impact to the Group, resulting in the turnaround of the Group's gross profit margin from -33.8% for last year to 0.4% for current year. At the same time, effective control of administrative expenses further reduced operating costs, resulting in a significant reduction in operating loss by 49.2% compared to last year, effectively curbing the downward trend of the operating situation, enhancing the operating capacity and overall operating quality, and demonstrating a steadily improving development trend.

BUSINESS REVIEW (CONTINUED)

During the year, the Group focused on environmental protection, energy saving and consumption reduction as the overall objectives and put forward a number of optimisation plans, which included focusing on water, electricity, steam and other resources consumption, and carried out refined management and technical modifications, thereby significantly enhanced the effectiveness of energy saving. In terms of water conservation, the wastewater treatment station stopped using tap water in the wastewater treatment process as we managed to overcome the technical bottleneck of the wastewater treatment system being unable to handle highly concentrated wastewater, resulting in a daily saving of about 300 tonnes of water. In terms of electricity saving, we adopted a peak-shifting production model and reasonably arranged commuting times to avoid high-temperature periods in summer and effectively reduced the cost of electricity. In terms of steam conservation, the sewage station had significantly reduced steam usage costs by using thermal insulation measures and air energy-saving equipment to replace traditional steam heating methods. In terms of equipment modification, the rotary drums were upgraded to heavy-duty rotary drums to increase production capacity while reducing labour and electricity costs. These measures had effectively raised the energy-saving awareness and sense of responsibility of all departments and staff, and had successfully transformed energy saving and consumption reduction into real economic benefits.

During the year, the production volume of cowhides was 3,325,000 sq. ft. (2023: 4,613,000 sq. ft.), representing a decrease of 1,288,000 sq. ft. or 27.9% as compared to last year. The production volume of grey hides was 497 tons (2023: 2,414 tons), representing a decrease of 1,917 tons or 79.4% as compared to last year. The production volume of subcontracting business was 18,965,000 sq. ft. (2023: 3,768,000 sq. ft.), representing an increase of 15,197,000 sq. ft. or 403.3% as compared to last year.

During the year, the sales volume of cowhides was 5,343,000 sq. ft. (2023: 6,219,000 sq.ft.), representing a decrease of 876,000 sq. ft. or 14.1% as compared to last year. The sales volume of grey hides was 497 tons (2023: 2,414 tons), representing a decrease of 1,917 tons or 79.4% as compared to last year. The sales volume of subcontracting business was 18,965,000 sq. ft. (2023: 3,768,000 sq. ft.), representing an increase of 15,197,000 sq. ft. or 403.3% as compared to last year.

During the year, the consolidated revenue of the Group was HK$89,099,000 (2023: HK$91,244,000), representing a decrease of HK$2,145,000 or 2.4% as compared to last year, of which the sales value of cowhides amounted to HK$48,719,000 (2023: HK$69,701,000), representing a decrease of 30.1%; and that of grey hides and other products amounted to HK$2,618,000 (2023: HK$12,359,000), representing a decrease of 78.8%; and that of subcontracting business amounted to HK$37,762,000 (2023: HK$9,184,000), representing an increase of 311.2%.

Benefiting from the expansion of the subcontracting business, the Group fully applied its advantages in equipment technology and wastewater treatment for improving its production conditions and attracting subcontracting customers, achieving significant growth in production volume and subcontracting revenue. The production volume of various finished and semi-finished products of the subcontracting business increased by 403.3% as compared to last year, which effectively shared out the unit fixed manufacturing costs, brought about a positive impact on the Group's gross profit and further supported the Group's operational stability.

BUSINESS REVIEW (CONTINUED)

In view of the continuous downturn of the footwear leather market, the Group continued to strengthen its research and development and devoted itself to business refinement and product development. It also strengthened its inventory management by classifying and sorting out the long-term backlog of inventory, subdividing it into categories according to the conditions of the inventory such as leather properties and looseness. The product development was re-planned in accordance with market demand with an aim to enhance sales volume. At the same time, in order to be more competitive in the market, the Group improved product quality, adjusted finished products structures and strengthened quality control so as to enhance quality product rate and selling price.

In addition, the Group actively sought opportunities for product diversification during the year. Through in-depth market research and tapping of internal resources, the Group had preliminary assessed the possibility of the production of "semi-finished cowhide dog chewing gum" with the aim of exploring new sources of income. This functional pet chew product was made from grey hides, a by-product of the pre-tanning process, which was a relatively simple and low-cost production process with stable product quality. The existing equipment could basically meet the production requirements. The expansion of this new business would not only enhance the utilisation of resources, but would also bring new impetus to the Group's development and further strengthens the Group's competitive edge in the market.

Cost reduction and efficiency enhancement was one of the Group's core tasks during the year. To this end, a number of measures were implemented to reduce costs while enhancing overall efficiency. In terms of production management, the Group had formulated a performance appraisal programme linked to production volume, quality and energy consumption with the aim of enhancing staff motivation. Meanwhile, the Group had optimised its human resources by reorganising and consolidating work tasks and positions, and rationalising orders to centralise production so as to increase the utilisation of working hours and compress labour costs. In terms of chemical material management, the Group had conducted statistics and optimisation of chemical material varieties to reduce chemical material costs through meticulous accounting. In addition, the Group had strengthened its sourcing strategy by cooperating with large-scale chemical suppliers to reduce procurement costs through bulk purchasing and process optimisation. During the year, the Group mainly made targeted purchases of cowhides, with the priority of reducing inventory and liquidating funds, and the total amount of purchases was HK$30,898,000, representing a decrease of 59.9% as compared to the same period last year.

As at 31 December 2024, the Group's consolidated inventory amounted to HK$24,048,000 (31 December 2023: HK$50,457,000), representing a decrease of HK$26,409,000 or 52.3% as compared to that as at 31 December 2023. With destocking as its target, the Group continued to firmly digest inventory. During the year, inventory management and product development were strengthened, and aged inventory was sold with all efforts through research on craft and product rectification and integration, with a focus on resolving the problem of inventory retention. The Group has reassessed the value of inventories based on its ageing and net realizable value and made a net reversal of provision for inventories of HK$7,434,000 for 2024 (2023: provision for inventories of HK$21,514,000).

As at 31 December 2024, the Group's property, plant and equipment amounted to HK$37,277,000 (31 December 2023: HK$40,248,000), representing a decrease of HK$2,971,000 or 7.4% as compared to that as at 31 December 2023. In view of the loss on the Group's operating results during the period, the recoverable amount of 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$4,158,000 was made for 2024 (2023: HK$746,000).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2024, the Group's cash and cash equivalents amounted to HK$3,419,000 (31 December 2023: HK$7,139,000), representing a drop of HK$3,720,000 or 52.1% as compared to 31 December 2023, of which 6.3% were in Hong Kong dollars, 91.0% in Renminbi and 2.7% in United States dollars. Net cash inflow from operating activities for the year was HK$6,724,000, which was mainly attributable to the decrease in inventories. Net cash outflow from investing activities was HK$4,791,000, which was mainly attributable to the increase in pledged bank balances and payment for renovations and purchase of equipment. Net cash outflow from financing activities was HK$5,560,000, which was mainly attributable to the increase in repayment of bank borrowings.

As at 31 December 2024, the Group had interest-bearing borrowing in Renminbi of HK$8,639,000 (31 December 2023: HK$14,811,000 of which interest-bearing loan in Renminbi amounted to HK$14,346,000 and interest-bearing bank borrowings in US dollars amounted to HK$465,000), charged at fixed rate. The Group's banking facilities secured by pledged bank balances, buildings and right-of-use assets of HK$44,422,000 in total, charged at a floating rate.

As at 31 December 2024, the Group's gearing ratio of interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 31.2% (31 December 2023: 21.9%). The annual interest rate of loan interest and discount interest during the year was approximately 1.7% to 5.5%. During the year, the Group's interest expenses amounted to HK$504,000, representing a decrease of 42.7% as compared to the corresponding period of last year, which was mainly attributable to the decrease in loan amounts.

As at 31 December 2024, the Group had banking facilities of HK$37,797,000 in total, all of which were unutilized, while as at 31 December 2023, the Group had banking facilities of HK$44,140,000 in total, of which utilized interest-bearing bank borrowings of HK$14,811,000 was under such facilities. Taking into account the existing cash resources and available credit facilities, the Group has adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2024, the net amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK$47,551,000, representing a decrease of HK$3,492,000 over the net value of HK$51,043,000 as at 31 December 2023. The capital expenditure for the year amounted to HK$4,304,000 (2023: HK$866,000) in total, which was mainly attributable to the payment of renovations as well as acquisition of equipment to meet the production needs of the Group.

