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# LUEN THAI HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 311)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023 AND RESUMPTION OF TRADING

**GROUP FINANCIAL HIGHLIGHTS**

| | **Six-month period ended 30 June** | |
|---|---|---|
| | **2023** | 2022 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited)<br>(Restated) |
| Revenue | **340,222** | 462,813 |
| Operating profit | **6,060** | 12,603 |
| Profit attributable to owners of the Company | **284** | 6,969 |
| Profit margin (ratio of profit attributable to owners of the Company to revenue) | **0.1%** | 1.5% |
| Earnings per share *(US cents)* | **0.03** | 0.67 |

The board of directors (the "Board") of Luen Thai Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the six-month period ended 30 June 2023.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six-month period ended 30 June 2023*

| | Note | Six-month period ended 30 June 2023 US$'000 (Unaudited) | 2022 US$'000 (Unaudited) (Restated) |
|---|---|---|---|
| Revenue | 3 | **340,222** | 462,813 |
| Cost of sales | | **(293,067)** | (387,337) |
| **Gross profit** | | **47,155** | 75,476 |
| Other gains — net | | **1,363** | 680 |
| Selling and distribution expenses | | **(666)** | (826) |
| General and administrative expenses | | **(41,792)** | (62,494) |
| Provision for impairment of trade receivables | | **—** | (233) |
| **Operating profit** | 4 | **6,060** | 12,603 |
| Finance income | 5 | **819** | 327 |
| Finance costs | 5 | **(6,672)** | (3,465) |
| Finance costs — net | 5 | **(5,853)** | (3,138) |
| Share of profits/(losses) of joint ventures and associates — net | | **308** | (1,650) |
| **Profit before income tax** | | **515** | 7,815 |
| Income tax expense | 6 | **(493)** | (1,255) |
| **Profit for the period** | | **22** | 6,560 |
| **Profit attributable to** | | | |
| Owners of the Company | | **284** | 6,969 |
| Non-controlling interests | | **(262)** | (409) |
| | | **22** | 6,560 |
| **Earnings per share attributable to owners of the Company, expressed in US cents per share** | | | |
| — Basic and diluted | 7 | **0.03** | 0.67 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six-month period ended 30 June 2023*

| | Six-month period ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) (Restated) |
| **Profit for the period** | **22** | 6,560 |
| **Other comprehensive loss** | | |
| *Item that may be reclassified to profit or loss:* | | |
| Currency translation differences | **(2,031)** | (1,811) |
| **Total comprehensive (loss)/income for the period** | **(2,009)** | 4,749 |
| **Total comprehensive (loss)/income attributable to:** | | |
| Owners of the Company | **(1,747)** | 5,158 |
| Non-controlling interests | **(262)** | (409) |
| | **(2,009)** | 4,749 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2023*

| | *Note* | **As at 30 June 2023** ***US$'000*** **(Unaudited)** | As at 31 December 2022 *US$'000* (Audited) (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **111,441** | 117,726 |
| Right-of-use assets | | **27,746** | 30,444 |
| Intangible assets | | **44,565** | 44,899 |
| Interests in joint ventures and associates | | **6,539** | 6,231 |
| Deferred income tax assets | | **2,605** | 2,339 |
| Deposits, prepayments and other receivables | 9 | **5,005** | 4,993 |
| **Total non-current assets** | | **197,901** | 206,632 |
| **Current assets** | | | |
| Inventories | | **92,311** | 83,328 |
| Trade and other receivables | 9 | **150,873** | 130,890 |
| Prepaid income tax | | **4,265** | 4,253 |
| Derivative financial instruments | | **27** | — |
| Restricted cash | | **—** | 29 |
| Cash and bank balances | | **75,832** | 93,952 |
| **Total current assets** | | **323,308** | 312,452 |
| **Total assets** | | **521,209** | 519,084 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **10,341** | 10,341 |
| Other reserves | 11 | **(2,914)** | (883) |
| Retained earnings | | **189,299** | 191,786 |
| | | **196,726** | 201,244 |
| Non-controlling interests | | **915** | 1,177 |
| **Total equity** | | **197,641** | 202,421 |

| | Note | As at 30 June 2023 US$'000 (Unaudited) | As at 31 December 2022 US$'000 (Audited) (Restated) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **1,667** | 2,778 |
| Lease liabilities | | **21,684** | 22,822 |
| Retirement benefit obligations | | **7,372** | 8,202 |
| Deferred income tax liabilities | | **2,745** | 2,861 |
| **Total non-current liabilities** | | **33,468** | 36,663 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **133,675** | 121,921 |
| Borrowings | | **145,621** | 145,723 |
| Lease liabilities | | **4,049** | 5,370 |
| Derivative financial instruments | | **—** | 106 |
| Current income tax liabilities | | **6,755** | 6,880 |
| **Total current liabilities** | | **290,100** | 280,000 |
| **Total liabilities** | | **323,568** | 316,663 |
| **Total equity and liabilities** | | **521,209** | 519,084 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*For the six-month period ended 30 June 2023*

## 1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six-month period ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2022 and any public announcements made by Luen Thai Holdings Limited during the interim reporting period.

**Restatements**

In preparation of the Group's condensed consolidated interim financial information for the period ended 30 June 2023, management identified certain material unreconciled inventory items in relation to one of the business units of the apparel segment located in the Philippines ("Unreconciled Items"). During the course of ascertaining details relating to the Unreconciled Items, management noted that these items were primarily pertained to inventories and cost of sales transacted in prior periods/years which suggested there were misstatements in the consolidated financial information of prior periods/years.

