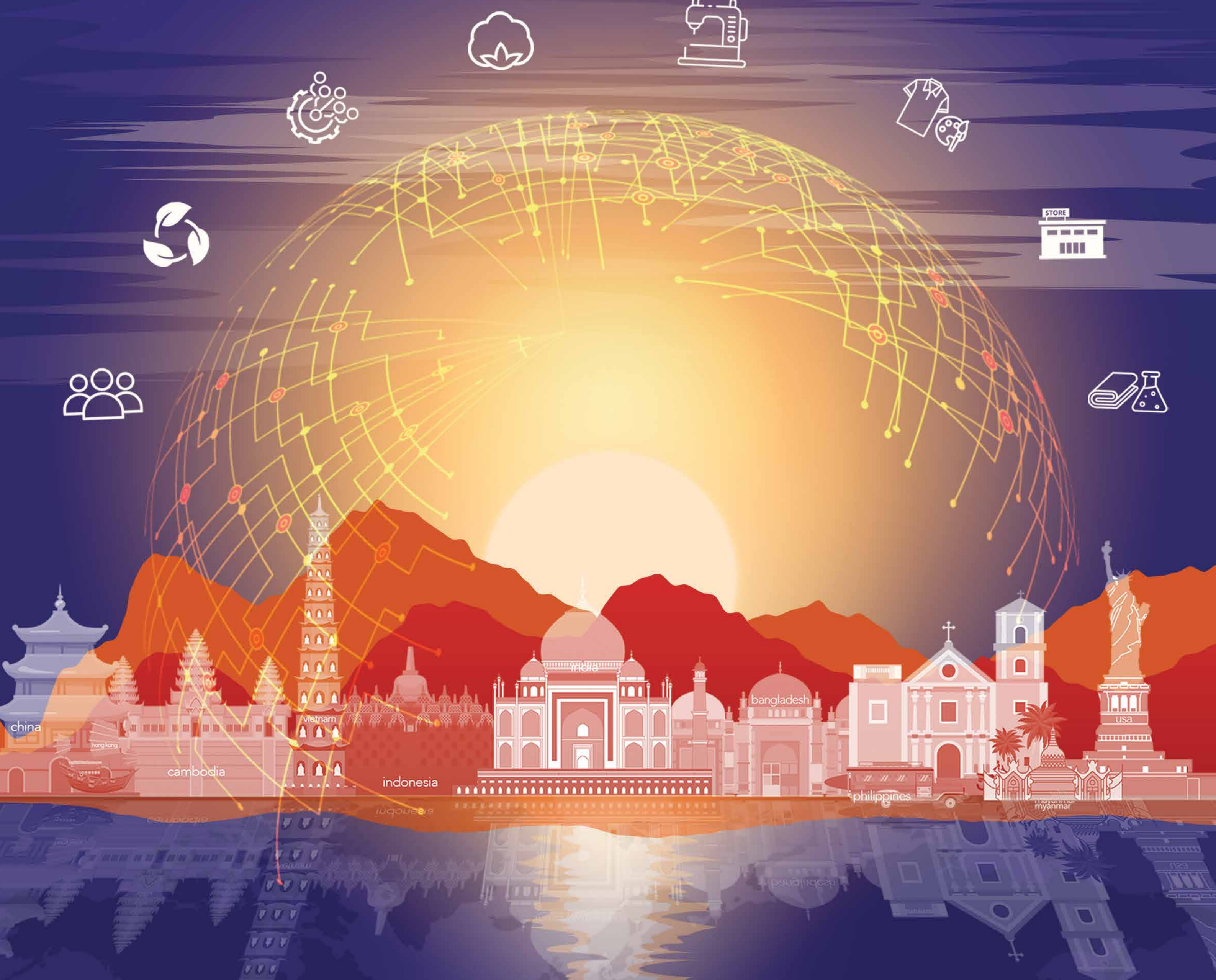
LOOKING FOR Sunrise



Luenthai

Luen Thai Holdings Limited

聯 泰 控 股 有 限 公 司

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

2022 ANNUAL REPORT

CONTENTS

Luen Thai *is a global leader in apparel and accessories manufacturing and more recently in sustainable fabric technology partnering with NTX in Cooltrans and Nanofiber*

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

QU Zhiming, *Chairman*
TAN Siu Lin, *Honorary Life Chairman*
TAN Cho Lung Raymond,
Chief Executive Officer
HUANG Jie
ZHANG Min

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

REGISTERED OFFICE

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Rooms 1001–1005, 10/F,
Nanyang Plaza,
57 Hung To Road,
Kwun Tong, Kowloon,
Hong Kong

WEBSITE

http://www.luenthai.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Citibank, N.A.
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