Pledge of Assets

As at 31 December 2024, the Group's bank deposits of HK$1,297,000 (31 December 2023: HK$25,000), buildings of HK$32,851,000 (31 December 2023: HK$35,522,000) and right-of-use assets of HK$10,274,000 (31 December 2023: HK$10,795,000) 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 2024, the Group had 261 staff (31 December 2023: 288). 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 44, 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. He was appointed the Managing Director of the Company with effect from 20 October 2023. 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, as well as being the chairman of the supervisory board of Macau Chinese Bank from April 2019 to February 2023. Mr. Zhou also acts as a director of certain wholly-owned subsidiaries of the Company. Nam Yue Group is a state-owned enterprise established in the PRC.

Mr. Liao Siyang, aged 40, was appointed an Executive Director of the Company with effect from 31 January 2024. He has been the deputy general manager of the Company since 1 June 2023 and the deputy general manager of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.*), a wholly-owned subsidiary of the Company, since August 2023. Mr. Liao graduated from 廣東工業大學 (Guangdong University of Technology*) and 華南師範大學 (South China Normal University*) in the PRC and holds a bachelor's degree in science from 廣東工業大學 (Guangdong University of Technology*) and a master's degree in history from 華南師範大學 (South China Normal University*). From 2011 to 2021, he worked in various positions in 廣東省航運集團有限公司 (Guangdong Province Navigation Group Co., Ltd.*) (now known as 廣東省港航集團有限公司 (Guangdong Provincial Port & Shipping Group Co., Ltd.*) ("GDPS Group")) and its subsidiaries. He joined a subsidiary of Nam Yue Group in April 2021 and was a discipline inspection inspector of the discipline inspection and supervision office of Nam Yue Group from June 2021 to June 2023. Both of GDPS Group and Nam Yue Group are state-owned enterprises established in the PRC.

(B) NON-EXECUTIVE DIRECTORS

Mr. Huang Junfeng, aged 44, 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 47, 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 Limited ("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. Mr. Kuang acted as an executive director, vice chairman and acting chairman of the board of Guangdong Land Holdings Limited ("GD Land", stock code: 00124) during the period from February 2022 to March 2025. He was appointed as an executive director and the managing director of Guangdong Investment Limited (stock code: 00270) effective from 25 March 2025.

Ms. Li Jieyu, aged 53, was appointed a Non-Executive Director of the Company with effect from 20 August 2024. Ms. Li holds a graduation certificate of an undergraduate programme in accounting from Jinan University (暨南大學) in the PRC and has been awarded the senior accountant qualification from the Department of Personnel of Guangdong Province. She joined the planning and finance department of Nam Yue Group, the ultimate controlling shareholder of the Company, in 2009 and has since held various senior positions in its subsidiaries, including, among others, the positions of director of 南粵食品水產有限公司 (Nam Yue Food Stuff & Aquatics Company Ltd.*) and 南方控股有限公司 (Nam Fong Holdings, Limited*, established in the Macao Special Administrative Region of the PRC) since May 2022 and since December 2023, respectively, and financial controller of 南方控股有限公司 (Nam Fong Holdings, Limited*) since May 2022. Nam Yue Group is a state-owned enterprise established in the PRC.

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Man Lee, *BBS, JP*, aged 65, 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 57, 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 GD Land (stock code: 00124).

Mr. Yang Ge, aged 41, 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 18 years working experience in accounting firms. He was an independent director of Grandblue Environment Co., Ltd. (stock code: 600323.SH) from June 2017 to June 2023 and an independent director of Yizumi Holdings Co., Ltd. (formerly known as Guangdong Yizumi Precision Machinery Co., Ltd.) (stock code: 300415.SZ) from August 2020 to October 2023. Mr. Yang is currently the chief executive officer and chief accountant of 廣東中翼誠會計師事務所（特殊普通合夥）(Guangdong Zhongyi Cheng Certified Public Accountants (Special General Partnership)*) and an independent director of PowerTECH Co., Ltd. (stock code: 301369.SZ)) and Beijing Leadman Biochemistry Co., Ltd. (stock code: 300289).

(D) SENIOR MANAGEMENT

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

* *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 (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 2024.

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, and subcontracted leather processing. The activities of the principal subsidiary of the Company are set out in note 32 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 2024 and the financial position of the Group at that date are set out in the financial statements on pages 41 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 2024.

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 10 of this Annual Report.

The financial risk management objective and policies of the Group are shown in note 6 to the financial statements on pages 61 to 69 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 10 and in the Corporate Governance Report on pages 23 to 37 of this Annual Report and in the 2024 Environmental, Social and Governance ("ESG") Report (the "2024 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 10 and in the Corporate Governance Report on pages 23 to 37 of this Annual Report and in the 2024 ESG 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 changes in macroeconomics, geopolitics, market supply and demand, competition and relationships with business partners. The downward pressure of the industry continued to increase significantly, and the de-capacification of the tannery industry and the further enhancement of environmental protection requirements, the change in consumers' spending behaviour and the continuous increase in the number of substitutes have resulted in a continuous shrinkage of the demand for the footwear leather market, which has increased the risks and uncertainties in respect of the Group's production and operation as well as its 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 and actively seeking diversification opportunities, 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. 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 investing environmental improvement projects by 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 raw materials, under-development of products and inconsistent quality could possibly increase the likelihood of inventory impairment risk for the Group. In this regard, the Group 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 craft, product rectification and the sale of old inventory, 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. Demand in the tannery market witnessed a slippage. Downstream footwear manufacturers were encountering difficulties in operations or having shut the operations down, which could possibly result in receivables being unable to be recovered. In addition, 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 from time to time that are applicable to its business operation. 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 as set out in this Annual Report and the 2024 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				
	2024	2023	2022	2021	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**89,099**	91,244	86,050	196,231	191,404
(Loss)/Profit from operating activities	**(33,597)**	(65,931)	(44,053)	(17,692)	2,020
Finance costs	**(504)**	(879)	(107)	(1,994)	(4,644)
Loss before tax	**(34,101)**	(66,810)	(44,160)	(19,686)	(2,624)
Income tax credit/(expenses)	**336**	361	231	(257)	(127)
Loss for the year	**(33,765)**	(66,449)	(43,929)	(19,943)	(2,751)

FINANCIAL SUMMARY (CONTINUED)

Assets and liabilities

	As at 31 December				
	2024 *HK$'000*	2023 *HK$'000*	2022 *HK$'000*	2021 *HK$'000*	2020 *HK$'000*
Assets					
Non-current assets	47,551	51,043	54,098	58,056	55,452
Current assets	49,603	84,494	119,909	170,228	196,076
Total assets	97,154	135,537	174,007	228,284	251,528
Liabilities					
Current liabilities	73,590	77,951	49,467	50,028	62,569
Non-current liabilities	4,503	4,675	4,527	3,720	161,015
Total liabilities	78,093	82,626	53,994	53,748	223,584
Net Assets	19,061	52,911	120,013	174,536	27,944

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARES ISSUED

Details of the Company's shares issued during the year are set out in note 27 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 2024, no reserves of the Company, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance, are available for cash distribution.

CHARITABLE CONTRIBUTIONS

The Group did not make any charitable contributions during the year (2023: Nil).

DIRECTORS

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

Executive Directors
Zhou Hao *(Chairman and Managing Director)*
Liao Siyang *(Deputy General Manager) (appointed as Executive Director on 31 January 2024)*

Non-Executive Directors
Huang Junfeng
Kuang Hu
Li Jieyu *(appointed as Non-Executive Director on 20 August 2024)*

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. Kuang Hu and Mr. Yang Ge will retire by rotation at the forthcoming annual general meeting of the Company to be held on Wednesday, 18 June 2025 (the "2025 AGM") and shall be eligible for re-election.

In accordance with Article 77 of the Articles, Ms. Li Jieyu, who was appointed as Non-Executive Director of the Company with effect from 20 August 2024, shall hold office until the 2025 AGM and shall be eligible for re-election.

Mr. Kuang Hu, Mr. Yang Ge and Ms. Li Lieyu, being eligible, have offered themselves for re-election, and if re-elected, will hold office from the date of re-election to the earlier of either (i) the conclusion of the annual general meeting of the Company to be held in 2028, or (ii) 30 June 2028, and in any event, subject to earlier determination in accordance with the Articles and/or any applicable laws and regulations.

