

# 20/20 VISION



## 2020 INTERIM REPORT

 Luenthai

Luen Thai Holdings Limited

聯泰控股有限公司

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 311)



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## EXECUTIVE DIRECTORS

QU Zhiming, *Chairman (re-designated as the Chairman on 20 May 2020)*

TAN Siu Lin, *Honorary Life Chairman*

TAN Cho Lung Raymond, *Chief Executive Officer*

HUANG Jie

ZHANG Min (*elected on 28 May 2020*)

SHEN Yaoqing (*retired on 28 May 2020*)

## NON-EXECUTIVE DIRECTOR

MOK Siu Wan, Anne

## INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry

SEING Nea Yie

WANG Ching

## CHIEF FINANCIAL OFFICER

KORNBLUM Joerg

## COMPANY SECRETARY

CHIU Chi Cheung

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF LUEN THAI HOLDINGS LIMITED  
(incorporated in the Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the interim financial information set out on pages 3 to 35, which comprises the interim condensed consolidated statement of financial position of Luen Thai Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2020 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material aspects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 25 August 2020

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	135,445	121,848
Right-of-use assets	8	35,857	34,915
Intangible assets	7	47,190	46,350
Interests in joint ventures	13	3,962	4,240
Deferred income tax assets		2,343	1,995
Deposits, prepayments and other receivables	10	4,737	7,831
<b>Total non-current assets</b>		<b>229,534</b>	<b>217,179</b>
<b>Current assets</b>			
Inventories	9	100,484	99,975
Trade and other receivables	10	124,023	158,207
Prepaid income tax		5,521	4,795
Derivative financial instruments		3	—
Cash and bank balances		69,474	82,959
Restricted cash		14	14
<b>Total current assets</b>		<b>299,519</b>	<b>345,950</b>
<b>Total assets</b>		<b>529,053</b>	<b>563,129</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	11	10,341	10,341
Other reserves	12	2,100	2,006
Retained earnings		187,659	206,346
		<b>200,100</b>	<b>218,693</b>
Non-controlling interests		2,525	—
<b>Total equity</b>		<b>202,625</b>	<b>218,693</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2020

	Note	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	14	25,933	20,200
Lease liabilities		28,340	27,714
Retirement benefit obligations		12,460	12,239
Deferred income tax liabilities		3,851	3,465
<b>Total non-current liabilities</b>		<b>70,584</b>	63,618
<b>Current liabilities</b>			
Trade and other payables	15	121,948	120,919
Borrowings	14	122,823	146,927
Lease liabilities		4,446	4,653
Derivative financial instruments		—	19
Current income tax liabilities		6,627	8,300
<b>Total current liabilities</b>		<b>255,844</b>	280,818
<b>Total liabilities</b>		<b>326,428</b>	344,436
<b>Total equity and liabilities</b>		<b>529,053</b>	563,129

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE PERIOD ENDED 30 JUNE 2020

	Note	Six months ended 30 June	
		2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited) (Restated)
Revenue	6	331,687	461,763
Cost of sales		(294,213)	(395,959)
<b>Gross profit</b>		<b>37,474</b>	65,804
Other (losses)/gains – net	16	(610)	722
Selling and distribution expenses		(746)	(2,411)
General and administrative expenses		(48,574)	(52,824)
Provision for impairment of receivables	17	(2,649)	(164)
<b>Operating (loss)/profit</b>	17	<b>(15,105)</b>	11,127
Finance income	18	209	342
Finance costs	18	(3,055)	(3,216)
Finance costs – net	18	(2,846)	(2,874)
Share of losses of joint ventures		(523)	(54)
<b>(Loss)/profit before income tax</b>		<b>(18,474)</b>	8,199
Income tax expense	19	(591)	(1,627)
<b>(Loss)/profit for the period</b>		<b>(19,065)</b>	6,572
<b>(Loss)/profit attributable to</b>			
Owners of the Company		(18,687)	6,572
Non-controlling interests		(378)	–
		<b>(19,065)</b>	6,572
<b>(Loss)/earnings per share attributable to owners of the Company, expressed in US cents per share</b>			
– Basic and diluted	20	(1.81)	0.64

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2020

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited) (Restated)
<b>(Loss)/profit for the period</b>	<b>(19,065)</b>	6,572
<b>Other comprehensive income/(loss)</b>		
<i>Item that may be reclassified to profit or loss:</i>		
Currency translation differences	<b>94</b>	(323)
<b>Total comprehensive (loss)/income for the period, net of income tax</b>	<b>(18,971)</b>	6,249
<b>Total comprehensive (loss)/income attributable to</b>		
Owners of the Company	<b>(18,593)</b>	6,249
Non-controlling interests	<b>(378)</b>	–
	<b>(18,971)</b>	6,249

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2020

	Unaudited					
	Attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
Balance at 1 January 2020	10,341	2,006	206,346	218,693	–	218,693
Loss for the period	–	–	(18,687)	(18,687)	(378)	(19,065)
Other comprehensive income:						
Currency translation differences	–	94	–	94	–	94
<b>Total comprehensive loss for the period ended 30 June 2020</b>	<b>–</b>	<b>94</b>	<b>(18,687)</b>	<b>(18,593)</b>	<b>(378)</b>	<b>(18,971)</b>
<b>Total transactions with owners of the Company, recognized directly in equity</b>						
Establishment of a new subsidiary	–	–	–	–	2,900	2,900
Disposal of partial interest in a subsidiary without losing of control	–	–	–	–	3	3
<b>Total transactions with owners of the Company</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,903</b>	<b>2,903</b>
<b>Balance at 30 June 2020</b>	<b>10,341</b>	<b>2,100</b>	<b>187,659</b>	<b>200,100</b>	<b>2,525</b>	<b>202,625</b>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2019