Accordingly, the Audit Committee has established an independent investigation committee comprising all the independent non-executive directors of the Company ("Independent Committee") to conduct an independent investigation (the "Investigation") led by the internal audit team of the Company on the Unreconciled Items.

Based on the result of the Investigation, the Independent Committee has concluded that the Unreconciled Items are mainly caused by high turnover of finance staff and poor judgment made by local management of the said business unit located in the Philippines, which led to inadequate monitoring and control process failure to prevent and detect the Unreconciled Items, including certain erroneous accounting entries, on a timely basis.

As a result of the Investigation, the board of directors has also concluded that the Unreconciled Items represented material errors in the consolidated financial information of prior periods/years and consequently prior year adjustments were recorded to correct these errors and to reclass certain balance sheet items, as at 31 December 2022 and for the period ended 30 June 2022 presented herein. Other than disclosed below, there are no impact to other primary statements.

***Impact on the condensed consolidated statement of profit or loss for the six-month period ended 30 June 2022***

| | *US$'000* (Unaudited) (As previously reported) | *US$'000* Restatements | *US$'000* (Unaudited) (Restated) |
|---|---|---|---|
| Revenue | 462,813 | — | 462,813 |
| Cost of sales | (386,738) | (599) | (387,337) |
| **Gross profit** | 76,075 | (599) | 75,476 |
| Other gains — net | 680 | — | 680 |
| Selling and distribution expenses | (826) | — | (826) |
| General and administrative expenses | (62,464) | (30) | (62,494) |
| Provision for impairment of trade receivables | (233) | — | (233) |
| **Operating profit** | 13,232 | (629) | 12,603 |
| Finance income | 327 | — | 327 |
| Finance costs | (3,465) | — | (3,465) |
| Finance costs — net | (3,138) | — | (3,138) |
| Share of losses of joint ventures and associates — net | (1,650) | — | (1,650) |
| **Profit before income tax** | 8,444 | (629) | 7,815 |
| Income tax expense | (1,255) | — | (1,255) |
| **Profit for the period** | 7,189 | (629) | 6,560 |
| ***Earnings per share attributable to owners of the Company, expressed in US cents per share*** | | | |
| — *Basic and diluted* | 0.73 | (0.06) | 0.67 |

***Impact on the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2022***

| | *US$'000* (Unaudited) (As previously reported) | *US$'000* Restatements | *US$'000* (Unaudited) (Restated) |
|---|---|---|---|
| **Profit for the period** | 7,189 | (629) | 6,560 |
| Other comprehensive income | (1,811) | — | (1,811) |
| **Total comprehensive income for the period, net of income tax** | 5,378 | (629) | 4,749 |

***Impact on the condensed consolidated statement of financial position as at 31 December 2022***

| | *US$'000* (Audited) (As previously reported) | *US$'000* Restatements | *US$'000* (Audited) (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 117,726 | — | 117,726 |
| Right-of-use assets | 30,444 | — | 30,444 |
| Intangible assets | 44,899 | — | 44,899 |
| Interests in joint ventures and associates | 6,231 | — | 6,231 |
| Deferred income tax assets | 2,339 | — | 2,339 |
| Deposits, prepayments and other receivables | 4,993 | — | 4,993 |
| **Total non-current assets** | 206,632 | — | 206,632 |
| **Current assets** | | | |
| Inventories | 77,506 | 5,822 | 83,328 |
| Trade and other receivables | 140,989 | (10,099) | 130,890 |
| Prepaid income tax | 4,253 | — | 4,253 |
| Derivative financial instruments | — | — | — |
| Restricted cash | 29 | — | 29 |
| Cash and bank balances | 93,952 | — | 93,952 |
| **Total current assets** | 316,729 | (4,277) | 312,452 |
| **Total assets** | 523,361 | (4,277) | 519,084 |

| | US$'000 (Audited) (As previously reported) | US$'000 Restatements | US$'000 (Audited) (Restated) |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 10,341 | — | 10,341 |
| Other reserves | (883) | — | (883) |
| Retained earnings | 197,015 | (5,229) | 191,786 |
| | 206,473 | (5,229) | 201,244 |
| Non-controlling interests | 1,177 | — | 1,177 |
| **Total equity** | 207,650 | (5,229) | 202,421 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 2,778 | — | 2,778 |
| Lease liabilities | 22,822 | — | 22,822 |
| Retirement benefit obligations | 8,202 | — | 8,202 |
| Deferred income tax liabilities | 2,861 | — | 2,861 |
| **Total non-current liabilities** | 36,663 | — | 36,663 |
| **Current liabilities** | | | |
| Trade and other payables | 120,969 | 952 | 121,921 |
| Borrowings | 145,723 | — | 145,723 |
| Lease liabilities | 5,370 | — | 5,370 |
| Derivative financial instruments | 106 | — | 106 |
| Current income tax liabilities | 6,880 | — | 6,880 |
| **Total current liabilities** | 279,048 | 952 | 280,000 |
| **Total liabilities** | 315,711 | 952 | 316,663 |
| **Total equity and liabilities** | 523,361 | (4,277) | 519,084 |

## 2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022, as described in those annual financial statements, except for the adoption of amended standards for the financial year ending 31 December 2023 as described below.