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 2024 and up to the date of this report are set out below:

Zhou Hao
Wai Sze Ki

DIRECTORS' SERVICE CONTRACT

No Director proposed for re-election at the 2025 AGM 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

As at 31 December 2024, an amount of approximately HK$164,000 was due from a Director. For details, please refer to notes 13 and 20 to the financial statements on pages 76 and 85 of this Annual Report.

Other than as stated above, 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 2024. 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 2024, 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 2024, 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 the Securities and Futures Ordinance (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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2024, 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 2024.

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 2024, so far as is known to any Director or the chief executive of the Company, there were no other persons 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

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

There were no related party transactions undertaken in the normal course of business of the Group during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2024, the amount of purchases attributable to the Group's largest supplier represented approximately 13.5% 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 34.1% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented approximately 14.4% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented approximately 49.2% 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.

CHANGES IN DIRECTORS' INFORMATION

Mr. Yang Ge acted as an independent director of Beijing Leadman Biochemistry Co., Ltd. (stock code: 300289) with effect from 29 November 2024.

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 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 Ernst & Young.

The consolidated financial statements of the Group for the year ended 31 December 2024 have been audited by ZH who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the 2025 AGM for the re-appointment of ZH as the auditor of the Company.

By Order of the Board
Zhou Hao
Chairman and Managing Director

Hong Kong, 28 March 2025

Corporate Governance Report

BUSINESS MODEL

The Company and its subsidiaries are principally engaged in the processing and sale of semi-finished and finished leather and subcontracted leather processing.

CORPORATE CULTURE

The Group adheres to the corporate culture of "Unity and Efficiency, Enterprising" of Nam Yue Group, the holding company of the Company.

Unity
Efficiency &
Enterprising

Unity:
Cooperation in endeavors

Efficiency:
Professionalism and dedication to excellence

Enterprising:
Innovation and the pursuit of advancement

DEVELOPMENT STRATEGIES

The Group has been committed to consolidating its existing business operations and actively identifying development opportunities. In the future, the Group will adopt "Building a New Ecosystem" as the guiding principle for its operations. The Group will explore potential opportunities, challenge traditional business thinking, optimize operational structure, and implement flexible business mechanisms, with a focus on reducing losses as the Group works towards creating a new foundation for sharing and collaboration.

The Group will continue to promote the transformation and upgrading of its tannery business, improve the external processing business model, optimise production conditions, enhance customer services, consolidate long-term relationships with quality customers, and continue to liaise with customers with large production volume and high reputation in the market to enhance the utilisation of production capacity. Meanwhile, the Group will focus on promoting the development of the cowhide dog chews business and deepen its penetration into the pet food market. The Group plans to introduce subcontractors, renovate the idle plant to improve the moulding and production section of the dog chews embryo, so as to achieve mass production of pet snacks, and to further expand the sources of revenue and gross profit. Moreover, the Group will continue to deepen reforms, strengthen cost control, implement energy-saving and consumption reduction measures, comprehensively enhance operational efficiency, make steady progress amidst a complex and volatile economic environment at a steady pace, explore various opportunities conducive to the Group's diversified development, optimise its asset allocation, and strive to realise the dual objectives of business diversification and efficiency growth, thereby bringing greater value returns to all shareholders.

The Group will continue to make efforts to strengthen corporate culture and enhance core competitiveness. Detailed development strategies can be found in the Chairman's Statement and Management Discussion and Analysis sections of this Annual 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 C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

In the opinion of the directors of the Company (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 2024, save for the deviation from Code Provision C.2.1 as explained below:

Under the Code Provision C.2.1, there should be a clear division of responsibilities for the roles of chairman and chief executive officer and these two roles should be performed by two persons (the Company regards that the term “chief executive officer” has the same meaning as the Managing Director of the Company). Since 20 October 2023, Mr. Zhou Hao served as both Chairman and Managing Director of the Company.

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 Composition

As at the date of this Annual Report, the Board comprises two Executive Directors, being Mr. Zhou Hao (Chairman and Managing Director) and Mr. Liao Siyang (Deputy General Manager); three Non-Executive Directors, being Mr. Huang Junfeng, Mr. Kuang Hu and Ms. Li Jieyu; 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.

BOARD OF DIRECTORS (CONTINUED)

Chairman and Managing Director

Mr. Zhou Hao has been appointed Chairman of the Company since 16 December 2021 and was further appointed as Managing Director of the Company on 20 October 2023.

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 Meetings and Rules of Procedure

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 2024, five Board meetings were held and five Board written resolutions were passed. Attendance of each Director at the Board meetings is set out in the section headed "BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETING" 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 CG Code.

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.

BOARD OF DIRECTORS (CONTINUED)

Board Meetings and Rules of Procedure (continued)

According to the current Board practice, if any 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 of Association of the Company (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.

The Company has established internal policies (including but not limited to the Articles, and the Terms of Reference and Rules of Procedure of the Board, the Terms of Reference of each 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, its committees and Directors to seek independent professional advice. The Company has reviewed the implementation and effectiveness of the aforesaid mechanisms and considers that the aforesaid mechanisms can ensure the independent views and opinions of the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All Directors, including Executive Directors, 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/her appointment and shall be subject to retirement by rotation at least once every three years, in accordance with the Articles and/or any 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

During the year under review, Mr. Liao Siyang was appointed an Executive Director of the Company with effect from 31 January 2024; whereas Ms. Li Jieyu was appointed a Non-Executive Director of the Company with effect from 20 August 2024. Each of Mr. Liao and Ms. Li obtained legal advice from a firm of solicitors qualified to advise on Hong Kong law as regards the requirements under the Listing Rules that are applicable to him/her as a director of a listed issuer and the possible consequences of making a false declaration or giving false information to the Stock Exchange in accordance with Rule 3.09D of the Listing Rules.

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/she is sufficiently aware of his/her 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 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 provides resources on online seminars and reading materials 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 2024.

Name of Director	Seminars and Conferences	Reading materials
Executive Directors		
Zhou Hao	✓	✓
Liao Siyang *(appointed as Executive Director on 31 January 2024)*	✓	✓
Non-Executive Directors		
Huang Junfeng	✓	✓
Kuang Hu	✓	✓
Li Jieyu *(appointed as Non-Executive Director on 20 August 2024)*	✓	✓
Independent Non-Executive Director		
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 eight 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 11 to 13 of this Annual Report demonstrate a diversity of skills, expertise, experience and qualifications.

The Board strived to maintain a balanced composition in terms of gender. Ms. Li Jieyu has been acting as a Non-Executive Director of the Company since 20 August 2024.

To ensure there is gender diversity on the Board, the Board has set a target that there must be at least one Director of different gender on the Board at all times, subject to our Directors (i) being satisfied with the competence and experience of the relevant candidates after a holistic review process based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interest of our Company and the shareholders as a whole when deliberating on the appointment.

To develop a pipeline of potential successors of different genders to the Board, the 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 staff of different genders 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.

Having reviewed the implementation of the Board Diversity Policy and the structure, size and composition of the Board, and the commitment to develop a pipeline of potential successors of different genders to the Board, the Nomination Committee considered that the requirement of the Board Diversity Policy had been met.

As at 31 December 2024, the gender ratio in the workforce of the Group (including senior management of the Company) comprised 77% male and 23% 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, among the other things, 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 C2 to the Listing Rules for the year of 2024; 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 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. The terms of reference of the Remuneration Committee detailing its authority and duties are available on the website of the Company.

As at the date of this report, 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.

The meeting of the Remuneration Committee shall be held at least once a year. During the year ended 31 December 2024, the Remuneration Committee held one meeting to (i) review and approve the 2024 performance assessment proposal of the Company; and (ii) the performance assessment target of the Executive Directors. The attendance of each member is set out in the section headed "BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETING" of this report.

Details of the remuneration to Directors and members of senior management by band for the year 2024 are set out in note 13 to the financial statements.

NOMINATION COMMITTEE

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

As at the date of this report, 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. Mr. Zhou Hao is the Chairman of the Nomination Committee.

The Board adopted a nomination policy (the "Nomination Policy") 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/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.

The meeting of the Remuneration Committee shall be held at least once a year. During the year ended 31 December 2024, the Nomination Committee had held two meetings and had passed one written resolution 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; (iii) to make recommendations to the Board for the re-election of Directors; and (iv) to make recommendations to the Board for the appointment of Directors. The attendance of each member is set out in the section headed "BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETING" of this report.

