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NAMYUE HOLDINGS LIMITED

南粵控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01058)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

Unaudited financial highlights for the six months ended 30 June

	2023 HK$'000	2022 HK$'000	Changes %
Revenue	**35,445**	42,989	-17.5
Loss attributable to shareholders	**(21,653)**	(18,943)	-14.3
Loss per share - Basic	**HK(4.02)cents**	HK(3.52)cents	-14.2

CONDENSED CONSOLIDATED FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board of directors (the "Board") of Namyue Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2023 together with comparative figures for the corresponding period in 2022. These results have not been audited, but have been reviewed by the Company's audit committee (the "Audit Committee") and the independent auditor, ZHONGHUI ANDA CPA Limited.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

		For the six months ended 30 June	
	Notes	**2023**	2022
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE			
Processing and sale of leather	*3*	**35,445**	42,989
Cost of sales		**(40,021)**	(46,445)
Gross loss		**(4,576)**	(3,456)
Other income and gains, net	*4*	**265**	981
Selling and distribution expenses		**(827)**	(736)
Administrative expenses		**(14,462)**	(15,576)
Impairment on items of plant and equipment		**(782)**	-
Other operating expenses	*4*	**(1,200)**	-
Finance costs	*5*	**(228)**	(156)
LOSS BEFORE TAX	*6*	**(21,810)**	(18,943)
Income tax credit	*7*	**157**	-
LOSS FOR THE PERIOD		**(21,653)**	(18,943)
LOSS PER SHARE	*8*		
- Basic		**HK(4.02) cents**	HK(3.52) cents
- Diluted		**HK(4.02) cents**	HK(3.52) cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2023

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	**(21,653)**	(18,943)
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
Other comprehensive income/(expenses) that will not be reclassified to the profit or loss in subsequent periods:		
Surplus/(deficits) on revaluation of buildings	**778**	(310)
Income tax effect	**(195)**	78
	583	(232)
Other comprehensive expenses that may be reclassified to the profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(3,830)**	(5,654)
OTHER COMPREHENSIVE EXPENSES FOR THE PERIOD, NET OF TAX	**(3,247)**	(5,886)
TOTAL COMPREHENSIVE EXPENSES FOR THE PERIOD	**(24,900)**	(24,829)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2023

	Notes	**30 June 2023** ***HK$'000*** **(Unaudited)**	31 December 2022 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**40,265**	42,846
Right-of-use assets		**10,755**	11,252
		51,020	54,098
CURRENT ASSETS			
Inventories		**78,511**	73,028
Receivables, prepayments and deposits	*10*	**35,958**	37,418
Pledged bank balances		**2,395**	-
Cash and bank balances		**7,036**	9,463
		123,900	119,909
CURRENT LIABILITIES			
Trade and bills payables	*11*	**29,979**	24,054
Other payables, accruals and provision		**22,414**	24,261
Interest-bearing bank borrowings		**21,697**	-
Tax payable		**26**	21
Due to a PRC joint venture partner		**1,131**	1,131
		75,247	49,467
NET CURRENT ASSETS		**48,653**	70,442
TOTAL ASSETS LESS CURRENT LIABILITIES		**99,673**	124,540
NON-CURRENT LIABILITY			
Deferred tax liabilities		**4,560**	4,527
Net assets		**95,113**	120,013
EQUITY			
Share capital		**75,032**	75,032
Reserves		**20,081**	44,981
Total equity		**95,113**	120,013

Notes:

(1) ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The unaudited interim condensed consolidated financial information does not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

The accounting policies and basis of preparation adopted in the preparation of this unaudited interim condensed consolidated financial information are the same as those used in the annual consolidated financial statements for the year ended 31 December 2022. In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2023. The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective.

The financial information relating to the year ended 31 December 2022 that is included in this unaudited interim condensed financial information for the six months ended 30 June 2023 as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

The Company's auditor has reported on those consolidated financial statements for the year ended 31 December 2022. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Chapter 622).