	Unaudited			
	Attributable to owners of the Company			
	Share capital US\$'000	Other reserves US\$'000	Retained earnings US\$'000 (Restated)	Total equity US\$'000 (Restated)
<b>Balance at 31 December 2018</b>	10,341	2,028	191,618	203,987
Changes in accounting policy	—	—	(2,520)	(2,520)
<b>Balance at 1 January 2019</b>	10,341	2,028	189,098	201,467
<b>Profit for the period</b>	—	—	6,572	6,572
<b>Other comprehensive loss:</b>				
Currency translation differences	—	(323)	—	(323)
<b>Total comprehensive income for the period ended 30 June 2019</b>	—	(323)	6,572	6,249
<b>Total transactions with owners of the Company, recognized directly in equity</b>				
Dividends declared	—	—	(4,281)	(4,281)
<b>Total transactions with owners of the Company</b>	—	—	(4,281)	(4,281)
<b>Balance at 30 June 2019</b>	10,341	1,705	191,389	203,435

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2020

	Note	Six months ended 30 June 2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited) (Restated)
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations		30,261	(10,700)
Interest paid	18	(3,055)	(3,216)
Income tax paid		(3,452)	(3,899)
Net cash generated from/(used in) operating activities		23,754	(17,815)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	23(b)	(2,755)	—
Proceeds from partial disposal of a subsidiary		3	—
Investment in a joint venture	13	(245)	—
Purchases of property, plant and equipment	7	(15,701)	(11,190)
Proceeds from disposals of property, plant and equipment		872	233
Dividend received from a joint venture	13	—	267
Interest received	18	209	342
Prepayment of property, plant and equipment		(519)	(2,451)
Net cash used in investing activities		(18,136)	(12,799)
<b>Cash flows from financing activities</b>			
Net (decrease)/increase in trade finance		(27,887)	3,985
Proceeds from borrowings		26,629	7,983
Repayments of borrowings		(17,113)	(4,200)
Principal elements of lease payments		(3,401)	(1,765)
Proceeds from capital injection from non-controlling interests		2,900	—
Net cash (used in)/generated from financing activities		(18,872)	6,003
Net decrease in cash and bank balances		(13,254)	(24,611)
Cash and bank balances at beginning of the period		82,959	80,443
Exchange (losses)/gains on cash and bank balances		(231)	115
<b>Cash and bank balances at end of the period</b>		<b>69,474</b>	<b>55,947</b>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1 GENERAL INFORMATION

Luen Thai Holdings Limited (the “Company”) is principally an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing and trading of apparels and accessories. The Group has manufacturing plants primarily in the People’s Republic of China (the “PRC”), Cambodia, the Philippines, Vietnam, India, Indonesia, Thailand and Myanmar.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and Rooms 1001–1005, 10/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong, respectively.

The Company has its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in United States dollars (“US\$”), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board of Directors on 25 August 2020.

This condensed consolidated interim financial information has been reviewed, not audited.

## 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2020 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 2019 and any public announcements made by Luen Thai Holdings Limited during the interim reporting period.

### 3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements, except for the adoption of new and amended standards effective for the financial year ending 31 December 2020 as described below.

#### (a) New and amended standards relevant to and adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2020:

- Conceptual Framework for Financial Reporting 2018,
- HKAS 1 and HKAS 8 (Amendments),
- HKAS 39, HKFRS 7 and HKFRS 9 (Amendments), and
- HKFRS 3 (Amendments)

These 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 new or amended standards or interpretations that are not yet effective for this interim period.

### 4 ESTIMATES

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

## 5 FINANCIAL RISK MANAGEMENT

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There have been no changes in the risk management policies since year end.

### 5.2 Fair value estimation

The table below analyzes the Group's financial liabilities that are carried at fair value, by valuation method, as at 30 June 2020 and 31 December 2019. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<b>As at 30 June 2020</b>				
<b>Assets</b>				
Derivative financial instruments	–	3	–	3
<b>As at 31 December 2019</b>				
<b>Liabilities</b>				
Derivative financial instruments	–	(19)	–	(19)

There were no changes in valuation techniques during the period.

## 5 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 5.3 Valuation technique used to derive fair values

Level 2 trading and hedging derivatives comprise forward foreign exchange contracts. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for level 2 derivatives.

### 5.4 Liquidity risk

Compared to year end, there have been no material changes to the policies and practices for the Group's liquidity and funding risks management as described in the annual financial statements for the year ended 31 December 2019.

## 6 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. Certain comparative figures in segment information have been restated to conform to current period 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 months ended 30 June 2020 and 2019 is as follows:

	Apparel US\$'000 (Unaudited)	Accessories US\$'000 (Unaudited)	Total Group US\$'000 (Unaudited)
<b>Six months ended 30 June 2020</b>			
Revenue (from external customers)	187,700	143,987	331,687
Timing of revenue recognition			
At a point in time	187,700	143,987	331,687

## 6 SEGMENT INFORMATION (CONTINUED)

	Apparel US\$'000 (Unaudited)	Accessories US\$'000 (Unaudited)	Total Group US\$'000 (Unaudited)
Segment loss for the period	(5,382)	(5,100)	(10,482)
Loss for the period includes:			
Depreciation and amortization (Note 7 and 8)	(6,339)	(5,232)	(11,571)
Share of losses of joint ventures	(523)	–	(523)
Income tax (expense)/credit (Note 19)	(748)	157	(591)
<b>Six months ended 30 June 2019</b>			
Revenue (from external customers)	238,074	223,689	461,763
Timing of revenue recognition			
At a point in time	238,074	222,718	460,792
Over time	–	971	971
	238,074	223,689	461,763
Segment profit for the period	8,185	7,019	15,204
Profit for the period includes:			
Depreciation and amortization (Note 7 and 8)	(5,398)	(4,955)	(10,353)
Share of losses of joint ventures	(54)	–	(54)
Income tax expense (Note 19)	(1,359)	(268)	(1,627)

Revenues between segments are carried out in accordance with the terms mutually agreed between the respective parties and are equivalent to those that prevail in arm's length transactions. 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.