AUDIT COMMITTEE

The Audit Committee was established in September 1998. 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 (including ESG risks). 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 terms of reference of the Audit Committee detailing its authority and duties are available on the website of the Company

As at the date of this report, 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 2024, the Audit Committee held four meetings and had passed one written resolution to (i) review and recommend 2023 annual results, auditor's findings and draft annual results announcement for the Board's approval; (ii) review and consider various accounting issues and new accounting standards and their financial impacts; (iii) review the internal audit plan for year 2024; (iv) review and recommend 2024 interim and quarterly results, auditor's findings, draft interim and quarterly results announcements for the Board's approval; (v) review and recommend the internal audit reports for the Board's approval; and (vi) assess the effectiveness of risk management and internal control systems of the Group for 2023. The attendance of each member is set out in the section headed "BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETING" of this report.

BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETING

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 meeting during the year ended 31 December 2024 are set out below:

Name of Director	Board Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Audit Committee Meeting	Annual General Meeting
Executive Directors					
Zhou Hao	5/5	2/2	–	–	1/1
Liao Siyang *(appointed as Executive Director on 31 January 2024)*	5/5	–	–	–	0/1
Non-Executive Directors					
Huang Junfeng	2/5	–	–	–	0/1
Kuang Hu	3/5	–	–	–	0/1
Li Jieyu *(appointed as Non-Executive Director on 20 August 2024)*	1/1	–	–	–	0/0
Independent Non-Executive Directors					
Yeung Man Lee	5/5	2/2	1/1	4/4	1/1
Leung Luen Cheong	5/5	2/2	1/1	4/4	1/1
Yang Ge	5/5	2/2	1/1	4/4	1/1

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 – 2024 final results	750
Non-audit services	250

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements of the Company for the year ended 31 December 2024, 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 2024, 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 after taking into considerations of the factors disclosed in note 2 to the financial statements.

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 2024, 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 (i) safeguard assets from inappropriate use; (ii) maintain proper accounts; (iii) ensure compliance with regulations; and (iv) 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 report 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 C3 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. Cheung Hoi Yin as the Company Secretary of the Company on 18 October 2024, Ms. Chan Miu Ting ("Ms. Chan") was appointed the Company Secretary of the Company in her place.

Ms. Chan is not a full-time employee of the Company. She reports to the Chairman and the Managing Director of the Company and is responsible for advising the Board on corporate governance matters of the Company. The primary contact person of the Company with Ms. Chan is Ms. Wai Sze Ki, the Chief Financial Officer of the Company. During the year under review, Ms. Chan undertook no less than fifteen 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 Investor Services 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.

In accordance with Rules 2.07A and 2.07B of the Listing Rules, the Articles and the Companies Ordinance, arrangements have been made to offer shareholders the options to elect for the means of receipt (in printed form or by website version) of the Company's future corporate communications as announced by the Company on 29 December 2023.

In support of environmental protection, the Company recommends its Shareholders to elect for the website version for receiving the Company's future corporate communications.

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 2024 and is effective.

Constitutional Documents

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 23(a)(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 that have a significant impact on the Group. 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 on pages 6 to 10 in this Annual Report and the 2024 ESG Report.

RELATIONSHIPS WITH KEY 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 and Managing Director

Hong Kong, 28 March 2025

Independent Auditor's Report

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF NAMYUE HOLDINGS 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 41 to 98, which comprise the consolidated statement of financial position as at 31 December 2024, 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 material accounting policy information.

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 2024, 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.

MATERIAL UNCERTAINTY RELATED TO THE GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which states that the Group incurred a loss of approximately HK$33,765,000 for the year ended 31 December 2024 and as at 31 December 2024, the Group had net current liabilities of approximately HK$23,987,000. These conditions indicate a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matters described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

KEY AUDIT MATTERS (CONTINUED)

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

Refer to Note 17 and Note 18 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$37,277,000 and HK$10,274,000 respectively as at 31 December 2024 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

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 19 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$24,048,000 as at 31 December 2024 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.

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

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

RESPONSIBILITIES OF 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, 28 March 2025

Consolidated Statement of Profit or Loss

For the year ended 31 December 2024

	Notes	2024 HK$'000	2023 HK$'000
Revenue	8	89,099	91,244
Cost of sales		(88,714)	(122,100)
Gross profit/(loss)		385	(30,856)
Other income and losses, net	9	2,029	372
Selling and distribution expenses		(1,383)	(1,991)
Administrative expenses		(24,582)	(29,657)
Impairment on items of plant and equipment	17	(4,158)	(746)
Other operating expenses, net	9	(5,888)	(3,053)
Finance costs	10	(504)	(879)
Loss before tax	11	(34,101)	(66,810)
Income tax credit	12	336	361
Loss for the year		(33,765)	(66,449)
Loss per share	16		
– Basic		HK(6.28) cents	HK(12.35) cents
– Diluted		HK(6.28) cents	HK(12.35) cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2024

	Notes	2024 HK$'000	2023 HK$'000
Loss for the year		**(33,765)**	(66,449)
Other comprehensive income/(expenses)			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Surplus on revaluation of buildings	17	**978**	1,627
Income tax effect	26	**(245)**	(407)
		733	1,220
Other comprehensive expenses that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(818)**	(1,873)
Other comprehensive expenses for the year, net of tax		**(85)**	(653)
Total comprehensive expenses for the year		**(33,850)**	(67,102)

Consolidated Statement of Financial Position

As at 31 December 2024

	Notes	2024 HK$'000	2023 HK$'000
Non-current assets			
Property, plant and equipment	17	37,277	40,248
Right-of-use assets	18	10,274	10,795
		47,551	51,043
Current assets			
Inventories	19	24,048	50,457
Receivables, prepayments and deposits	20	20,839	26,873
Pledged bank balances	21	1,297	25
Cash and bank balances	21	3,419	7,139
		49,603	84,494
Current liabilities			
Trade and bills payables	22	36,759	34,113
Other payables, accruals and provision	23	27,061	27,896
Interest-bearing bank borrowings	24	8,639	14,811
Due to a PRC joint venture partner	25	1,131	1,131
		73,590	77,951
Net current (liabilities)/assets		(23,987)	6,543
Total assets less current liabilities		23,564	57,586
Non-current liabilities			
Other payables, accruals and provision	23	–	81
Deferred tax liabilities	26	4,503	4,594
		4,503	4,675
NET ASSETS		19,061	52,911
EQUITY			
Share capital	27	75,032	75,032
Reserves	28	(55,971)	(22,121)
TOTAL EQUITY		19,061	52,911

Zhou Hao
Director

Liao Siyang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2024

	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 28 (i)	*note 28 (iii)*	*note 28 (iv)*			*note 28 (ii)*		
At 1 January 2023	75,032	5,545	167,746	20,239	167,920	66,287	11,989	374	(395,119)	120,013
Loss for the year	–	–	–	–	–	–	–	–	(66,449)	(66,449)
Other comprehensive (expenses)/ income for the year:										
– Changes in fair value of buildings, net of tax	–	–	–	–	–	–	1,220	–	–	1,220
– Exchange differences on translation of foreign operations	–	–	–	–	–	(1,873)	–	–	–	(1,873)
Total comprehensive (expenses)/ income for the year	–	–	–	–	–	(1,873)	1,220	–	(66,449)	(67,102)
Transfer from accumulated losses in accordance with the undertaking	–	–	–	–	–	–	–	224	(224)	–
Transfer from property revaluation reserve to accumulated losses	–	–	–	–	–	–	(1,360)	–	1,360	–
At 31 December 2023 and 1 January 2024	75,032	5,545*	167,746*	20,239*	167,920*	64,414*	11,849*	598*	(460,432)*	52,911
Loss for the year	–	–	–	–	–	–	–	–	(33,765)	(33,765)
Other comprehensive (expenses)/ income for the year:										
– Changes in fair value of buildings, net of tax	–	–	–	–	–	–	733	–	–	733
– Exchange differences on translation of foreign operations	–	–	–	–	–	(818)	–	–	–	(818)
Total comprehensive (expenses)/ income for the year	–	–	–	–	–	(818)	733	–	(33,765)	(33,850)
Transfer from accumulated losses in accordance with the undertaking	–	–	–	–	–	–	–	329	(329)	–
Transfer from property revaluation reserve to accumulated losses	–	–	–	–	–	–	(1,343)	–	1,343	–
At 31 December 2024	**75,032**	**5,545***	**167,746***	**20,239***	**167,920***	**63,596***	**11,239***	**927***	**(493,183)***	**19,061**