Taxes on income in the six-month period ended are accrued using the tax rate that would be applicable to expected total annual earnings.

**Amended standards relevant to and adopted by the Group**

The following amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2023:

- HKFRS 17 — Insurance Contracts and the related Amendments;
- Amendments to HKAS 1 and HKFRS Practice Statement 2 — Disclosure of Accounting Policies;
- Amendments to HKAS 8 — Definition of Accounting Estimates; and
- Amendments to HKAS 12 — Deferred Tax Related to Assets and Liabilities arising from a Single Transaction and International tax reform — Pillar two model rules.

These amended standards have no material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

The Group has not adopted any other new accounting standards and other amendments to existing standards and interpretation that are not yet effective for this interim period.

## 3. SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of apparels and accessories. Revenue consists of sales revenue from apparel and accessories.

The executive directors have been identified as the Group's chief operating decision-maker. The executive directors have determined the operating segments based on the information reviewed by them that are used to make strategic decisions. The executive directors exclude certain one-off items that might not occur regularly and which introduce volatility into the results of the segment.

As disclosed in the annual report for the year ended 31 December 2022, since 1 July 2022, the executive directors assessed the results of the software development business unit and the investments in a joint venture and an associate separately from the performance of the Apparel segment and included them in the corporate function. Accordingly, the comparable figures of segment information for the six-month period ended 30 June 2022 have been restated to conform with the current period categorization and presentation.

The executive directors assess the performance of each segment based on a measure of segment profit primarily. Assets and liabilities of the Group are regularly reviewed on a consolidated basis. The segment information provided to the executive directors for the reportable segments for the six-month period ended 30 June 2023 and 2022 is as follows:

| | **Apparel** *US$'000* (Unaudited) | **Accessories** *US$'000* (Unaudited) | **Group Total** *US$'000* (Unaudited) |
|---|---|---|---|
| **Six-month period ended 30 June 2023** | | | |
| **Revenue (from external customers)** | **216,799** | **123,423** | **340,222** |
| Revenue recognized under HKFRS15 | | | |
| — At a point in time | **216,573** | **123,129** | **339,702** |
| Rental income recognized under HKFRS16 | **226** | **294** | **520** |
| | **216,799** | **123,423** | **340,222** |
| **Segment (loss)/profit for the period** | **(7,160)** | **10,496** | **3,336** |
| (Loss)/profit for the period includes: | | | |
| Depreciation and amortization | **(6,058)** | **(4,517)** | **(10,575)** |
| Share of profits of joint ventures and associates — net | **308** | **—** | **308** |
| Income tax expense | **(432)** | **(61)** | **(493)** |

| | Apparel | Accessories | Group Total |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| | (Restated) | | (Restated) |
| **Six-month period ended 30 June 2022 (restated)** | | | |
| Revenue (from external customers) | 250,471 | 212,342 | 462,813 |
| Revenue recognized under HKFRS15 | | | |
| — At a point in time | 250,200 | 212,044 | 462,244 |
| Rental income recognized under HKFRS16 | 271 | 298 | 569 |
| | 250,471 | 212,342 | 462,813 |
| Segment profit for the period | 480 | 14,925 | 15,405 |
| Profit for the period includes: | | | |
| Depreciation and amortization | (5,731) | (5,563) | (11,294) |
| Share of profits of joint ventures and an associate — net | 340 | — | 340 |
| Income tax expense | (1,093) | (162) | (1,255) |

The revenue from external parties is derived from numerous external customers and the revenue reported to management is measured in a manner consistent with that in the condensed consolidated statement of profit or loss. Management assesses the performance of the operating segments based on a measure of profit before corporate expenses for the period.

A reconciliation of total segment profit to the profit for the period is provided as follows:

| | **Six-month period ended 30 June** | |
|---|---|---|
| | **2023** | 2022 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Segment profit for the period | **3,336** | 15,405 |
| Corporate expenses *(Note)* | **(3,314)** | (8,845) |
| Profit for the period | **22** | 6,560 |

*Note:* Corporate expenses represent general corporate expenses such as executive salaries and other unallocated general and administrative expenses and losses incurred by corporate investments.

## 4. OPERATING PROFIT

The following items have been charged/(credited) to the operating profit during the period:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Amortization of intangible assets | **334** | 334 |
| Depreciation of property, plant and equipment | **8,236** | 8,886 |
| Depreciation of right-of-use assets | **2,862** | 3,024 |
| (Gains)/losses on disposals of property, plant and equipment | **(38)** | 57 |
| Provision of for impairment of trade receivables | **—** | 233 |
| (Reversal of provision for)/provision for inventory obsolescence | **(763)** | 1,685 |
| Provision for material claims | **858** | 1,263 |
| Termination expenses | **969** | 1,454 |

## 5. FINANCE COSTS — NET

| | Six-month period ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest expenses arisen from lease liabilities from related companies | **(66)** | (88) |
| Interest expense on lease liabilities with third parties | **(820)** | (884) |
| Interest expense on bank loans and overdrafts | **(5,786)** | (2,493) |
| Finance costs | **(6,672)** | (3,465) |
| Interest income from bank deposits | **406** | 200 |
| Interest income from amounts due from a joint venture and an associate | **411** | 103 |
| Other interest income | **2** | 24 |
| Finance income | **819** | 327 |
| Finance costs — net | **(5,853)** | (3,138) |

## 6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2022: Same) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

| | Six-month period ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current income tax | **859** | 1,437 |
| Deferred income tax | **(366)** | (182) |
| | **493** | 1,255 |

*Notes*

(i) The Inland Revenue Department ("IRD") has been reviewing the eligibility of a Hong Kong incorporated subsidiary's 50% or 100% offshore profits claim for previous years.