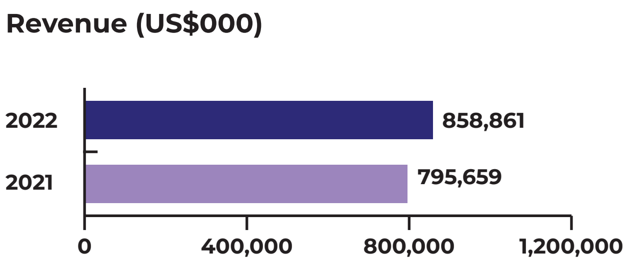
PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22nd Floor, Prince's Building
Central, Hong Kong

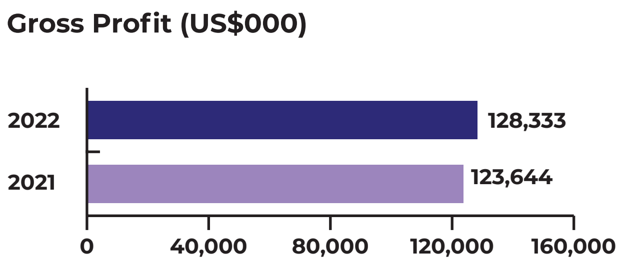
LEGAL ADVISORS

Deacons
5th Floor, Alexandra House
18 Chater Road
Central, Hong Kong

KEY FINANCIAL HIGHLIGHTS

	2022 US$000	2021 US$000
Revenue	**858,861**	795,659
Gross Profit	**128,333**	123,644
Gross Profit Margin	**14.9%**	15.5%
Operating Profit	**22,293**	21,874
Profit attributable to owners of the Company	**13,138**	11,195
Basic Earnings Per Share	**US1.3 cents**	US1.1 cents
Total Assets	**523,361**	561,995
Capital and Reserves		
Attributable to owners of the Company	**206,473**	201,464





CHAIRMAN'S STATEMENT

OVERVIEW

It is my pleasure to present on behalf of the board (the "Board") of directors (the "Directors") of Luen Thai Holdings Limited ("Luen Thai" or the "Company") the annual report for the year ended 31 December 2022.

During the year ended 31 December 2022, the novel coronavirus (the "COVID-19") pandemic continued to take its heavy toll around the world across economies and societies, though all economic giants have begun to reopen their economies and borders. The unprecedented supply chain issues and worldwide inflation triggered by the COVID-19 and the Russia-Ukraine war has also greatly hindered the economic recovery process of the world.

Despite the abovementioned obstacles posed by the market and the international environment that are beyond our control, the foundation of mutual understanding with our strategic customers and suppliers has been further deepened over the past few bumpy years. Our long-term strategy in diversifying manufacturing hubs in Southeast Asia countries, as well as the customized and flexible management approach adopted by our seasoned management team have aided us to ensure our business continuity during this unpredictable and challenging period.

The Group recorded an increase in revenue of approximately US$63,202,000 or approximately 7.9%, from approximately US$795,659,000 for the year ended 31 December 2021 to approximately US$858,861,000 for the year ended 31 December 2022. Gross profit amounted to approximately US$128,333,000, representing an increase of approximately US$4,689,000, realized an increase of approximately 17.4% in net profit attributable to owners of the Company ("Net Profit") to US$13,138,000. Details of the results of the Company and the Group are set out in the "Management Discussion and Analysis" section of this Annual Report.

PROSPECT AND CHALLENGES

Looking forward, the business environment remains challenging, with volatile macro-economic situation and high level of inflation. Though most countries and areas are engaged in efforts to revitalize their economies from COVID-19, there is still a long road to full restoration of economic normalcy and market confidence of the world. In addition, we may see a decrease in the overall demand of our high-quality products in the coming year due to possible overstocking of some of our customers, as the inventory level of brand owners has increased sharply in response to the supply chain disruptions which might not correspond to the actual demand of the global market.

In spite of foreseeable difficulties, the Group will remain competitive and resilient in the industry by continuously improving its automation level and enhancing its innovation capabilities. The Group will also consistently maintain a healthy financial position by adopting a stringent cost control policy. In general, we have confidence in the long-term development of the Group. Luen Thai will continue to make use of our diversified production bases to deliver a steady growth together with our brand customers and to generate a promising return for our shareholders in the long run.

Diversification of production bases

Due to the persisting trade tensions between the Peoples Republic of China (the "PRC" or "China") and the United States of America ("US") in the past few years, coupled with extreme supply chain disruption caused by the COVID-19 pandemic, brand customers are proactively looking for production origins outside of the PRC and hence the importance of manufacturing hubs in the Southeast Asia countries has increased remarkably. Increasingly, customers worldwide have set up sourcing offices and warehouses in the Southeast Asia countries closer to the mentioned hubs.