## 6 SEGMENT INFORMATION (CONTINUED)

A reconciliation of total segment (loss)/profit to the (loss)/profit for the period is provided as follows:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited)
		(Restated)
Segment (loss)/profit for the period	<b>(10,482)</b>	15,204
Corporate expenses ( <i>Note i</i> )	<b>(5,402)</b>	(5,709)
One-off items ( <i>Note ii</i> )	<b>(3,181)</b>	(2,923)
	<b>(19,065)</b>	6,572
(Loss)/profit for the period	<b>(19,065)</b>	6,572

*Notes:*

- (i) Corporate expenses represent general corporate expenses such as executive salaries and other unallocated general and administrative expenses.
- (ii) For the six months ended 30 June 2020, one-off item represents termination expenses (2019: termination expenses).

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Analysis of revenue by category</b>		
Sales of garment, textile products and accessories	<b>325,980</b>	458,666
Other service revenue	<b>5,707</b>	3,097
	<b>331,687</b>	461,763
Total revenue	<b>331,687</b>	461,763



## 7 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

	Intangible assets					Total US\$'000 (Unaudited)
	Goodwill	Customer relationship	Total intangible assets	Investment properties	Property, plant and equipment	
	US\$'000 (Unaudited)	US\$'000 (Unaudited)	US\$'000 (Unaudited)	US\$'000 (Unaudited)	US\$'000 (Unaudited)	
<b>Six months ended 30 June 2020</b>						
Opening net book amount as at						
1 January 2020	42,078	4,272	46,350	–	121,848	168,198
Additions	–	–	–	–	20,024	20,024
Acquisition of subsidiaries (Note 23(a))	766	400	1,166	–	2,649	3,815
Disposals and write-off	–	–	–	–	(988)	(988)
Depreciation and amortization (Note 17)	–	(326)	(326)	–	(8,377)	(8,703)
Exchange differences	–	–	–	–	289	289
Closing net book amount as at						
30 June 2020	42,844	4,346	47,190	–	135,445	182,635
<b>Six months ended 30 June 2019</b>						
Opening net book amount as at						
1 January 2019	42,078	4,988	47,066	6,510	109,297	162,873
Transfer to investment properties	–	–	–	556	(530)	26
Additions	–	–	–	–	11,555	11,555
Disposals and write-off	–	–	–	–	(391)	(391)
Depreciation and amortization (Note 17)	–	(403)	(403)	(350)	(7,688)	(8,441)
Exchange differences	–	–	–	(519)	266	(253)
Closing net book amount as at						
30 June 2019	42,078	4,585	46,663	6,197	112,509	165,369

## 8 LEASES

This note provides information for leases where the Group is a lessee.

	Land and properties US\$'000 (Unaudited)	Land use rights US\$'000 (Unaudited)	Motor vehicles US\$'000 (Unaudited)	Total US\$'000 (Unaudited)
<b>Right-of-use assets</b>				
As at 1 January 2020	30,048	4,864	3	34,915
Additions	4,604	1,092	—	5,696
Disposals	(1,876)	—	—	(1,876)
Depreciation ( <i>Note 17</i> )	(2,779)	(86)	(3)	(2,868)
Exchange differences	(7)	(3)	—	(10)
As at 30 June 2020	29,990	5,867	—	35,857

	Land and properties US\$'000 (Unaudited) (Restated)	Land use rights US\$'000 (Unaudited)	Motor vehicles US\$'000 (Unaudited)	Total US\$'000 (Unaudited) (Restated)
<b>Right-of-use assets</b>				
As at 1 January 2019 (As originally presented)	—	—	—	—
Changes in accounting policies	11,640	5,628	12	17,280
As at 1 January 2019 (Restated)	11,640	5,628	12	17,280
Additions	16,358	—	—	16,358
Disposals	(2)	—	—	(2)
Transfer to investment	—	(26)	—	(26)
Depreciation ( <i>Note 17</i> )	(1,786)	(122)	(4)	(1,912)
Exchange differences	51	527	—	578
As at 30 June 2019	26,261	6,007	8	32,276

## 9 INVENTORIES

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Raw materials	39,737	45,531
Work in progress	58,407	47,822
Finished goods	2,340	6,622
	<b>100,484</b>	<b>99,975</b>

## 10 TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
<b>Current portion</b>		
Trade and bills receivables – net	84,208	128,651
Deposits, prepayments and other receivables	28,170	24,366
Amounts due from related parties (Note 22(c))	11,645	5,190
	<b>124,023</b>	<b>158,207</b>
<b>Non-current portion</b>		
Prepayments for purchases of property, plant and equipment	1,589	285
Deposits	2,354	2,405
Prepayment for acquisition of a subsidiary	–	4,365
Others	794	776
	<b>4,737</b>	<b>7,831</b>

## 10 TRADE AND OTHER RECEIVABLES (CONTINUED)

	<b>As at 30 June 2020 US\$'000 (Unaudited)</b>	As at 31 December 2019 US\$'000 (Audited)
Trade and bills receivables	<b>87,255</b>	129,049
Less: loss allowances	<b>(3,047)</b>	(398)
Trade and bills receivables – net	<b>84,208</b>	128,651

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

	<b>As at 30 June 2020 US\$'000 (Unaudited)</b>	As at 31 December 2019 US\$'000 (Audited)
0 to 30 days	<b>47,762</b>	102,414
31 to 60 days	<b>15,333</b>	18,226
61 to 90 days	<b>13,405</b>	6,213
91 to 120 days	<b>2,769</b>	1,202
Over 120 days	<b>7,986</b>	994
	<b>87,255</b>	129,049

## 11 SHARE CAPITAL

	Number of shares '000	Nominal value US\$'000
Issued and fully paid – ordinary shares of US\$0.01 each		
As at 31 December 2019 (audited) and 30 June 2020 (unaudited)	1,034,113	10,341

**Share option**

There has been no change in the status of the Group's share option scheme during the period ended 30 June 2020. As at 30 June 2020 and 31 December 2019, there is no outstanding share option under the share option scheme. No share options have been granted or vested during the period ended 30 June 2020.