In respect of the Hong Kong incorporated subsidiary, the IRD tentatively disallowed the 50% or 100% offshore profits claim for the previous years and issued notices of additional assessments/assessments for the years of assessment 2000/01 to 2014/15 on the basis of no 50:50 apportionment for 2000/01 to 2011/12 and no 100% offshore profit for 2012/13 to 2014/15 with the amount of US$3,820,000 (equivalent to HK$29,797,000).

The subsidiary has lodged objections against the above assessments for 2000/01 to 2014/15 by the statutory deadlines. Since the subsidiary was in loss position (or net loss after setting off the loss brought forward) for 2015/16 and 2016/17, no protective assessment was issued for these years. The tax provisions made as at 30 June 2023 for the years of assessment 2000/01 to 2021/22 were approximately US$811,000 (equivalent to HK$6,323,000). Pending settlement of the objections, it has paid a total sum of US$3,695,000 (equivalent to HK$28,823,000) in the form of tax reserve certificates in respect of the tax in dispute up to the year of assessment 2014/15.

(ii) During the year ended 31 December 2019, the Group entered into an agreement with an independent third party to dispose of certain of its subsidiaries. The disposed subsidiaries were engaged in the investment holdings, manufacturing and trading of accessories and leasing of the properties. The disposal resulted in an indirect transfer of a Chinese company, which was captured under Public Notice [2015] No. 7 ("Public Notice 7"), the supplementary notice of Circular 698 issued by the PRC State Taxation Administration, of which any capital gain from the transaction was subject to withholding income tax ("WIT") at 10%.

At the date of disposal, there was a receivable balance on book of the disposed subsidiary. Management considers that there were sufficient supporting documents to substantiate the nature and amount and therefore this receivable balance could be excluded from WIT calculation and there will be no capital gain from the disposal transaction. The case is currently under review by the in-charge tax authority and there is no final assessment as at 30 June 2023. Management assessed that the maximum WIT exposure to be approximately RMB10,005,000 (equivalent to US$1,533,000). Despite the uncertain outcomes of the above case, management has provided for the abovementioned amount in full and considers that such provision to be sufficient but not excessive as at 30 June 2023.

(iii) In prior years, the Cambodian Tax Authority performed an assessment on the tax position of a Cambodia incorporated subsidiary for certain periods during the years ended 31 December 2016 and 2017 and issued a revised assessment to demand additional tax payment of US$319,000. The overseas incorporated subsidiary lodged an objection letter against the above assessment. Up to date, no feedback from the Tax Authority was received. Despite the uncertain outcomes of the case, management has provided for the abovementioned amounts in full and considers the provisions as at 30 June 2023 to be adequate but not excessive.

Certain other Cambodia incorporated subsidiaries of the Group have been under tax audits by the local tax authority since the year ended 31 December 2016. According to management's experience, the tax audits have been carried out by the local tax authority on a regular basis. Given the outcomes of the above tax audits remain uncertain, management has not made any provision as at 30 June 2023.

## 7. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

| | **Six-month period ended 30 June** | |
|---|---|---|
| | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) (Restated) |
| Profit attributable to owners of the Company *(US$'000)* | **284** | 6,969 |
| Weighted average number of ordinary shares in issue *(thousands)* | **1,034,113** | 1,034,113 |
| Basic earnings per share *(US cents per share)* | **0.03** | 0.67 |

### (b) Diluted

Diluted earnings per share for the six-month period ended 30 June 2023 and 2022 are the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

## 8. DIVIDENDS

### (a) Dividends recognized during the reporting period

| | Six-month period ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Final dividend of US0.268 cent or HK2.10 cents (2021: US0.325 cent or HK2.53 cents) per ordinary share for the year ended 31 December 2022 | **2,771** | 3,361 |

The final dividend of US0.268 cent or HK2.10 cents per ordinary share of the Company, totaling US$2,771,000 for the year ended 31 December 2022 has not been paid during the six-month period ended 30 June 2023.

### (b) Dividend not yet recognized at the end of the reporting period

| | Six-month period ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interim dividend — Nil (2022: US0.220 cent or HK1.72 cents) per ordinary share | **—** | 2,275 |

No interim dividend was declared by the Board for the six months ended 30 June 2023 (2022: US0.220 cent).