* These reserve accounts comprise the consolidated deficit reserve of approximately HK$55,971,000 (2023: deficit reserve HK$22,121,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2024

	2024 *HK$'000*	2023 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(34,101)	(66,810)
Adjustments for:		
Finance costs	504	879
Finance income	(9)	(21)
Gains on disposal of property, plant and equipment	(805)	–
Depreciation of property, plant and equipment	3,267	3,254
Depreciation of right-of-use assets	295	299
(Reversal of provision)/provision for inventories	(7,434)	21,514
Impairment of trade receivables	6,232	3,215
Impairment on items of plant and equipment	4,158	746
Impairment of right-of-use assets	–	158
Reversal of impairment of other receivables	(283)	–
Reversal of accruals and payables	(61)	(320)
Written-off of plant and equipment	–	30
Operating cash flows before working capital changes	(28,237)	(37,056)
Change in inventories	33,158	160
Change in receivables, prepayments and deposits	(402)	6,872
Change in trade and bills payables	3,418	10,467
Change in other payables, accruals and provision	(255)	4,260
Change in interest-bearing bank borrowings	(463)	469
Cash generated from/(used in) operations	7,219	(14,828)
Interest received	9	21
Interest paid	(504)	(879)
Net cash flows generated from/(used in) operating activities	6,724	(15,686)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(4,304)	(866)
Change in pledged bank balances	(1,292)	(25)
Proceeds from disposal of property, plant and equipment	805	–
Net cash flows used in investing activities	(4,791)	(891)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of interest-bearing bank borrowings	(14,257)	–
Principal portion of lease payments	(77)	(81)
Proceeds from interest-bearing bank borrowings	8,774	14,443
Net cash flows (used in)/generated from financing activities	(5,560)	14,362
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,627)	(2,215)
Cash and cash equivalents at beginning of year	7,139	9,463
Effect of foreign exchange rate changes, net	(93)	(109)
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,419	7,139
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,419	7,139

Notes to the Consolidated Financial Statements

For the year ended 31 December 2024

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, and subcontracted leather processing. The principal activities of its principal subsidiary are set out in note 32 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" or "Mainland China"), is the ultimate holding company of the Company.

2. BASIS OF PREPARATION

Going Concern

The Group incurred a loss of approximately HK$33,765,000 for the year ended 2024 and as at 31 December 2024, the Group had net current liabilities of approximately HK$23,987,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

(i) the Group had renewed the pledged bank facilities amounting to RMB35,000,000 up to April 2027 with Bank of Nanjing Co., Ltd. and had a bank borrowing amounting to RMB8,000,000 with China Everbright Bank Co., Ltd. up to July 2025 to finance daily operation;

(ii) the Directors continue to strengthen and implement a variety of measures to improve the working capital and cash flows of the Group, including closely monitoring the production costs, selling and distribution expenses, and general administrative and operating expenses; and

(iii) the Directors are actively seeking new business opportunities to achieve profitable and abundant working capital, and explore new sources of income.

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

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

3. 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 2024. 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.

4. MATERIAL 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 (the "Listing Rules") 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. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the consolidated financial statements, are further disclosed in note 5 to the consolidated financial statements.

The material 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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

Consolidation (continued)

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.

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

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.

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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.

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

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.

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

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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.

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

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.

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.

Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Other 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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

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.

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.

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

4. MATERIAL 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.

4. MATERIAL 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.

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

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.

4. MATERIAL 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.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

These consolidated financial statements have been prepared on a going concern basis. Details are explained in note 2 to the consolidated financial statements.

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 2024 was approximately HK$24,048,000 (2023: HK$50,457,000). Further details are set out in note 19 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 20 to the consolidated financial statements. The carrying amount of trade receivables was approximately HK$16,230,000 (2023: HK$21,629,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (continued)

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 2024, the carrying amount of plant and equipment, and leased properties was nil (2023: Nil). Further details are set out in notes 17 and 18 to the consolidated financial statements.

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 2024 were approximately HK$10,274,000 (2023: HK$10,795,000) and approximately HK$37,277,000 (2023: HK$40,248,000), respectively. Further details are set out in notes 17 and 18 to the consolidated financial statements.

6. 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 5% (2023: 51%) 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.

	Increase/ (decrease) in exchange rate	**Decrease/ (increase) in loss before tax**
	%	*HK$'000*
31 December 2024		
If RMB strengthens against US$	**3**	**43**
If RMB weakens against US$	**(3)**	**(43)**
31 December 2023		
If RMB strengthens against US$	3	1,344
If RMB weakens against US$	(3)	(1,344)

(b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2024 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 29% (2023: 34%) of the Group's trade receivables were due from a customer.

6. 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

6. 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 2024	**On demand** *HK$'000*	**Less than 3 months** *HK$'000*	**3 to less than 12 months** *HK$'000*	**Total** *HK$'000*
Trade and bills payables	**24,961**	**7,573**	**4,225**	**36,759**
Other payables and accruals (excluding lease liabilities)	**16,249**	**–**	**–**	**16,249**
Interest-bearing bank borrowings	**–**	**78**	**8,745**	**8,823**
Due to a PRC joint venture partner	**1,131**	**–**	**–**	**1,131**
	42,341	**7,651**	**12,970**	**62,962**

31 December 2023	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	Total *HK$'000*
Trade payables	27,368	6,745	–	34,113
Other payables and accruals (excluding lease liabilities)	15,924	–	–	15,924
Interest-bearing bank borrowings	–	472	14,622	15,094
Due to a PRC joint venture partner	1,131	–	–	1,131
	44,423	7,217	14,622	66,262

(d) Interest rate risk

The Group's exposure to fair value interest rate risk arises primarily from the Group's lease liabilities and interest-bearing bank borrowings 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.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Categories of financial instruments at 31 December

	2024	2023
	HK$'000	*HK$'000*
Financial assets:		
Debt investments at fair value through other comprehensive income	**2,973**	4,460
Financial assets at amortised cost (including cash and cash equivalents)	**22,415**	29,387
	25,388	33,847
Financial liabilities:		
Financial liabilities at amortised cost	**62,962**	66,262

(f) Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2024, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Endorsed Bills") with a carrying amount of approximately RMB1,112,000 (equivalent to HK$1,200,000) (2023: RMB1,270,000 (equivalent to HK$1,401,000)) 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 RMB1,112,000 (equivalent to HK$1,200,000) (2023: RMB1,270,000 (equivalent to HK$1,401,000)) as at 31 December 2024.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Transfers of financial assets (continued)

Transferred financial assets that are derecognised in their entirety

At 31 December 2024, 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 RMB5,632,000 (equivalent to HK$6,082,000) (2023: RMB5,129,000 (equivalent to HK$5,660,000)). The Derecognised Bills had a maturity from one to six months (2023: from one to five 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 2024 and 2023, 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.

6. 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 2024				
Property, plant and equipment				
– Buildings held for own use – PRC	**–**	**–**	**37,277**	**37,277**
Debt investments at fair value through other comprehensive income ("DIFVOCI")				
– Bills receivable	**–**	**2,973**	**–**	**2,973**
	–	**2,973**	**37,277**	**40,250**
At 31 December 2023				
Property, plant and equipment				
– Buildings held for own use – PRC	–	–	40,248	40,248
DIFVOCI				
– Bills receivable	–	4,460	–	4,460
	–	4,460	40,248	44,708

6. 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

	2024 *HK$'000*
At 1 January	40,248
Depreciation charge for the year	(3,121)
Gain from fair value measurement recognised in other comprehensive income	978
Exchange realignment	(828)
At 31 December	37,277

	2023 *HK$'000*
At 1 January	42,846
Depreciation charge for the year	(3,164)
Gain from fair value measurement recognised in other comprehensive income	1,627
Exchange realignment	(1,061)
At 31 December	40,248

(iii) *Disclosures of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2024 and 2023:*

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 twice a year for interim and annual financial reporting for the year ended 31 December 2024 (2023: 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 each interim and annual financial reporting date for the year ended 31 December 2024 (2023: at each interim and annual financial reporting date).

6. 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 2024 and 2023: (continued)

The Group's buildings held for own use were revalued at 31 December 2024 and 2023 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.

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 2024	Range As at 31 December 2023	Effect on fair value for increase of inputs	Fair value 2024 *HK$'000*	Fair value 2023 *HK$'000*
Buildings held for own use	Depreciated replacement cost method	Estimated hard cost of construction per square metre	**RMB500-RMB1,500**	RMB500-RMB1,500	Increase	**37,277**	40,248
		Estimated construction period	**6 months to 1 year**	6 months to 1 year	Increase		
		Estimated soft cost of construction	**3% to 4% on estimated hard cost of construction**	2.5% to 4% 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.