## 12 OTHER RESERVES

	Capital reserve <i>(Note (i))</i> US\$'000 (Unaudited)	Other capital reserves <i>(Note (iii))</i> US\$'000 (Unaudited)	Employment benefit reserve US\$'000 (Unaudited)	Exchange reserve US\$'000 (Unaudited)	Total US\$'000 (Unaudited)
As at 1 January 2020	7,891	(2,795)	2,640	(5,730)	2,006
Currency translation differences	–	–	71	23	94
As at 30 June 2020	7,891	(2,795)	2,711	(5,707)	2,100
As at 1 January 2019	7,891	(4,466)	4,793	(6,190)	2,028
Currency translation differences	–	–	19	(342)	(323)
As at 30 June 2019	7,891	(4,466)	4,812	(6,532)	1,705

## 12 OTHER RESERVES (CONTINUED)

*Notes:*

- (i) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Initial Public Offerings (“IPO”) reorganization and the nominal value of the Company’s shares issued in exchange thereof.
- (ii) Other capital reserves primarily represent (i) the initial recognition of the financial liabilities in relation to the put options granted to the non-controlling interests and the subsequent derecognition of such financial liabilities upon the put options are exercised, expired or terminated; and (ii) the difference between the amount by which the non-controlling interests are acquired and the fair value of the consideration paid.

## 13 INTERESTS IN JOINT VENTURES

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited)
Beginning of the period	<b>4,240</b>	4,551
Additions	<b>245</b>	—
Share of post-tax losses of joint ventures	<b>(523)</b>	(54)
Dividends received	<b>—</b>	(267)
End of the period	<b>3,962</b>	4,230

## 14 BORROWINGS

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
<b>Non-current</b>		
Bank borrowings		
– Term loans	25,933	20,200
	<b>25,933</b>	20,200
<b>Current</b>		
Bank borrowings		
– Term loans	86,368	82,585
– Trade finances	36,455	64,342
	<b>122,823</b>	146,927
<b>Total borrowings</b>	<b>148,756</b>	167,127

## 15 TRADE AND OTHER PAYABLES

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Trade and bills payables	63,853	60,769
Contract liabilities	486	99
Other payables and accruals	55,106	58,331
Amounts due to related parties <i>(Note 22(c))</i>	2,503	1,720
	<b>121,948</b>	<b>120,919</b>

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade and bills payables based on invoice date is as follows:

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
0 to 30 days	47,007	48,991
31 to 60 days	8,984	7,210
61 to 90 days	5,602	2,983
Over 90 days	2,260	1,585
	<b>63,853</b>	<b>60,769</b>



## 16 OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Net unrealized losses on forward foreign exchange contracts	–	(26)
Net realized gains on forward foreign exchange contracts	123	79
Net foreign exchange (losses)/gains	(733)	669
	(610)	722

## 17 OPERATING (LOSS)/PROFIT

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

	Six months ended 30 June	
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited) (Restated)
Amortization of intangible assets ( <i>Note 7</i> )	326	403
Depreciation of property, plant and equipment ( <i>Note 7</i> )	8,377	7,688
Depreciation of right-of-use assets ( <i>Note 8</i> )	2,868	1,912
Depreciation and amortization of investment properties ( <i>Note 7</i> )	–	350
Losses on disposals of property, plant and equipment	116	158
Provision for impairment of receivables	2,649	164
Provision for inventory obsolescence	637	145
Provision for/(reversal of provision for) material claims	447	(1,863)
Termination expenses	4,634	2,923

## 18 FINANCE COSTS – NET

	Six months ended 30 June	
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Interest expense on lease liabilities	(954)	(229)
Interest expense on bank loans and overdrafts	(2,101)	(2,987)
Finance costs	(3,055)	(3,216)
Interest income from bank deposits	179	224
Other interest income	30	118
Finance income	209	342
Finance costs – net	(2,846)	(2,874)

## 19 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) 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 months ended 30 June	
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Current income tax	929	1,755
Deferred income tax	(338)	(128)
	591	1,627

**19 INCOME TAX EXPENSE (CONTINUED)**

- (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 2013/14 on the basis of no 50:50 apportionment for 2000/01 to 2011/12 and no 100% offshore profit for 2012/13 and 2013/14 with the amount of US\$3,810,000 (equivalent to approximately HK\$29,718,000). The subsidiary has lodged objections against the above assessments for 2000/01 to 2013/14 by the statutory deadlines. Pending settlement of the objections, it has paid a total sum of US\$3,685,000 (equivalent to approximately HK\$28,743,000) in the form of tax reserve certificates in respect of the tax in dispute up to and including the year of assessment 2013/14.

Management has thoroughly revisited the situations and concluded that there are grounds for the Hong Kong incorporated subsidiary to sustain its 50% or 100% offshore tax filing position.

- (ii) In prior years and during the period, an overseas tax authority performed tax assessments on overseas incorporated subsidiaries’ tax position for the years ended/ending 31 December 2016, 2017, 2018, 2019 and 2020, and issued tax assessments/ revised tax assessments to demand additional tax payment of US\$701,000. The subsidiaries have lodged objection letters to this overseas tax authority. With respect to these tax assessments, management believes that they have grounds to defend their tax position since there are various interpretations of tax rules in that country and a clear calculation basis for the additional tax payment was not provided. Management considers the provision as at 30 June 2020 is adequate.
- (iii) The Group has contingent liabilities regarding potential exposures to import duties, taxes and penalties in various overseas countries with aggregated amounts of approximately US\$11,141,000 (31 December 2019: US\$11,141,000). Management considers it is not probable that outflows of resources embodying economic benefits would be required to settle these exposures and no provision is considered necessary.