With a long-term vision to ease customers' concern pertaining to risk exposures arises from procurement concentration, the Group has continuously been streamlining and consolidating its production capacities in certain Southeast Asian countries. Southeast Asian countries have been opted as our key production bases mainly due to their availability of workers, wage level and customs and tax incentive. Through persistent efforts of our dedicated management team in the past decade, the production footprints of the Group have been found in Cambodia, Myanmar and Philippines.

Benefited from our diversified production footprint, Luen Thai has been helpful to our strategic customers to reduce the adverse impact arising from the supply chain disruption to minimal, in particular, during the raging period of the COVID-19 pandemic. The resilience and flexibility of the Group in dealing with the business crisis caused by the COVID-19 pandemic, has reaffirmed the necessity and significance of diversification of production bases.

Meanwhile, the "China for China" strategy (i.e. produced in the PRC for domestic sales) is becoming more popular among brand owners, as they are devoted to put more efforts to localize their products and to cater for the specific needs of Chinese customers, particularly for the young generation. In addition, the local supply chain in the PRC can enhance stability, efficiency, agility and end-to-end testing capabilities, and competitiveness in the PRC market. Hence, the Group will continue its presence in the PRC by maintaining certain production facilities in the PRC, with a view to getting new business from the mentioned brand owners.

Mutual growth with customers

Luen Thai is aiming for a win-win relationship with our branded customers by providing high quality products. Luen Thai is firmly believes that mutual growth with customers is the key driving force to become a world-class company and a customer-oriented approach has been adopted and emphasized in our operation at all levels of the Group.

With upholding the principle of "customers first" and abiding by business ethics, the Group has continuously improved customer satisfaction level by providing products with quality that meet or even exceed customer's expectations. In addition, the Group has also established an outstanding communication system to cater for the needs of our customers timely and to ensure on time delivery of the goods.

For the business development of the Group, we are not merely putting effort to attract new customers. Over the last decade, the Group has also strived to increase the business of our existing brand customers and nurture close ties with them. Such strong and close relationship with the customers is an invaluable asset to the Group, it helps the Company to sustain itself during the difficult period and it seeks to build a strong growth momentum for future years. We believe that our ability on continuous improvement of product's quality can gain the brand reputation for our customers and in turn increase our business together.

HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY

I believe that the past success and future performance of the Group heavily depend upon the continuing support and services of our employees, in particular our key management personnel. For the sake of replication of our past success, the Group must continue to attract, motivate and retain an adequate number of qualified management and operating staff to work together and implement our growth strategy. With emphasis on quality training and continuing education, the Group offers training programmes which are designed for development of employee's skills to meet customers' requirements and the goals of the Company.

The Group cares for the need of each and every employee and endeavours to foster a pleasant workplace and work life balance for them. The Group offers attractive remuneration packages to its employees, which include salary, discretionary bonuses and allowance. The Group also implemented a fair and transparent promotion system under which priority would be granted to existing qualified employees for internal vacancies, further ensuring that employees can share the success of the Group.

Through continuous optimization of human resources, the Group has maintained a satisfactory relationship with its employees. The Group had not experienced any major strikes, industrial actions or labour disputes which materially affected our operations during the year. As the Group continues to grow in size and complexity, it is vital for the Group to uphold the concept that employees are one of the essential ingredients to the success of our future.

In addition, the sustainable development of the community also relies on the participation of the government, corporations and people. The Group has been active in participating in caring for the poverty stricken, charitable donations and supporting environmental protection activities, which is in line with our commitment to be a responsible corporate citizen. The Group also encouraged our employees and business partners to partake in the aforementioned activities to meet the needs of society and to enhance staff understanding in conservation of the environment.

CORPORATE GOVERNANCE

The Group acknowledges the necessity and importance of corporate governance as one of the essential elements in enhancing shareholder value. The Group is devoted to improving its corporate governance policies in compliance with regulatory requirements and in accordance with international recommended practices. As at the date of this report, the Company has formed the Audit Committee, Remuneration Committee, Nomination Committee and Financing and Banking Committee ("Committees") all at the Board of Directors' (the "Board") level, to provide assistance, advice and recommendations on the relevant matters that aim to ensure protection of the Group and the interest of the Company and its shareholders as a whole.

During the year under review, the Company continued to provide the Committees with adequate and appropriate resources to perform the duties and responsibilities of their own. The Board also maintained effective communication and collaborated closely with each of the Committees on various projects of the Company. The Company has been in pursuit of excellent corporate governance and a just and fair decision-making process to ensure the persistence of a transparent administration to provide an open channel of communication for all shareholders and investors.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our deepest gratitude to our shareholders, customers, suppliers and business partners for their continuous unflinching support during this extremely complex and turbulent period of human history. I would also like to thank all our dedicated management and staff of the Group for their contributions and commitment to the sustainable development of the Group.