## 9. TRADE AND OTHER RECEIVABLES

| | As at 30 June 2023 *US$'000* (Unaudited) | As at 31 December 2022 *US$'000* (Audited) (Restated) |
|---|---|---|
| **Current portion** | | |
| Trade receivables | **90,105** | 69,156 |
| Less: loss allowances | **(4,434)** | (4,434) |
| Trade receivables — net | **85,671** | 64,722 |
| Deposits, prepayments and other receivables | **27,501** | 32,140 |
| Prepaid income tax | **4,265** | 4,253 |
| Indemnified assets | **16,723** | 16,723 |
| Amounts due from related parties | **20,978** | 17,305 |
| | **155,138** | 135,143 |
| **Non-current portion** | | |
| Deposits | **2,155** | 2,252 |
| Others | **2,850** | 2,741 |
| | **5,005** | 4,993 |

The Group normally grants credit terms to its customers up to 120 days. The ageing analysis of the trade receivables based on invoice date is as follows:

| | As at 30 June 2023 *US$'000* (Unaudited) | As at 31 December 2022 *US$'000* (Audited) (Restated) |
|---|---|---|
| 0 to 30 days | **51,514** | 38,749 |
| 31 to 60 days | **23,426** | 15,450 |
| 61 to 90 days | **4,830** | 8,954 |
| 91 to 120 days | **2,214** | 767 |
| Over 120 days | **8,121** | 5,236 |
| | **90,105** | 69,156 |

## 10. TRADE AND OTHER PAYABLES

| | As at 30 June 2023 *US$'000* (Unaudited) | As at 31 December 2022 *US$'000* (Audited) (Restated) |
|---|---|---|
| Trade payables | **66,349** | 51,386 |
| Contract liabilities | **101** | 478 |
| Other taxes payables | **9,785** | 11,340 |
| Accrued wages and salaries | **21,632** | 25,943 |
| Contingent liabilities | **16,723** | 16,723 |
| Final dividend payable | **2,771** | — |
| Amounts due to related parties | **901** | 1,736 |
| Others | **15,413** | 14,315 |
| Trade and other payables | **133,675** | 121,921 |

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade payables based on invoice date is as follows:

| | As at 30 June 2023 *US$'000* (Unaudited) | As at 31 December 2022 *US$'000* (Audited) (Restated) |
|---|---|---|
| 0 to 30 days | **48,894** | 40,170 |
| 31 to 60 days | **7,156** | 4,249 |
| 61 to 90 days | **2,204** | 3,041 |
| Over 90 days | **8,095** | 3,926 |
| | **66,349** | 51,386 |

## 11. OTHER RESERVES

| | Capital reserve *US$'000* (Unaudited) | Other capital reserves *US$'000* (Unaudited) | Employment benefit reserve *US$'000* (Unaudited) | Exchange reserve *US$'000* (Unaudited) | Total *US$'000* (Unaudited) |
|---|---|---|---|---|---|
| **As at 1 January 2023** | **7,891** | **(2,795)** | **5,840** | **(11,819)** | **(883)** |
| **Currency translation differences** | **—** | **—** | **113** | **(2,144)** | **(2,031)** |
| **As at 30 June 2023** | **7,891** | **(2,795)** | **5,953** | **(13,963)** | **(2,914)** |
| As at 1 January 2022 | 7,891 | (2,795) | 3,394 | (6,880) | 1,610 |
| Currency translation differences | — | — | (216) | (1,595) | (1,811) |
| As at 30 June 2022 | 7,891 | (2,795) | 3,178 | (8,475) | (201) |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results of Operations and Overview

While the globe was barely recovering from the COVID-19 pandemic, the outbreak of the Russia-Ukraine war in February 2022 created a new shock on the world economy. The attrition war in Ukraine has contributed to elevated and volatile energy and commodity prices, which exacerbated stoked inflation and food shortages in many regions across the world. The United States of America (the "US") and Europe, our major export markets, ended 2022 with approximately 8.7% and 9.2% annual inflation respectively. In a bid to curb the skyrocketing inflation, the major central banks across the world, notably the US Federal Reserve, have no choice but to respond with a series of interest rate hikes and adoption of a tighter monetary policy.

On the other hand, the economy of the People's Republic of China (the "PRC"), the world's second-largest economy, grew at 6.3% annual pace in the second quarter of 2023 which marked a 0.8% pace of growth from the previous quarter, which is much slower than the 2.2% quarter-on-quarter pace recorded in the first three months of 2023. The PRC was losing its momentum as the economic locomotive in the past decades due to the declining export, ongoing property downturn, record high unemployment rates among young adults, and the possibility of disinflation. The temporary retardation of economic growth in the PRC, coupled with tighter monetary policy in the US and Europe and global hyperinflation, have not only dampened consumer sentiment but also hampered the pace of the economic recovery of the world.

In addition, excess inventory of our certain key customers was also one of the critical issues which considerably affected the Group's result for the six-month period ended 30 June 2023. In the past few years, supply chains were disrupted due to the advent of COVID-19, particularly during the period when COVID-19 became widespread with lockdowns enforced all over the globe. Due to fear of supply chain ruptures, most brand owners have aggressively increased their inventory level and led to inventory gluts in the post-COVID-19 era which has put brand owners in a tough spot, including some major customers of the Group.

As a result of the abovementioned difficulties, the market demand and consumer spending have been significantly stunted. As such, the Group's revenue declined by approximately 26.5% to approximately US$340,222,000 for the six-month period ended 30 June 2023 as compared to the corresponding period in 2022. Gross profit of the Group decreased substantially by approximately 37.5% from approximately US$75,476,000 to approximately US$47,155,000. Such decrease was in line with the frail sales performance of the Group and the drop in gross profit margin. The gross profit margin decreased from 16.3% for the six-month period ended 30 June 2022 to 13.9% for the period ended 30 June 2023. The decrease in gross profit margin was primarily due to the drastic reduction of orders from customers which substantially affected production efficiency and cost effectiveness.