6. 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 2024 and 2023: (continued)

Level 2 fair value measurements on bills receivable

Description	Valuation techniques	Inputs	Fair value 2024 HK$'000	Fair value 2023 HK$'000
Bills receivable	Discount cash flow	Discount rate	**2,973**	4,460

During the years ended 31 December 2024 and 2023, there were no changes in the valuation techniques used.

During the years ended 31 December 2024 and 2023, there was no transfer between Level 1, Level 2 or transfer into or out of Level 3.

7. 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, and subcontracted leather processing in the PRC.

Information about major customer

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

	2024 HK$'000	2023 HK$'000
Customer A	**12,834**	12,099
Customer B	**12,756**	N/A*
Customer C	**9,631**	N/A*

* The revenue from Customer B and Customer C contributed not more than 10% of the Group's revenue in 2023, therefore the amount is not disclosed.

8. REVENUE

An analysis of revenue is as follows:

	2024	2023
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sale of processed leather	**51,337**	82,060
Subcontracted leather processing	**37,762**	9,184
	89,099	91,244

(a) Disaggregated revenue information

Revenue is recognised when goods are transferred at a point in time to customers. The amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period was HK$482,000 (2023: HK$8,000).

The Group sells/subcontracted leather to the customers. Revenue is recognised when control of the processed leather has transferred, being when the processed leather is 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.

(b) Performance obligations

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

Sale of goods/subcontracted processing

The performance obligation is satisfied upon delivery of the goods at a point in time and payment is generally due within 30 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.

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

(a) Other income and losses, net

	2024 HK$'000	2023 HK$'000
Finance income	9	21
Sale of raw and scrap materials in Mainland China	1,617	809
Government grants*	122	8
Gains on disposal of property, plant and equipment	805	–
Net exchange losses	(116)	(451)
Others	(408)	(15)
	2,029	372

* During the year ended 31 December 2024, the Group received approximately HK$122,000 (2023: HK$8,000) from the PRC local government as a support to the Group's PRC operations. There are no unfulfilled conditions or contingencies relating to these grants.

(b) Other operating expenses, net

	2024 HK$'000	2023 HK$'000
Impairment on right-of-use assets	–	(158)
Impairment of trade receivables	(6,232)	(3,215)
Reversal of impairment of other receivables	283	–
Reversal of accruals and payables	61	320
	(5,888)	(3,053)

10. FINANCE COSTS

	2024 HK$'000	2023 HK$'000
Interest-bearing bank borrowings	406	521
Discounting bills receivable to banks	92	356
Lease liabilities	6	2
	504	879

11. LOSS BEFORE TAX

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

	2024 *HK$'000*	2023 *HK$'000*
Cost of inventories sold	**96,148**	100,586
Auditor's remuneration	**750**	730
Depreciation of property, plant and equipment	**3,267**	3,254
Depreciation of right-of-use assets	**295**	299
Employee benefit expense		
(excluding directors' remuneration *(note 13)*):		
Wages and salaries	**21,018**	22,583
Pension scheme contributions (defined contribution schemes)*	**4,241**	4,760
	25,259	27,343
(Reversal of provision)/provision for inventories**	**(7,434)**	21,514
Expenses related to short-term leases	**106**	108

* 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.

12. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2024 and 2023. Taxes on profits assessable in the PRC have been calculated at the rate of tax prevailing in the PRC in which the Group operates.

	2024 *HK$'000*	2023 *HK$'000*
Current — the PRC		
Over-provision in prior years	**–**	(21)
Deferred tax liabilities	**(336)**	(340)
Total tax credit for the year	**(336)**	(361)

12. INCOME TAX CREDIT (CONTINUED)

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:

2024	**Hong Kong** *HK$'000*	**The PRC** *HK$'000*	**Total** *HK$'000*
Loss before tax	**(1,177)**	**(32,924)**	**(34,101)**
Tax at the statutory tax rate	**(194)**	**(8,231)**	**(8,425)**
Income not subject to tax	**–**	**(31)**	**(31)**
Temporary difference not recognised	**–**	**40**	**40**
Tax concession on prescribed expenses	**–**	**(627)**	**(627)**
Expenses not deductible for tax	**88**	**1,710**	**1,798**
Tax losses not recognised	**106**	**6,803**	**6,909**
Tax credit at the Group's effective rate	**–**	**(336)**	**(336)**

2023	Hong Kong *HK$'000*	The PRC *HK$'000*	Total *HK$'000*
Loss before tax	(6,824)	(59,986)	(66,810)
Tax at the statutory tax rate	(1,126)	(14,997)	(16,123)
Income not subject to tax	–	(2)	(2)
Temporary difference not recognised	–	(944)	(944)
Tax concession on prescribed expenses	–	(786)	(786)
Over-provision in prior years	–	(21)	(21)
Expenses not deductible for tax	113	6,124	6,237
Tax losses not recognised	1,013	10,265	11,278
Tax credit at the Group's effective rate	–	(361)	(361)

13. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to 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:

	2024 ***HK$'000***	2023 *HK$'000*
Fees	**450**	450
Other emoluments:		
Salaries, allowances and benefits in kind	**648**	655
Pension scheme contributions	**242**	275
	890	930
	1,340	1,380

(a) Independent non-executive directors

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

	2024 ***HK$'000***	2023 *HK$'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 2024 and 2023.

13. 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*
2024				
Executive directors:				
Mr. Zhou Hao (Chairman and Managing Director)*	–	350	137	487
Mr. Liao Siyang (Deputy General Manager)[1]	–	298	105	403
	–	648	242	890
Non-executive directors:				
Mr. Huang Junfeng	–	–	–	–
Mr. Kuang Hu	–	–	–	–
Ms. Li Jieyu[2]	–	–	–	–
	–	–	–	–
	–	648	242	890

13. 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*
2023				
Executive directors:				
Mr. Zhou Hao (Chairman and Managing Director)*	–	350	151	501
Mr. Sun Jun (Managing Director)#	–	305	124	429
	–	655	275	930
Non-executive directors:				
Mr. Huang Junfeng	–	–	–	–
Mr. Kuang Hu	–	–	–	–
	–	–	–	–
	–	655	275	930

1 Mr. Liao Siyang was appointed as an executive director and deputy general manager of the Company on 31 January 2024.

2 Ms. Li Jieyu was appointed as an non-executive director of the Company on 20 August 2024.

* Mr. Zhou Hao was appointed as managing director of the Company on 20 October 2023.

Mr. Sun Jun resigned as an executive director and managing director of the Company on 20 October 2023.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2024 and 2023. Nonetheless, Mr. Zhou Hao agreed to return to the Company part of his remuneration for the year ended 31 December 2022, which amounted to approximately HK$168,000.

During the years ended 31 December 2024 and 2023, 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.

14. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2024 included two (2023: two) directors, details of whose remuneration are set out in note 13 above. Details of the remuneration for the year ended 31 December 2024 of the remaining three (2023: three) highest paid employees who are not directors of the Company are as follows:

	2024 ***HK$'000***	2023 *HK$'000*
Salaries and allowances	**1,769**	1,877
Pension scheme contributions	**96**	103
	1,865	1,980

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

	Number of employees	
	2024	2023
Nil to HK$1,000,000	**3**	3

During the years ended 31 December 2024 and 2023, 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.

15. DIVIDENDS

The board of directors (the "Board") of the Company does not recommend the payment of any dividend for the years ended 31 December 2024 and 2023.

16. 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 (2023: 538,019,000) in issue during the year.

The calculation of basic loss per share is based on:

	2024	2023
	HK$'000	*HK$'000*
Loss		
Loss for the year, used in the basic loss per share calculation	**33,765**	66,449

	Number of shares	
	2024	2023
	'000	*'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 2024 and 2023 as there was no dilutive event during the years ended 31 December 2024 and 2023.