Among the above-mentioned contingent liability, US\$5,504,000 was recognized upon business combination of Universal Group. Pursuant to the agreement for sale and purchase of the shares in Universal Elite Holdings Limited (the “Agreement”), such taxation claim in relation to periods prior to October 2018 will be indemnified entirely by the sellers of the Agreement. Accordingly, the Group has also recognized an indemnification asset US\$5,504,000.

## 20 (LOSS)/EARNINGS PER SHARE

## (a) Basic

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

	Six months ended 30 June	
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
		(Restated)
(Loss)/profit attributable to owners of the Company	<b>(18,687)</b>	6,572
Weighted average number of ordinary shares in issue (thousands)	<b>1,034,113</b>	1,034,113
Basic (loss)/earnings per share (US\$ cents per share)	<b>(1.81)</b>	0.64

## (b) Diluted

Diluted (loss)/earnings per share for the six months ended 30 June 2020 and 2019 is the same as the basic (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

## 21 DIVIDENDS

## (a) Dividends recognized during the reporting period

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited)

Final dividend of US\$Nil (2018: US\$0.414 cent) per ordinary share for the year ended 31 December 2019

— 4,281

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

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited)

Interim dividend – US\$Nil (2019: US\$0.190 cent) per ordinary share

— 1,965

No interim dividend was declared by the Board for the six months ended 30 June 2020 (2019: US\$0.190 cent per share).

## 22 RELATED-PARTY TRANSACTIONS

## (a) Significant transactions with related parties

The directors regard the immediate holding company of the Company to be Shangtex (Hong Kong) Limited, a company incorporated in Hong Kong, and the ultimate holding company of the Company to be Shangtex Holding Co., Ltd, a company incorporated in the PRC which indirectly holds 100% interest in Shangtex (Hong Kong) Limited.

During the period, other than the transactions and balances with related parties as disclosed in respective notes in this condensed consolidated interim financial information, the Group had the following transactions with related companies and joint ventures.

## 22 RELATED-PARTY TRANSACTIONS (CONTINUED)

## (a) Significant transactions with related parties (Continued)

## (i) Provision of goods and services

	Six months ended 30 June	
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Recharge of material costs and other expenses to		
– related companies	79	156
– joint ventures	5,528	6,232
	<b>5,607</b>	6,388
Sales of apparels, textile products and accessories to related companies	<b>14,812</b>	9,572
Management fee income from joint ventures	<b>1,791</b>	1,447

## 22 RELATED-PARTY TRANSACTIONS (CONTINUED)

## (a) Significant transactions with related parties (Continued)

*(ii) Purchases of goods and services*

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited)
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	<b>956</b>	1,352
Professional and technological support service fees to related companies	<b>960</b>	960
Freight forwarding and logistics services charged by related companies	<b>980</b>	1,203

## 22 RELATED-PARTY TRANSACTIONS (CONTINUED)

## (a) Significant transactions with related parties (Continued)

*(ii) Purchases of goods and services (Continued)*

	Six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Subcontracting fee charged by		
– related companies	179	1,143
– joint ventures	13,027	1,153
	<b>13,206</b>	2,296
Recharge of material costs and other expenses by		
– related companies	459	427
– joint ventures	214	248
	<b>673</b>	675
Purchases of materials from		
– related companies	–	250
– joint ventures	1,257	2,591
	<b>1,257</b>	2,841

The above related-party transactions were carried out in accordance with the terms mutually agreed between the respective parties.



## 22 RELATED-PARTY TRANSACTIONS (CONTINUED)

**(b) Key management compensation**

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited)
Salaries and allowances	<b>3,110</b>	4,517
Others	<b>179</b>	187
	<b>3,289</b>	4,704

**(c) Amounts due from/to related companies and joint ventures**

	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Audited)
Amounts due from related parties (Note 10)		
– joint ventures	<b>5,467</b>	2,274
– related companies	<b>6,178</b>	2,916
Amounts due to related parties (Note 15)		
– joint ventures	<b>1,345</b>	–
– related companies	<b>1,158</b>	1,720

The amounts due from joint ventures and related companies arise mainly from trade transactions. They are unsecured, interest-free and repayable on demand, and the carrying amounts of these balances approximate their fair values and are denominated in US\$ except for an amount due from a joint venture of US\$2,219,000 as at 30 June 2020. The balance is interest-bearing with an effective interest rate of 1.79% and is of a short-term nature, the carrying amount approximates its fair value and is denominated in US\$ (31 December 2019: Nil).

## 22 RELATED-PARTY TRANSACTIONS (CONTINUED)

### (c) Amounts due from/to related companies and joint ventures (Continued)

The credit quality of these receivable balances that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. None of them have defaults and been renegotiated in the past.

The amounts due to joint ventures and related companies are unsecured, interest-free and repayable on demand, and the carrying amounts of these balances approximate their fair values and are denominated in US\$.

## 23 BUSINESS COMBINATION

### (a) Summary of acquisition

On 1 April 2020, Luen Thai Overseas Limited, a wholly-owned subsidiary of the Company, acquired 100% of the issued share capital of Sachio Investment Limited, an investment holding company with a subsidiary engaged in manufacturing of apparel products in Cambodia. The acquisition is expected to diversify the Group's apparel business, expand and supplement customer base and enhanced market penetration.