(2) OPERATING SEGMENT INFORMATION

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

Information about major customers

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

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**5,478**	N/A*
Customer B	**N/A***	6,205
Customer C	**N/A***	4,406

* The revenue from Customer B and C (six months ended 30 June 2022: Customer A) contributed not over 10% of the Group's revenue each individually for the six months ended 30 June 2023, therefore the amounts are not disclosed.

(3) REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of processed leather	**35,445**	42,989

Revenue is recognised when goods are transferred at a point in time to customers.

(4) OTHER INCOME AND GAINS, NET AND OTHER OPERATING EXPENSES

(a) Other income and gains, net

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Finance income	**15**	12
Sale of scrap materials in the PRC	**193**	199
Government grants	**6**	162
Net gains from subcontracted leather processing in the PRC	**63**	337
Net exchange losses	**(11)**	(84)
Others	**(1)**	355
	265	981

(b) Other operating expenses

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Impairment of trade receivables	**1,200**	-

(5) FINANCE COSTS

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank loans and discounting bills receivable to banks	**227**	144
Lease liabilities	**1**	12
	228	156

(6) LOSS BEFORE TAX

The Group's loss before tax is stated at after charging the following:

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**37,802**	46,445
Depreciation of property, plant and equipment	**1,628**	955
Depreciation for right-of-use assets	**151**	162
Impairment on items of plant and equipment	**782**	-
Provision for inventories*	**2,219**	-

* These items are included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss.

(7) INCOME TAX CREDIT

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2023 (six months ended 30 June 2022: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group - Mainland China		
Provision for the period	**5**	-
Deferred tax	**(162)**	-
	(157)	-

(8) LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the period of HK$21,653,000 (six months ended 30 June 2022: HK$18,943,000) and the weighted average number of ordinary shares of 538,019,000 (30 June 2022: 538,019,000) in issue during the six months ended 30 June 2023.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2023 and 2022 in the calculation of diluted loss per share as there were no dilutive events during the six months ended 30 June 2023 and 2022.

(9) DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

(10) RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2023	31 December 2022
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**32,107**	31,719
Bills receivables	**2,242**	4,874
Prepayments, deposits and other receivables	**1,609**	825
	35,958	37,418

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

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

	30 June 2023	31 December 2022
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**18,557**	17,217
3 to 6 months	**5,472**	7,687
6 to 12 months	**3,264**	8,245
1 to 2 years	**9,287**	4,554
	36,580	37,703
Impairment	**(2,231)**	(1,110)
	34,349	36,593

(11) TRADE PAYABLES

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

	30 June 2023 *HK$'000* **(Unaudited)**	31 December 2022 *HK$'000* (Audited)
Within 3 months	**11,664**	5,967
3 to 6 months	**3,492**	6,126
Over 6 months	**9,431**	11,961
Trade payables	**24,587**	24,054
Bills payables	**5,392**	-
	29,979	24,054

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The unaudited consolidated loss attributable to shareholders of the Group for the six months ended 30 June 2023 was HK$21,653,000, representing an increase in loss of HK$2,710,000 or 14.3% from HK$18,943,000 for the corresponding period last year.

The unaudited net asset value of the Group as at 30 June 2023 was HK$95,113,000, representing a decrease of HK$24,900,000 and HK$54,594,000 respectively as compared to the net asset value as at 31 December 2022 and 30 June 2022.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

Business Review

With the recurring COVID-19 pandemic at the beginning of 2023, the industry was in a state of shutdown or semi-shutdown. After the Chinese New Year, the production of the entire industrial chain was sluggish, with fewer production orders and the unsaturated production capacity, resulting in increases in production costs. During the period, the Group, followed its high-quality development plan at the beginning of the year, implemented new development concepts, coordinated the work for the pandemic as well as in production and operation, actively tapped into the production potential to promote the stability of the production and operation, and made efforts to gradually resume to the normal level of production after the pandemic in order to achieve the expected goals.

In respect of environmental protection, the State has been ramping up its effort in environmental protection management. The disposal cost of various types of waste generated from leather production has risen on the premise of compliance, which requires adjustment within a short period of time. To stabilize the production of the tannery industry, it is necessary to upgrade the technology and increase the investment in environmental protection, which results in significant increase in the operating costs. During the period, the Group made use of the time during the production slack season before the Chinese New Year to repair, replace and renovate the gas collection and treatment emission pipelines, systems and other facilities, effectively improving the operation and maintenance capability and ensuring that the emission standards are met.