17. 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 2024								
At 31 December 2023 and 1 January 2024								
Cost or valuation	40,248	24,685	108,237	3,407	444	5,916	311	183,248
Accumulated depreciation and impairment	–	(24,685)	(108,237)	(3,407)	(444)	(5,916)	(311)	(143,000)
Net carrying amount	40,248	–	–	–	–	–	–	40,248
At 1 January 2024, net of accumulated depreciation and impairment	40,248	–	–	–	–	–	–	40,248
Additions	–	2,088	122	226	–	–	1,868	4,304
Surplus on revaluation	978	–	–	–	–	–	–	978
Impairment *(note (b))*	–	(1,985)	(480)	(459)	–	–	(1,234)	(4,158)
Depreciation provided during the year	(3,121)	(103)	(21)	(22)	–	–	–	(3,267)
Transfer	–	–	379	255	–	–	(634)	–
Exchange realignment	(828)	–	–	–	–	–	–	(828)
At 31 December 2024, net of accumulated depreciation and impairment	37,277	–	–	–	–	–	–	37,277
At 31 December 2024								
Cost or valuation	37,277	26,214	92,102	3,324	414	5,169	1,487	165,987
Accumulated depreciation and impairment	–	(26,214)	(92,102)	(3,324)	(414)	(5,169)	(1,487)	(128,710)
Net carrying amount	37,277	–	–	–	–	–	–	37,277
Analysis of cost or valuation:								
At cost	–	26,214	92,102	3,324	414	5,169	1,487	128,710
At 31 December 2024 valuation	37,277	–	–	–	–	–	–	37,277
	37,277	26,214	92,102	3,324	414	5,169	1,487	165,987

17. 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 2023								
At 1 January 2023								
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
At 1 January 2023, net of accumulated depreciation and impairment	42,846	–	–	–	–	–	–	42,846
Additions	–	426	92	20	–	–	328	866
Surplus on revaluation	1,627	–	–	–	–	–	–	1,627
Impairment *(note (b))*	–	(355)	(340)	(18)	–	–	(33)	(746)
Depreciation provided during the year	(3,164)	(71)	(17)	(2)	–	–	–	(3,254)
Transfer	–	–	295	–	–	–	(295)	–
Written-off	–	–	(30)	–	–	–	–	(30)
Exchange realignment	(1,061)	–	–	–	–	–	–	(1,061)
At 31 December 2023, net of accumulated depreciation and impairment	40,248	–	–	–	–	–	–	40,248
At 31 December 2023								
Cost or valuation	40,248	24,685	108,237	3,407	444	5,916	311	183,248
Accumulated depreciation and impairment	–	(24,685)	(108,237)	(3,407)	(444)	(5,916)	(311)	(143,000)
Net carrying amount	40,248	–	–	–	–	–	–	40,248
Analysis of cost or valuation:								
At cost	–	24,685	108,237	3,407	444	5,916	311	143,000
At 31 December 2023 valuation	40,248	–	–	–	–	–	–	40,248
	40,248	24,685	108,237	3,407	444	5,916	311	183,248

17. 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 2024 would have been approximately HK$20,995,000 (2023: HK$23,243,000).

(b) The weakening demand and keen competition in the tannery market persisted during the years ended 31 December 2024 and 2023. As a result, the Group's operating results for the years ended 31 December 2024 and 2023 have been adversely affected.

In light of the performance of the manufacture, subcontracted leather processing 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 2024 and 31 December 2023 to which the plant and equipment, and leased properties were allocated with reference to their value in use (the "VIU") as at 31 December 2024 and 31 December 2023. Based on the VIU, impairment losses of approximately HK$4,158,000 (2023: HK$746,000) and nil (2023: HK$158,000) on plant and equipment, and leased properties were recognised in the consolidated statement of profit or loss for the year ended 31 December 2024, respectively.

According to the VIU, the recoverable amount of nil (2023: Nil) as at 31 December 2024 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/subcontracted of leather. The pre-tax discount rate applied to the projected cash flows was 14% for 2024 (2023: 14%).

(c) At 31 December 2024, certain of the Group's buildings with a net carrying amount of approximately HK$32,851,000 (2023: HK$35,522,000) were pledged to secure general banking facilities granted to the Group.

18. 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 (2023: 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.

(a) 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 2023	11,252	–	11,252
Addition	–	158	158
Depreciation charge	(299)	–	(299)
Impairment *(note 17 (b))*	–	(158)	(158)
Exchange realignment	(158)	–	(158)
As at 31 December 2023 and 1 January 2024	**10,795**	**–**	**10,795**
Depreciation charge	**(295)**	**–**	**(295)**
Exchange realignment	**(226)**	**–**	**(226)**
As at 31 December 2024	**10,274**	**–**	**10,274**

At 31 December 2024, the Group's leasehold land with a net carrying amount of approximately HK$10,274,000 (2023: HK$10,795,000) 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 2024 and 2023. 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 2024 (2023: nil) based on the valuation from Vigers.

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

The Group as a lessee (continued)

(b) Lease liabilities

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

	2024 *HK$'000*	2023 *HK$'000*
Carrying amount at 1 January	158	81
Addition	–	158
Accretion of interest recognised during the year	6	2
Payments	(83)	(83)
Carrying amount at 31 December	81	158
Analysed into:		
Current portion	81	77
Non-current portion	–	81
	81	158
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
Less than 1 year	83	83
Between 1 and 2 years	–	83
	83	166

At 31 December 2024, the average effective borrowing rate was 5% (2023: 5%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

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

The Group as a lessee (continued)

(c) Disclosures of lease-related items

	2024	2023
	HK$'000	*HK$'000*
Interest on lease liabilities	**6**	2
Depreciation charge of right-of-use assets	**295**	299
Expense relating to short-term leases (included in administrative expenses)	**106**	108
Impairment of right-of-use assets	**-**	158
Total amount recognised in profit or loss	**407**	567
With operating activities	**112**	110
With financing activities	**77**	81
The total cash outflow for leases included in the consolidated statement of cash flows	**189**	191
Lease commitments of short-term leases	**8**	8
Additions to right-of-use assets	**-**	158

19. INVENTORIES

	2024	2023
	HK$'000	*HK$'000*
Raw materials	**2,861**	10,257
Work in progress	**12,422**	30,547
Finished goods	**8,765**	9,653
	24,048	50,457

In view of the changes in selling prices and product demand during the year, management reassessed the net realisable value of inventories and a reversal of provision of approximately HK$7,434,000 (2023: provision HK$21,514,000) was made for the year ended 31 December 2024.

20. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Notes	2024 HK$'000	2023 HK$'000
Trade receivables	*(i)*	**16,230**	21,629
Bills receivables	*(i)*	**2,973**	4,460
Prepayments, deposits and other receivables	*(ii)*	**1,472**	784
Amount due from a director	*(iii)*	**164**	–
		20,839	26,873

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 30 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:

	2024 HK$'000	2023 HK$'000
Within 3 months	**16,621**	20,777
3 to 6 months	**1,883**	374
6 to 12 months	**3,284**	5,000
1 to 2 years	**5,453**	4,225
2 to 3 years	**2,294**	–
	29,535	30,376
Impairment	**(10,332)**	(4,287)
	19,203	26,089

20. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (continued)

(i) (continued)

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

	2024 *HK$'000*	2023 *HK$'000*
At 1 January	**4,287**	1,110
Impairment loss	**6,232**	3,215
Exchange realignment	**(187)**	(38)
At 31 December	**10,332**	4,287

The increase (2023: increase) in the loss allowance of approximately HK$6,232,000 (2023: HK$3,215,000) for the year ended 31 December 2024 is the result of an increase (2023: increase) in aged trade receivables which were past due as at 31 December 2024.

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**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Total**
As at 31 December 2024						
Weighted average expected credit loss rate	**2.9%**	**24.6%**	**62.1%**	**100.0%**	**100.0%**	
Gross carrying amount (HK$'000)	**15,122**	**409**	**3,284**	**5,453**	**2,294**	**26,562**
Expected credit losses (HK$'000)	**(444)**	**(101)**	**(2,040)**	**(5,453)**	**(2,294)**	**(10,332)**
As at 31 December 2023						
Weighted average expected credit loss rate	–	30.0%	19.5%	83.4%	–	
Gross carrying amount (HK$'000)	16,795	3,897	1,936	3,288	–	25,916
Expected credit losses (HK$'000)	–	(1,169)	(377)	(2,741)	–	(4,287)

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 2024 and 31 December 2023.

20. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (continued)

(ii) As at 31 December 2024, a provision of approximately HK$334,000 (2023: HK$625,000) was made for other receivables.

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

	2024 HK$'000	2023 HK$'000
At 1 January	625	714
Reversal of impairment	(283)	-
Exchange realignment	(8)	(89)
At 31 December	334	625

The ECLs as at 31 December 2024 were estimated by applying a loss rate approach with reference to the historical loss record of the Group as at 31 December 2024. 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 2024 was 28.7% (2023: 55.5%).

The carrying amounts of other receivables approximate their fair values.