Due to the aforementioned aggressive spike in interest rates, the finance cost of the Group increased by approximately 92.6% period-to-period to approximately US$6,672,000 for the first half of 2023. As a result of the foregoing, the Group's net profit attributable to owners of the Company ("Net Profit") was substantially decreased to approximately US$284,000 for the reporting period, as compared to a Net Profit amounting to approximately US$6,969,000 for the corresponding period last year.

**Segmental Review**

Our Apparel and Accessories businesses respectively accounted for approximately 63.7% and 36.3% of the Group's total revenue for the period under review.

***Apparel***

For the first half of 2023, revenue generated from the Apparel Division was approximately US$216,799,000, representing a decrease of approximately US$33,672,000 or 13.4% when compared with same period last year. The Apparel Division incurred a segment loss of approximately US$7,160,000, while a segment profit of approximately US$480,000 was recorded for the corresponding period in 2022.

***Accessories***

Segment revenue of the Accessories Division decreased by approximately 41.9% period-to-period to approximately US$123,423,000 for the six-month period ended 30 June 2023. In line with the slump in segment revenue, the Accessories Division recorded a segment profit of approximately US$10,496,000, representing a decrease of approximately US$4,429,000 or 29.7% when compared with same period last year.

**Markets**

Geographically, Europe and the US remained our major export markets for the period under review. The total revenue derived from customers in Europe and the US collectively was approximately US$227,540,000, which accounted for approximately 66.9% of the Group's total revenue in the first half of 2023.

The Group's revenue from the Asia market (mainly the PRC and Japan) was approximately US$67,365,000, which accounted for approximately 19.8% of the Group's total revenue in the first half of 2023.

**Liquidity and Financial Resources**

The financial position of the Group remained healthy. As at 30 June 2023, the total cash and bank deposits of the Group amounted to approximately US$75,832,000, representing a decrease of approximately US$18,120,000 over the balance as at 31 December 2022. The Group's total bank borrowings as at 30 June 2023 was approximately US$147,288,000, representing a decrease of approximately US$1,213,000 as compared to approximately US$148,501,000 as at 31 December 2022.

As at 30 June 2023, based on the scheduled repayments set out in the relevant loan agreements with banks, the maturity profile of the Group's bank borrowings spreads over two years, with approximately US$143,399,000 repayable within one year and approximately US$3,889,000 repayable in the second year.

Gearing ratio is defined as net debt (representing bank borrowings net of cash and bank balances) divided by shareholders' equity. As at 30 June 2023, the gearing ratio of the Group was approximately 36.3%.

**Foreign Exchange Risk Management**

The Group adopts a prudent policy to hedge against the fluctuations in exchange rates. Most of the Group's operating activities are denominated in US dollar, Euro, Hong Kong dollar, Vietnam Dong, Cambodian Riel, Chinese Yuan, Burmese Kyat and Philippine Peso. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and entering into currency hedge arrangement to mitigate the impact on exchange rate fluctuations, if necessary. During the period ended 30 June 2023, no forward foreign exchange or hedging contracts had been entered into by the Group.

**Future Plans and Prospect**

In light of persistent challenges such as the protracted war between Russia and Ukraine, inflationary pressures in the US and Europe, interest rates hikes, and a slow pace of recovery in the PRC, the worldwide economic environment remains uncertain. Based on the projection of the International Monetary Fund in July 2023, the global growth rate is expected to be 3.0% which is modestly higher than the 2.8% predicted in the April 2023 World Economic Outlook, but it remains weak by historical standards. In addition, the digestion of excess inventory of brand customers is likely to linger on for the rest of 2023 due to softening demand from end consumers.

Despite the aforementioned challenges and uncertainties of the global economy, the Board remains cautiously optimistic about the prospects of the core business of the Group in the long run, as the Group has learned to cope with these diverse difficult situations. In order to minimize the risks and to provide sustainable growth for the Group, management of the Group will continue to implement disciplined financial management measures in order to well prepare for the upcoming challenges and to take advantage of any opportunities that may arise in the future.

In addition, the Group will continue to implement stringent cost control measures, including reducing manufacturing costs, distribution costs and administrative expenses, and achieving greater synergies on overall administrative efficiency by sharing internal resources. The Group will also pay relentless focus on our long-term sustainable strategy, further streamlining and consolidating our diversified production bases, and reinforcing our strategic resilience to serve and grow with our customers. The Group will also continue to closely monitor the market conditions and will make timely adjustments to its business strategies whenever necessary.

**Significant Investments, Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures**

There was no significant investments and material acquisition or disposal of subsidiaries, associates and joint ventures during the period ended 30 June 2023.

**Future Plan for Material Investments or Capital Assets**

There was no specific plan for material investments or capital assets as at 30 June 2023 (31 December 2022: Nil).

**Charge of Assets**

The Group's assets were not charged to third parties as of 30 June 2023 (31 December 2022: Nil).

**Contingent Liabilities**

The Group has contingent liabilities regarding potential exposures to import duties, other taxes and penalties in various overseas countries with aggregated amounts of approximately US$21,112,000 as at 30 June 2023 (31 December 2022: Same).

Among the abovementioned contingent liabilities, US$5,504,000 was recognized upon business combination of Universal Elite Holdings Limited ("Universal") and its subsidiaries in October 2018. Pursuant to the agreement for sale and purchase of the shares in Universal, such taxation claim in relation to periods prior to October 2018 will be indemnified entirely by the sellers. Accordingly, the Group has recognized an indemnification asset of US$5,504,000 at the acquisition date.