During the period, the total production volume of cowhides was 2,168,000 sq. ft., representing an increase of 468,000 sq. ft. or 27.5% as compared to 1,700,000 sq. ft. for the corresponding period last year. The production volume of grey hides was 787 tons, representing an increase of 165 tons or 26.5% as compared to 622 tons for the corresponding period last year. During the period, the total sales volume of cowhides was 2,408,000 sq. ft., representing a drop of 348,000 sq. ft. or 12.6% from 2,756,000 sq. ft. for the corresponding period last year. The sales volume of grey hides was 787 tons, representing an increase of 165 tons or 26.5% as compared to 622 tons for the corresponding period last year.

During the period, the consolidated revenue of the Group was HK$35,445,000, representing a decrease of HK$7,544,000 or 17.5% from HK$42,989,000 for the corresponding period last year, of which the sales value of cowhides amounted to HK$31,416,000 (six months ended 30 June 2022: HK$39,269,000), representing a decrease of 20.0%, and that of grey hides and other products amounted to HK$4,029,000 (six months ended 30 June 2022: HK$3,720,000), representing an increase of 8.3%.

In terms of sales, the market recovery was slow during the period. The Group, on the one hand, actively conducted market research and proactively visited new and existing customers, developed new customers with good potentials and high activities by relying on the advantage of the Company's leading products. At the same time, the Group kept up the main product sales of shoe upper leather and promoted the clearing of inventories by maintaining the delivery frequency to new and existing customers. On the other hand, with new horizons opened up in high value-added products, product sales gradually improved during the mid to late second quarter.

In terms of procurement, the Group carried out reforms during the period in purchase of raw materials by highlighting source management, adhering to cost control, taking control of material source prices, and enhancing the sense of responsibility in management. Taking the opportunity of the implementation of China's internal cycle, the Group promoted the substitution of domestically-produced chemical materials and optimized the material cost, by integrating technological adjustments, and promoting the goal of cost reduction in both directions including material substitution and supplier negotiation. Total purchases volume in the first half of the year amounted to HK$37,838,000, representing a decrease of 0.8% over the same period last year.

As at 30 June 2023, the Group's consolidated inventory amounted to HK$78,511,000 (31 December 2022: HK$73,028,000), representing an increase of HK$5,483,000 or 7.5% as compared to that as at 31 December 2022. The Group continued to develop the processing business to meet the production capacity, actively expanded the business track, conducted substantial production trials by taking into account the performance, characteristics and price-performance ratio of products, reduced production costs, increased production volume and promoted the sales of diversified inventory products, laying the foundation for the operating targets in the second half of the year. The Group has reassessed the value of inventories based on its ageing and net realizable value and made a net provision for inventories of HK$2,219,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

As at 30 June 2023, the Group's property, plant and equipment amounted to HK$40,265,000 (31 December 2022: HK$42,846,000), representing a decrease of HK$2,581,000 or 6.0% as compared to that as at 31 December 2022. 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$782,000 was made for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

Financial Review

Liquidity and Financial Resources

As at 30 June 2023, the Group's cash and cash equivalents amounted to HK$7,036,000 (31 December 2022: HK$9,463,000), representing a drop of HK$2,427,000 or 25.6% as compared to 31 December 2022, of which 8.7% were in Hong Kong dollars, 90.8% in Renminbi and 0.5% in United States dollars. Net cash outflow from operating activities for the period was HK$13,480,000, which was mainly attributable to the increase in inventories, resulting in increase of net cash outflow. Net cash outflow from investing activities was HK$3,312,000, which was mainly attributable to the increase in pledged bank balances and payment for renovations and purchase of machinery and equipment. Net cash inflow from financing activities was HK$14,584,000, which was mainly attributable to the increase in bank borrowings.