As at 1 April 2020, details of the purchase consideration, the fair value of net assets acquired and goodwill are as follows:

	<b>US\$'000</b>
Total purchase consideration paid	3,900

## 23 BUSINESS COMBINATION (CONTINUED)

**(a) Summary of acquisition (Continued)**

The fair value of the assets and liabilities recognized as at 1 April 2020 as a result of the acquisition are as follows:

	<b>US\$'000</b>
Cash and cash equivalents	1,145
Other receivables and prepayment	505
Property, plant and equipment	2,649
Customer relationship	400
Trade and other payables	(1,065)
Deferred tax liabilities	(500)
Net identifiable assets acquired	3,134
Add: Goodwill	766
Net assets acquired	3,900

The fair value of all the acquired assets and liabilities are provisional pending receipt of the final valuation for those assets and liabilities.

The goodwill is attributable to a number of factors, among others, including the expected synergies arisen from the business combination. It will not be deductible for tax purposes.

**(i) Acquired receivables**

The fair value of other receivables is US\$342,000. No trade receivables were acquired.

**(ii) Revenue and profit contribution**

The acquired business contributed revenues of US\$2,211,000 and net loss of US\$220,000 to the Group for the period from 1 April to 30 June 2020. If the acquisition had occurred on 1 January 2020, consolidated pro-forma revenue and net loss for the six months ended 30 June 2020 would have been US\$333,898,000 and US\$19,285,000, respectively.

## 23 BUSINESS COMBINATION (CONTINUED)

## (b) Purchase consideration – cash outflow

<b>Outflow of cash to acquire subsidiary, net of cash acquired</b>	<b>US\$'000</b>
Cash consideration paid	3,900
Less: Cash and cash equivalents acquired	(1,145)
Net outflow of cash – investing activities	2,755

Acquisition-related costs of US\$107,000 are included in general and administrative expenses in the condensed consolidated statement of profit or loss and in operating cash flows in the condensed consolidated statement of cash flows for the six months ended 30 June 2020.

The board (the “Board”) of directors (the “Directors”) of Luen Thai Holdings Limited (the “Company”) is pleased to present the interim report together with the unaudited condensed consolidated financial information of the Company and its subsidiaries (collectively, the “Group” or “Luen Thai”) for the six months ended 30 June 2020.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS AND OVERVIEW

Subsequent to over two years of intensifying tensions between the United States of America (“USA”) and the People’s Republic of China (“PRC”), a first phase of trade deal was signed on 15 January 2020. With the conclusion of the first phase of the trade deal, trade tensions have eased, and global economy was expected to recover in 2020. However, the global economy shrank and the relations between the PRC and the USA plunged into great uncertainty again with the outbreak of the COVID-19 pandemic in early 2020.

The global trade and investment were detrimentally affected by the COVID-19 pandemic, as a result of closure of retail businesses and suspension of business operation of corporations across the world. Under such adverse market conditions and business environment, many corporations suffered a rapid and significant downturn in revenue and consequent decline in net profit. Despite the fact that fiscal stimuli and monetary easing have been in place and the international business operations have been reactivated with the recent relaxation of some lockdown measures in different parts of the world, the business of the Group was inevitably affected negatively and the Group has experienced one of the most difficult periods historically.

During the period under review, as compared to the corresponding period in 2019, the revenue and gross profit of the Group decreased by approximately 28.2% and 43.1% to approximately US\$331,687,000 and US\$37,474,000 respectively. In line with the decrease in revenue and gross profit, the Group incurred a net loss attributable to owners of the Company (“Net Loss”) amounting to approximately US\$18,687,000 for the period ended 30 June 2020, as compared to a net profit attributable to owners of the Company of approximately US\$6,572,000 for the corresponding period last year.

The significant deterioration of the financial performance of the Group was mainly attributable to the adverse impacts of COVID-19, which resulted in (i) the distortion of the production schedule and the orders allocations of the Group’s factories in China and Philippines; (ii) the cancellation of orders and postponement of shipment of products due to the weak consumer sentiment amidst the global outbreak of the pandemic; and (iii) the impairment of certain overdue trade receivables, as some customers of the Group in the USA and the United Kingdom were in financial distress.

## SEGMENTAL REVIEW

Apparel and Accessories businesses accounted for approximately 56.6% and 43.4% respectively of the Group's total revenue for the period under review.

### Apparel

Sales revenue generated from the Apparel Division decreased by approximately 21.2% period-to-period to approximately US\$187,700,000 for the period ended 30 June 2020. The decrease of the segment revenue of the Apparel Division was mainly due to the decrease in average selling price, lower sales volume from the majority of its brand customers which was partially offset by the increased sales to our activewear customer. Although the Apparel Division continued to make progress on the sales of activewear, the Apparel Division incurred a segment loss of approximately US\$5,382,000, when compared to a segment profit of approximately US\$8,185,000 for the corresponding period in 2019.

### Accessories

Segment revenue of the Accessories Division declined substantially by approximately US\$79,702,000 or 35.6%, from approximately US\$223,689,000 for the six months ended 30 June 2019 to approximately US\$143,987,000 for the six months ended 30 June 2020. Due to the slump in revenue, the Accessories Division recorded a segment loss of US\$5,100,000, as compared to a segment profit of US\$7,019,000 for the same period last year.

## MARKETS

Geographically, Europe and the USA remained our major export markets for the period under review. The total revenue derived from customers in Europe and the USA collectively accounted for approximately 70.2% of the Group's total revenue in the first half of 2020.

The Group's revenue from the Asia market (mainly the PRC and Japan) was approximately US\$52,728,000, which accounted for approximately 15.9% of the Group's total revenue in the first half of 2020.

## LIQUIDITY AND FINANCIAL RESOURCE

The financial position of the Group remained healthy. As at 30 June 2020, the total cash and bank deposits of the Group amounted to approximately US\$69,488,000, representing a decrease of approximately US\$13,485,000 over the balance as at 31 December 2019. The Group's total bank borrowings as at 30 June 2020 was approximately US\$148,756,000, representing a decrease of approximately 11.0% as compared to approximately US\$167,127,000 as at 31 December 2019.

Gearing ratio is defined as net debt (representing bank borrowings net of cash and bank balances) divided by shareholders' equity. As at 30 June 2020, the gearing ratio of the Group was approximately 39.1%.