During the year ended 31 December 2022, one subsidiary of Universal has paid the IRD an amount of US$22,000 to settle a tax case related to periods prior to the acquisition. The amount has been recovered from the previous owners in full. Accordingly, the amounts of contingent liability and indemnified assets have been reduced to US$5,482,000 as at 31 December 2022. As at 30 June 2023, the amounts of the contingent liability and the indemnified asset in relation to the acquisition of Universal remained unchanged.

Also, a contingent liability of US$11,461,000 was recognized upon business combination of Sachio Investments Limited ("Sachio") and its subsidiary in April 2020. Pursuant to the agreement for sale and purchase of the shares in Sachio, such taxation claim in relation to periods prior to April 2020 will be indemnified entirely by the sellers. Accordingly, the Group has recognized an indemnification asset of US$11,461,000 as at the acquisition date.

During the year ended 31 December 2022, the subsidiary of Sachio has paid the Cambodia tax authority a total amount of US$220,000 on cases related to periods prior to the acquisition. The amount has been recovered from the previous owner in full. Accordingly, the amounts of contingent liability and indemnified assets have been reduced to US$11,241,000. As at 30 June 2023, the amounts of the contingent liability and the indemnified asset in relation to the acquisition of Sachio remained unchanged.

For the remaining contingent liabilities of approximately US$4,389,000 (31 December 2022: Same), management considers it is not probable that outflows of resources embodying economic benefits would be required to settle these exposures and no additional provision is considered necessary.

**Human Resources, And Corporate Social Responsibility**

Luen Thai continues to be an employer of choice through focused and strategic human resources strategies and social responsibility programmes that are aligned with the Company's growth and changing needs. Improved governance and strengthened partnership serve as the foundation for all these initiatives as Luen Thai maintains its position as a leader in Corporate Social Responsibility in the apparel and accessories manufacturing industry.

With approximately 35,000 employees around the world, Luen Thai continuously strives to foster open communications with employees through various channels. Under its employee care initiatives, Luen Thai has provided safe and enjoyable work and living environments, equitable compensation and benefit schemes, and opportunities for career growth through a variety of formal and informal learning and development programmes; and a strong corporate culture where employee' contributions are recognized and rewarded.

As a global corporate citizen, Luen Thai is conducting business and developing a sustainable business strategy with a long-term view, which creates a positive impact for our worldwide supply chain and the surrounding environment. We not only focus on profit maximization, but we must also understand the needs and concerns of other stakeholders.

**Inventory Discrepancies**

In preparation of the Group's condensed consolidated interim financial information for the period ended 30 June 2023, the Group's management team identified certain material unreconciled inventory items (the "Inventory Discrepancies") in relation to one of our business units of the apparel segment located in the Philippines (the "BU"). During the course of ascertaining details relating to the Inventory Discrepancies, management noted that these items were primarily pertained to inventories and cost of sales transacted in prior periods/years which suggested there were misstatements in the consolidated financial information of prior periods/years.

Accordingly, the Audit Committee established an independent investigation committee comprising all the independent non-executive directors of the Company ("Investigation Committee") to conduct an independent investigation on the Inventory Discrepancies ("Investigation"). The scope of the Investigation was to (1) identify the nature and extent of the Inventory Discrepancies; (2) identify the underlying reasons and events leading to the Inventory Discrepancies; (3) identify whether there is any potential misconduct involved in relation to employees and former employees of the BU; (4) ascertain that there is no reasonable concern on management integrity outside the BU; and (5) identify any weakness in the internal control system of the Group. The Board and the Audit Committee are of the view that the scope of the Investigation is sufficient to address the issues and matters arising from the Inventory Discrepancies.

As of the date of this announcement, the Investigation has completed and the conclusions of the Investigation Committee are summarised below:

(1) *Nature and extent of the Inventory Discrepancies* — The unreconciled inventory items represented material errors in the consolidated financial information of prior periods/years and, consequently, prior year adjustments were recorded to correct these errors and to reclass certain balance sheet items as at 31 December 2022 and for the period ended 30 June 2022, as presented in the Group's condensed consolidated interim financial statements for the period ended 30 June 2023.

(2) *Reasons and events leading to the Inventory Discrepancies* — The Inventory Discrepancies are mainly caused by high turnover of finance staff of the BU during the affected period, coupled with poor decision-making and misjudgement of the local management team of the BU located in the Philippines, which led to inadequate monitoring and control process failure to prevent and detect the Inventory Discrepancies, including certain erroneous accounting entries, on a timely basis.

(3) *Incompetence of employees and former employees of the BU* — Based on the findings of the Investigation, the poor decision-making and misjudgement of the local management personnel of the BU were attributable to their incompetence, insufficient instructions and training and undue attention to the Group's internal policies and procedures. In view of this, the Group will terminate the employment of the head of the BU who is primarily responsible for the Inventory Discrepancies in due course, and is in the process of identifying potential candidates for the role with the appropriate qualifications, experience and competence. Other management personnel of the BU involved have since left the employ of the Group.

(4) *No reasonable concern on management integrity outside the BU* — Based on the findings of the Investigation, there is no evidence indicating that any management personnel outside the BU gave instructions on or had knowledge of the relevant management decisions made during the affected period which contributed to the Inventory Discrepancies. As such, the Investigation Committee is of the view that there is no reasonable concern of management integrity outside the BU.