As at 30 June 2023, the Group had interest-bearing borrowings of HK$21,697,000 (31 December 2022: Nil), of which interest-bearing loan in Renminbi amounted to HK$14,100,000 and interest-bearing borrowings in US dollars amounted to HK$7,597,000, charged at fixed rate and floating rate respectively. The Group's borrowings arose from short-term loans provided by a bank, secured by bank balances, buildings and right-of-use assets of HK$48,714,000 in total.

As at 30 June 2023, the Group's gearing ratio of interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 18.6% (31 December 2022: Nil). The annual interest rate of the borrowings during the period was 5.5% to 5.9%. During the period, the Group's interest expenses amounted to HK$228,000, representing an increase of 46.2% as compared to the corresponding period of last year, which was mainly attributable to the increase in both the loan amounts and in loan interest rates.

As at 30 June 2023, the Group's total banking facilities amounted to HK$43,384,000 (31 December 2022: HK$44,780,000), of which interest-bearing bank borrowings of HK$21,697,000 (31 December 2022: Nil) were under such facilities. Taking into account the existing cash resources and available credit facilities, the Group has sufficient financial resources to meet its daily operational requirements.

Capital Expenditure

As at 30 June 2023, the net carrying amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK$51,020,000, representing a decrease of HK$3,078,000 over the net value of HK$54,098,000 as at 31 December 2022. The capital expenditure for the period amounted to HK$827,000 (six months ended 30 June 2022: HK$3,316,000) in total, which was mainly attributable to the payment of renovations as well as acquisition of machinery and equipment to meet the production needs of the Group.

Pledge of Assets

As at 30 June 2023, the Group's bank deposits of HK$2,395,000 (31 December 2022: Nil), buildings of HK$35,564,000 (31 December 2022: HK$37,859,000) and right-of-use assets of HK$10,755,000 (31 December 2022: HK$11,252,000) were pledged to a bank to secure general banking facilities.

Foreign Exchange Exposure

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, United States dollars or Renminbi. The Group is exposed to foreign currency risk primarily from purchases from overseas suppliers that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States dollars against Renminbi. The Group did not hedge its exposure to risks arising from fluctuations in exchange rates during the period. 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 30 June 2023, the Group had 308 staff (31 December 2022: 327). The Group's remuneration policy is based on its operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees and established an operation assessment mechanism focusing on "accountability and performance". Based on the Group's operating efficiency, the incentive scheme provides bonuses to the management, key officers and outstanding employees according to different ranking and individual performance, which effectively motivates employees to make contribution. In addition, the Group offered social and medical insurance coverage and pension schemes to all employees in different areas.

Prospects

With the end of the pandemic and the reopening of global markets, global economic growth is expected to rebound. However, global trade conflicts and geopolitical instability, including the impact of the Russia-Ukraine war, have brought continued uncertainty to economic recovery all over the world. After the Group's market exploration, technical and technological adjustments and scientific control of chemical costs in the first half of the year to prepare for volume production and improved technology, the Group will take proactive and effective measures to improve its operating results in the second half of 2023, by continuing to tighten cost control and reduce non-production management costs, while at the same time matching production orders, exercising proactive approach to achieve cost-effective production and making the turnaround of its losses as its primary goal. In terms of the direction of development, the Group will actively explore new avenues for the development of the traditional manufacturing industry, and at the same time seek different business opportunities to expand its sources of income and to diversify its business, so as to enhance the Group's long-term growth potential and value to its shareholders. Looking ahead, the Group will make effort in turning around its losses to achieve sustainable and stable growth.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

In the opinion of the Directors, the Company had complied with the code provisions and, where appropriate, the applicable recommended best practices in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2023, save as disclosed below:

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

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry to all the Directors of the Company, all Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2023.

Review of Interim Results

The unaudited interim results of the Group for the six months ended 30 June 2023 have been reviewed by the Audit Committee of the Company and ZHONGHUI ANDA CPA Limited, the independent auditor of the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities on the Stock Exchange during the six months ended 30 June 2023.

Publication of Interim Results and Interim Report

This interim results announcement is published on the websites of the Company (www.namyueholdings.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2023 will be despatched to the shareholders of the Company and made available on the abovementioned websites around 20 September 2023.

By Order of the Board
Zhou Hao
Chairman

Hong Kong, 21 August 2023

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