As at 30 June 2020, 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 five years, with approximately US\$107,823,000 repayable within one year, approximately US\$15,222,000 repayable in the second year and approximately US\$25,711,000 repayable in the third to fifth year.

## **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, Thailand Baht and Philippine Peso. For those activities denominated in other currencies, the Group may enter into forward contracts to hedge its receivables and payables denominated in foreign currencies against the exchange rate fluctuations.

## **FUTURE PLANS AND PROSPECT**

Looking forward, the impact of the outbreak of COVID 19 pandemic has caused immense disruption to the whole supply chain. More volatility, uncertainties and more intense competition are expected in the manufacturing industry, as COVID 19 has been spreading at an unprecedented speed and scale. Hence, the second half of this year will remain full of challenges. After cautious evaluation of potential business risks involved, it is now a critical time for the Group to develop new business stream and deepen the cooperation with certain strategic customers.

As disclosed in the announcement dated 5 June 2020, the Group has proactively adjusted its business strategies by exploring opportunities in manufacturing personal protective equipment ("PPE") which includes protective gowns and surgical face masks for customers and the government in the Philippines. In order to fully utilize its production capacity, the Group plans to further expand its PPE production line to other factories owned by the Group located in other parts of Southeast Asia with target customers including but not limited to local governments, hospitals, retail customers and other organisations in need of PPE.

Furthermore, health and environmental consciousness have risen over the past decade and such trend continues regardless of the COVID-19 pandemic. In order to gain more market share from the booming activewear market, the Group has taken active steps by partnering with a leading textile printing technology provider to supply eco-friendly fabric to our customers in Cambodia and Vietnam. The implementation of such disruptive fashion technology will not merely lower the production costs, but also help our strategic customers

to meet the increasing demand of environmentally friendly products. The Group believes that the partnership will increase its competitiveness by vertically integrate to the supply chain and enter a groundbreaking stage of its development in the activewear industry.

On the other hand, as described in the section headed “Results of Operations and Overview” above, the Net Loss for the period under review amounted to approximately US\$18,687,000. Despite such substantial loss, the Board would like to emphasize that the Group’s financial position remains stable and the Group has adequate financial resources to fund its operation. The Board will closely monitor the development of the COVID-19 pandemic and market situation and will focus on stringent cost control and operating efficiency for the rest of the year to enhance the financial stability of the Group.

#### **SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLAN FOR MATERIAL INVESTMENTS OF CAPITAL ASSETS**

Other than as disclosed elsewhere in this management discussion and analysis or in the condensed consolidated financial information for the six months ended 30 June 2020, there were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the period.

Luen Thai will continue to look for value-enhancing acquisition and joint venture opportunities to further expand our product range, production capacity and diversify our geographical risk, it is expected that internal resources and bank borrowings will be adequate to meet the necessary funding requirements.

The Company will make further announcement in accordance with the Listing Rules, where applicable, if any investments and acquisition opportunities materialize.

#### **CONTINGENT LIABILITIES**

As at 30 June 2020, the Group has contingent liabilities regarding potential exposure to overseas import duties, taxes and penalties in various overseas countries with aggregated amounts of approximately US\$11,141,000 (31 December 2019: US\$11,141,000). Management considers it is not probable that outflows of resources embodying economic benefits would be required to settle these exposures and no provision is considered necessary. Among the above-mentioned contingent liability, US\$5,504,000 was recognized upon business combination of Universal Group. Pursuant to the agreement for sale and purchase of the shares in Universal Elite Holdings Limited (the “Agreement”), such taxation claim in relation to periods prior to October 2018 will be indemnified entirely by the sellers of the Agreement. Accordingly, the Group has also recognized an indemnification asset US\$5,504,000.



## HUMAN RESOURCES, SOCIAL RESPONSIBILITIES AND CORPORATE CITIZENSHIP

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.

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.

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: US0.190 cent per share).

### 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 for the period under review.

### UPDATE ON DIRECTORS' INFORMATION

The change of directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Mr. Shen Yaoqing ("Mr. Shen") retired as an executive director of the Company with effect from 28 May 2020. Following his retirement, Mr. Shen also ceased to be the chairman of the Board ("Chairman") and the chairman of the nomination committee ("Nomination Committee") of the Company.

Mr. Qu Zhiming ("Mr. Qu"), an executive director of the Company, was succeeded as the Chairman and the chairman of the Nomination Committee with effect from 28 May 2020. On the same date, Mr. Qu also ceased to be a member of the remuneration committee ("Remuneration Committee") and the financing and banking committee ("Financing and Banking Committee) of the Company.

Mr. Huang Jie ("Mr. Huang") was re-designated from a non-executive director to an executive director of the Company with effect from 15 February 2020. Following his re-designation, Mr. Huang ceased to be a member of the audit committee of the Company ("Audit Committee") on the same date. On 28 May 2020, Mr. Huang was appointed as a member of the Remuneration Committee.

Mr. Zhang Min was elected as an executive director of the Company with effect from 28 May 2020. He was also appointed as a member of the Financing and Banking Committee on the same date.

Ms. Mok Siu Wan, Anne was re-designated from an executive director to a non-executive director of the Company with effect from 1 February 2020. She was also appointed as a member of the Audit Committee on 28 May 2020.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The biographical details of Directors are available on the company's website.

## **SHARE OPTIONS**

A share option scheme of the Company was approved and adopted by way of an ordinary resolution in the annual general meeting of the Company held on 26 May 2014 (the "Share Option Scheme").

No share options were granted to or exercised by any Directors or Chief Executive of the Company or employees of the Group or other participants, nor were cancelled or lapsed during the six months ended 30 June 2020.