(5) *Adequacy of the Group's internal control system* — The Investigation Committee concluded that the risk management and internal controls systems of the Group that are currently in place are appropriate and effective, and provide reasonable but not absolute assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication. The occurrence of the Inventory Discrepancies was an isolated incident within one business unit caused by the incompetence and misjudgement of individual employees against the backdrop of exceptional circumstances, in particular due to the high turnover of finance staff within the BU.

Nevertheless, with the benefit of hindsight and the results of the Investigation, the Audit Committee identified certain areas of improvement to enhance the implementation of the existing risk management and internal controls systems of the Group including but not limited to: (i) imposing new requirements for the existing annual self-assessment process of the management teams of business units, covering areas such as the proper implementation of training programmes for new employees and ongoing competency training for existing employees; (ii) adding new areas to be evaluated in performance appraisals for business unit heads, such as compliance with the Group's standard operating procedure and internal policy/guidelines and timely implementation of internal audit recommendations; (iii) taking steps to review and further elaborate existing standard operating procedure and policy on inventory management and control; (iv) engaging the Group's external information systems and technology consulting team to review and propose measures for further automation and improvement of the Group's existing accounting software systems; and (v) performing regular follow-up internal audit for areas of improvements identified in internal audit reports.

The Board and the Audit Committee share the views of the Investigation Committee as summarised above and are of the view that the proposed remedial actions are appropriate and, once implemented, will effectively enhance the Group's risk management and internal control system.

## 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 listed shares during the six-month period ended 30 June 2023.

## CORPORATE GOVERNANCE PRACTICES

Luen Thai acknowledges the need for and importance of corporate governance as one of the key elements in creating shareholders' value. It is committed to ensuring high standards of corporate governance in the interests of shareholders and taking care to identify practices designed to achieve effective oversight, transparency and ethical behavior.

Throughout the six-month period ended 30 June 2023, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in the Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except the following deviations:

(i) the code provision C.1.6 of the CG Code stipulates that the independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Seing Nea Yie, an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 25 May 2023 (the "AGM") due to his personal health reason. All other Directors, including two independent non-executive Directors and a non-executive Director, attended the AGM.

(ii) the code provision F.2.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. The chairman of the board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, the chairman should invite another member of the committee or failing this their duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. Mr. Seing Nea Yie, the chairman of both the Audit Committee and Remuneration Committee, was unable to attend the AGM due to his personal health reason. All other members of the Audit Committee and Remuneration Committee who attended the AGM were of sufficient calibre for answering questions at the AGM.

**BOARD COMMITTEES**

As at the date of this announcement, the Company has formed the following committees at the Board level:

Audit Committee: The Audit Committee has been set up to provide advice and recommendations to the Board. Ms. Mok Siu Wan, Anne and the three independent non-executive Directors of the Company, namely, Mr. Chan Henry, Dr. Wang Ching, and Mr. Lee Cheuk Yin, Dannis as the Committee Chairman, comprise the Audit Committee. Each committee member possesses appropriate finance and/or industry expertise to advise the Board.

Remuneration Committee: The Remuneration Committee has been set up with the responsibility of recommending to the Board the remuneration policy for all Directors and the senior management. Mr. Zhang Min and the three independent non-executive Directors of the Company, namely, Dr. Wang Ching, Mr. Lee Cheuk Yin, Dannis and Mr. Chan Henry as the Committee Chairman, comprise the Remuneration Committee.

Nomination Committee: The Nomination Committee has been set up with responsibility of making recommendation to the Board on the appointment or re-appointment of Directors. Mr. Wang Weimin as the Committee Chairman and the three independent non-executive Directors of the Company, namely, Mr. Chan Henry, Dr. Wang Ching and Mr. Lee Cheuk Yin, Dannis, comprise the Nomination Committee.

Financing and Banking Committee: The Financing and Banking Committee has been set up to review and approve any banking facility of the Group, and to ensure that each facility is in the best commercial interest of the Group as a whole. The Financing and Banking Committee comprises two members, namely Mr. Tan Cho Lung, Raymond and Mr. Jin Xin, with Mr. Tan Cho Lung, Raymond as the Committee Chairman.

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. After having made specific enquiry of all Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the six-month period ended 30 June 2023.

## REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has discussed with the management regarding the auditing, internal control and financial reporting matters. The Audit Committee has discussed and reviewed the unaudited interim financial information and the interim report for the six-month period ended 30 June 2023.

At the request of the Board, the Company's external auditor, PricewaterhouseCoopers, has carried out a review of the unaudited condensed consolidated interim financial information in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2023 (2022: US0.220 cent per share).

## PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND THE INTERIM REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.luenthai.com). The interim report of the Company for the six-month period ended 30 June 2023 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

## RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 4 September 2023 pending publication of this results announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 10 October 2023.

By order of the Board
**Luen Thai Holdings Limited**
**Tan Cho Lung, Raymond**
*Chief Executive Officer and Executive Director*

Hong Kong, 9 October 2023

*As at the date of this announcement, the Board comprises Mr. Wang Weimin, Dr. Tan Siu Lin, Mr. Tan Cho Lung, Raymond, Mr. Zhang Min and Mr. Jin Xin as executive Directors; Ms. Mok Siu Wan, Anne as non-executive Director; Mr. Chan Henry, Dr. Wang Ching and Mr. Lee Cheuk Yin, Dannis as independent non-executive Directors.*