(iii) The amount due is unsecured, interest-free and repayable on demand.

21. CASH AND BANK BALANCES, AND PLEDGED BANK BALANCES

	2024 HK$'000	2023 HK$'000
Cash and bank balances	4,716	7,164
Less: Pledged bank balances*	(1,297)	(25)
Cash and cash equivalents	3,419	7,139

* As at 31 December 2024, there were bank balances of approximately HK$1,297,000 (2023:HK$25,000) 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$3,106,000 (2023: HK$6,713,000). 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.

22. TRADE AND BILLS 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:

	2024 HK$'000	2023 HK$'000
Within 3 months	7,573	6,745
3 to 6 months	6,765	9,052
Over 6 months	18,196	18,316
Trade payables	32,534	34,113
Bills payables	4,225	–
	36,759	34,113

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

23. OTHER PAYABLES, ACCRUALS AND PROVISION

	Notes	2024 HK$'000	2023 HK$'000
Current			
Other payables		5,484	4,367
Accruals		8,876	10,126
Deposits received		1,889	1,431
Other tax payables		438	681
Provision	*(a)*	9,436	9,642
Contract liabilities	*(b)*	857	1,572
Lease liabilities	*18(b)*	81	77
		27,061	27,896
Non-current			
Lease liabilities	*18(b)*	–	81

23. OTHER PAYABLES, ACCRUALS AND PROVISION (CONTINUED)

Notes:

(a) As at 31 December 2024, the balance included (i) a provision in relation to an early termination of a joint venture agreement of approximately HK$3,240,000 (2023: HK$3,310,000) and (ii) a provision for penalty of approximately HK$6,196,000 (2023: HK$6,332,000).

(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 2024.

(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$7,803,000) (2023: RMB7,226,000 (equivalent to approximately HK$7,974,000)) was made for the penalty of violations, of which no penalties (2023: Nil) was paid during the year ended 31 December 2024. Up to the approval date of these consolidated financial statements, two (2023: two) summons with penalties of approximately RMB7,226,000 (equivalent to approximately HK$7,803,000) (2023: 7,226,000 (equivalent to approximately HK$7,974,000)) 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 2024 and 2023.

(b) Contract liabilities of approximately HK$857,000 as at 31 December 2024 (31 December 2023: HK$1,572,000) include short-term advances received from customers for the sale/subcontracted of leather. The decrease in contract liabilities in 2024 (2023: increase) was mainly due to the decrease (2023: increase) in short-term advances received from customers in relation to the sale/subcontracted of leather at the end of the year ended 31 December 2024.

As a practical expedient under HKFRS 15, the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2024 and 2023 are not disclosed as all the remaining performance obligations in relation to the sale/subcontracted of 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.

24. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	2024 HK$'000	Effective interest rate (%)	Maturity	2023 HK$'000
Secured						
Trust receipt loan	N/A	N/A	–	6.00%	2024	465
Other bank borrowing	N/A	N/A	–	5.50%	2024	14,346
Unsecured						
Other bank borrowing	3.8%	2025	8,639	N/A	N/A	–
			8,639			14,811

As at 31 December 2023, trust receipt loan and other bank borrowing of approximately HK$14,811,000 were under facilities which were secured by (i) the pledge of certain of the Group's bank balances amounting to approximately HK$25,000; and (ii) the pledge of certain of the Group's buildings and right-of-use assets with an aggregate carrying amounts of approximately HK$46,317,000 as at 31 December 2023.

The Group also uses trust receipt loans as its supplier finance arrangement. The banks will settle the Group's suppliers directly using the funds of these trust receipt loans. The terms of these trust receipt loans are within 3 months from drawing of the loans. These loans are secured on certain properties of the Group.

The carrying amounts of the Group's interest-bearing bank borrowings approximate their fair values.

25. 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.

26. 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 2023	4,527
Deferred tax debited to property revaluation reserve	407
Tax effect on transfer from property revaluation reserve to accumulated losses	(340)
At 31 December 2023 and 1 January 2024	**4,594**
Deferred tax debited to property revaluation reserve	**245**
Tax effect on transfer from property revaluation reserve to accumulated losses	**(336)**
At 31 December 2024	**4,503**

As at 31 December 2024, the Group has tax losses arising in Hong Kong of approximately HK$113,925,000 (2023: HK$113,283,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2024, the Group had tax losses arising in the PRC of approximately HK$146,572,000 (2023: HK$142,784,000) 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 2024, the Group has deductible temporary differences of approximately HK$17,315,000 (2023: HK$20,848,000). 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$926,000 at 31 December 2024 (2023: HK$1,185,000). At 31 December 2024, 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.

27. SHARE CAPITAL

	2024 HK$'000	2023 HK$'000
Issued and fully paid:		
538,019,000 (2023: 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 2024 and 2023.

28. 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.

28. 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:

28. 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 2024, a reversal of provision for impairment of approximately HK$329,000 (2023: HK$224,000) was made for the Assets. This resulted in a transfer of approximately HK$329,000 (2023: HK$224,000) from the accumulated losses to the Special Capital Reserve.

The Limit as at 31 December 2024 was HK$150,273,970 (2023: HK$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 31 December 2024 was approximately HK$927,000 (2023: HK$598,000).

(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.

29. COMMITMENTS

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

	2024 *HK$'000*	2023 *HK$'000*
Contracted, but not provided for:		
Buildings	**254**	–
Leasehold improvements	**204**	–
Plant and machinery	**663**	269
	1,121	269

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Lease liabilities *HK$'000*	**Interest-bearing bank borrowings (excluding trust receipt loan)** *HK$'000*	**Total** *HK$'000*
At 1 January 2023	81	-	81
Changes from financing cash flows	(81)	14,443	14,362
Interest paid classified as operating cash flows	(2)	(521)	(523)
Non-cash changes			
Additions to lease liabilities	158	-	158
Interest expense	2	521	523
Foreign exchange movement	-	(97)	(97)
At 31 December 2023 and 1 January 2024	**158**	**14,346**	**14,504**
Changes from financing cash flows	**(77)**	**(5,483)**	**(5,560)**
Interest paid classified as operating cash flows	**(6)**	**(406)**	**(412)**
Non-cash changes			
Interest expense	**6**	**406**	**412**
Foreign exchange movement	**-**	**(224)**	**(224)**
At 31 December 2024	**81**	**8,639**	**8,720**

31. EVENTS AFTER THE REPORTING PERIOD

There was no significant event happened after the end of the reporting period (2023: Nil).

32. PARTICULARS OF THE PRINCIPAL SUBSIDIARY OF THE COMPANY

The below table lists the subsidiary of the Company which, in the opinion of the Directors, principally affected the results for the years ended 31 December 2024 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 subsidiary	Place of registration and business	Registered and paid up capital	Percentage of ownership interest/voting power/profit sharing Direct	Principal activities
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, subcontracted leather processing and leather trading

* 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.

33. 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:

	2024 *HK$'000*	2023 *HK$'000*
Non-current assets		
Property, plant and equipment	–	–
Right-of-use assets	–	–
Interests in subsidiaries	113,032	148,292
	113,032	148,292
Current assets		
Prepayments, other receivables and deposits	397	73
Cash and bank balances	224	445
	621	518
Current liabilities		
Amounts due to subsidiaries	93,083	94,843
Other payables and accruals	1,509	975
	94,592	95,818
Net current liabilities	(93,971)	(95,300)
Total assets less current liabilities	19,061	52,992
Non-current liability		
Other payables	–	81
NET ASSETS	19,061	52,911
EQUITY		
Share capital	75,032	75,032
Reserves	(55,971)	(22,121)
TOTAL EQUITY	19,061	52,911

Zhou Hao
Director

Liao Siyang
Director

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

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

	Equity component of convertible notes *HK$'000*	General reserve fund *HK$'000*	Capital reserve *HK$'000*	Special capital reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2023	5,545	167,746	104,958	374	(250,334)	28,289
Total comprehensive expenses for the year	–	–	–	–	(50,410)	(50,410)
Transfer from accumulated losses in accordance with the undertaking	–	–	–	224	(224)	–
At 31 December 2023 and 1 January 2024	5,545	167,746	104,958	598	(300,968)	(22,121)
Total comprehensive expenses for the year	–	–	–	–	(33,850)	(33,850)
Transfer from accumulated losses in accordance with the undertaking	–	–	–	329	(329)	–
At 31 December 2024	**5,545**	**167,746**	**104,958**	**927**	**(335,147)**	**(55,971)**

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 28 March 2025.

南粵控股
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南粵控股有限公司