As at 30 June 2020 and 31 December 2019, the Company had no share options outstanding under the Share Option Scheme.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES**

As at 30 June 2020, the interests of the Directors and chief executives of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

**Long position in the shares of the Company (“Shares”)**

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate percentage of Interests in the Company</b> <i>(Note a)</i>
TAN Siu Lin	Trustee <i>(Note b)</i>	1,840,757	0.18%
	Interest of controlled corporation <i>(Note b)</i>	9,752,986	0.94%
TAN Cho Lung, Raymond	Interest of controlled corporation <i>(Note c)</i>	15,655,639	1.51%
	Interest of spouse <i>(Note c)</i>	2,050,000	0.20%
MOK Siu Wan, Anne	Beneficial owner <i>(Note d)</i>	2,000,000	0.19%

*Notes:*

- (a) The percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,034,112,666) as at 30 June 2020.
- (b) Dr. Tan Siu Lin as a trustee indirectly controls the entire issued capital of Wincare International Company Limited, which in turn holds directly 1,840,757 Shares. Dr. Tan Siu Lin also controls and is a subscriber and founding member of Tan Siu Lin Foundation Limited, which in turn owns directly 9,752,986 Shares.
- (c) Mr. Tan Cho Lung, Raymond wholly owns Flying Base Limited, which directly owns 15,655,639 Shares.
- A total of 2,050,000 Shares was held by an associate of Mr. Tan Cho Lung, Raymond. Mr. Tan is therefore deemed under Part XV of the SFO to be interested in all of the 2,050,000 Shares acquired by his associate.
- (d) Ms. Mok Siu Wan, Anne owns 2,000,000 Shares through the exercise of share options granted by the Company on 21 April 2008 and none of the 2,000,000 Shares was disposed of up to the date of this report.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interests disclosed in "Directors' and Chief Executives' Interests in Shares", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

### Long position in the Shares

Name of shareholder	Note	Capacity	Number of Ordinary shares beneficially held	Approximate percentage of interests in the Company <i>(Note a)</i>
Shangtex (Hong Kong) Limited	(b)	Beneficial owner	730,461,936	70.64%
Shangtex Investment Co., Ltd.	(b)	Interest of controlled corporation	730,461,936	70.64%
Shangtex Holdings Co., Ltd.	(b)	Interest of controlled corporation	730,461,936	70.64%
Orient International (Holding) Co., Ltd.	(b)	Interest of controlled corporation	730,461,936	70.64%
Shanghai Guosheng Group Co., Ltd.	(b)	Interest of controlled corporation	730,461,936	70.64%
Double Joy Investments Limited	(c)	Beneficial owner	71,975,726	6.96%
Dr. Tan Henry	(d)	Interest of controlled corporation	89,179,725	8.62%
Ms. Tan Chiu Joise	(d)	Interest of controlled corporation Interest of spouse	89,179,725	8.62%

*Notes:*

- (a) The percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,034,112,666 Shares) as at 30 June 2020.
- (b) Based on the information recorded in the register required to be kept under section 336 of the SFO, Shangtex (Hong Kong) Limited ("Shangtex HK") directly holds 730,461,936 Shares. Shangtex HK is 100% directly owned by Shangtex Investment Co., Ltd ("Shangtex Investment"). Shangtex Investment is 100% directly owned by Shangtex Holding Co., Ltd ("Shangtex"). Orient International (Holding) Co., Ltd ("Orient International") directly holds 76.33% in Shangtex. Shanghai Guosheng Group Co., Ltd directly holds 34% in Orient International.
- (c) Double Joy Investments Limited ("Double Joy") is a company incorporated in the British Virgin Islands with limited liability and is owned by Ms. Tan Chiu Joise and Dr. Tan Henry in equal shares. Each Ms. Tan Chiu Joise and Dr. Tan Henry is deemed to be interested in the 71,975,726 Shares held by Double Joy.
- (d) Both Dr. Tan Henry and Ms. Tan Chiu Joise are deemed to be interested in the 71,975,726 Shares held by Double Joy as mentioned in note (c) above; and

Dr. Tan Henry wholly owns Hanium Industries Limited, which directly owns 17,203,999 Shares. Ms. Tan Chiu Joise is the wife of Dr. Tan Henry and is deemed to be interested in the shares which are interested by Dr. Tan Henry under Part XV of the SFO.

Save as disclosed above, so far as is known to the Directors, there was no other person (not being a Director or Chief Executive of the Company) who had interest or a short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## CORPORATE GOVERNANCE PRACTICES

Throughout the six-month period ended 30 June 2020, the Company had complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in the Appendix 14 of the Listing Rules. The Board Diversity Policy is published on the website of the Company for public information.

Luen Thai acknowledges the need 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. As at the date of this interim report, 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. Seing Nea Yie 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. Huang Jie and the three independent non-executive Directors of the Company, namely, Mr. Chan Henry, Dr. Wang Ching, and Mr. Seing Nea Yie 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. QU Zhiming as the Committee Chairman and the three independent non-executive Directors of the Company, namely, Mr. Chan Henry, Mr. Seing Nea Yie and Dr. Wang Ching, 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. Zhang Min, with Mr. Tan Cho Lung, Raymond as the Committee Chairman.

Corporate governance practices of the Company during the six-month period ended 30 June 2020 were in line with those practices set out in the Corporate Governance Report in the Company's 2019 Annual Report.

## **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 months ended 30 June 2020. Such unaudited condensed consolidated interim financial information has also been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## **MODEL CODE**

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"). After having made specific enquiry of all Directors, 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 months ended 30 June 2020.



**DISCLOSURE OF INFORMATION ON THE COMPANY AND THE STOCK EXCHANGE'S WEBSITE**

This interim report will be published on the websites of the Company (<http://www.luenthai.com>) and the Stock Exchange (<http://www.hkex.com.hk>).

By order of the Board

**Tan Cho Lung Raymond**

*Chief Executive Officer and Executive Director*

Hong Kong, 25 August 2020