QU Zhiming
Chairman

Hong Kong, 28 March 2023

Message from OUR CEO

IN PHOTO:
RAYMOND TAN
(CEO PARTNER OF
LUEN THAI HOLDINGS)

SUSTAINABLE SHARED SUCCESS THROUGH REINVENTION

LOOKING FOR Sunrise

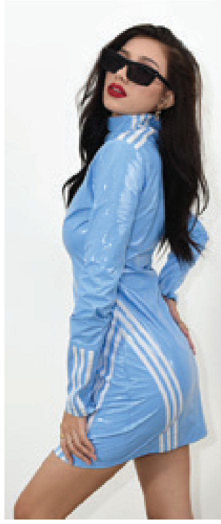
Every sunrise comes with a fresh start, a chance to do better and do more. As we begin a new dawn at our company, we begin a journey of hope and potential.

We have been wrestling with a range of novel challenges since the pandemic. Although we have weathered the current storm, it is important to keep in mind that we have only reached "the end of the beginning" of the pandemic with more problems and challenges ahead of us. In this turbulent global economy, seeking balance on fast recovery, cost improvement, and continuous investments for long term growth becomes harder to achieve. The tough environment will continue for some time, and the new set of challenges will demand all the leadership muscles we were building during the height of the pandemic — agility, flexibility, unity and resilience. As we contemplate the next steps for our organization, we must stay true to our vision of "Sustainable Shared Success Through Reinvention" and focused on balancing our efforts on recovering with emphasis on profitability, long-term growth, and capital management.

2022 RECAP

The consumer demand in the US, Europe and China decreased amid the global environment with slowing economic growth. Despite volatile market conditions and many operational challenges, 2022 was a productive year for Luen Thai. Overall, the Group delivered a resilient performance in the year of 2022. We recorded revenue growth of 7.9% and a net profit growth of 17.4% compared to last year. While we were not sure what to expect in 2022, the fact that we continued to recover our business with headcount reduced by over 30% since 2019 was encouraging as our productivity as a whole has improved significantly.

Although we have delivered positive top-line and bottom-line growth, it will take time to restore our profitability to pre-pandemic level. What became clearer as 2022 unfolded is how our unique broad-based product offerings and operations in eight different countries are providing us with important competitive advantages to navigate a volatile, uncertain, and complex macroeconomic environment. The strong production capability and cultural diversity allowed us to have broader target markets and cover multiple customers' needs without losing sales to our competitors. Our competitive edge is also steered by technology. We are committed to improving efficiency by automating manual processes throughout the business to free up resources, streamline processes, and take over mundane tasks to relocate human capital where it is needed most — helping our business grow. Automation is the key to eliminate defects, improve productivity and pass the resulting cost savings back to our customers. This is also crucial to keep our competitiveness and will eventually materialise to leave us with a stronger and more valuable business.

Our apparel business showed a revenue growth of 9.4% compared to last year. We have seen an increasing trend of customers looking for premium and luxury products where quality and sustainability are part of offering. Our long-term commitment in quality assurance and embedding sustainability in every division of our business have bolstered our resilience through another very difficult year. With this, we were able to diversify our client base in both fashion and sports active space by onboarding new clients.

Our accessories business presented a revenue growth of 5.8% compared to last year. The growth was difficult to achieve particularly due to the ongoing political tensions in Myanmar that continues to affect our operations. Against the backdrop, our team was able to overcome the uncertainties to deliver stable growth and make significant progress in bringing in new clients. I believe we will continue to steadily move forward along more promising results with stronger growth.

Geopolitical tensions between the US and China have real impact on global markets and on our operations. Clients are looking for new and innovative ways to ensure a reliable and sustainable supply chain to navigate the risks. By carefully understanding and taking advantage of this new trend, we created sustainable, reliable, and cost-effective supply chains that meet the needs of our customers. We continue to execute our plan to reorganize the supply chain to support both nearshore and offshore sourcing strategies through China and international operations. Inside China, domestic manufacturing facilities are aiding the expansion of our activities in the region ("China-for-China"), while factories outside of China are providing products to the international market through our non-China sustainable supply chain. At the same time, we intend to increase our US presence by setting up an innovation centre to demonstrate our capabilities and to maintain a close relationship with new and existing clients.

THE WAY FORWARD IN 2023

Heading into 2023, although the overall economy is likely to remain unpredictable, we aim to make steady progress with three major objectives:

1. Growing and strengthening customer relationships — customers are the backbone of our business. We will continue to foster closer ties with our clients and expand our partnerships with existing customers. We must also work hard to attract new clients and further diversify our customer base to grow our revenue stream.

2. Improve efficiency and achieve operational excellence — operational excellence is about delivering continuous improvement in production and business processes, and driving productivity, margin, efficiency, and asset velocity across all our businesses. We strive to deliver sustainable growth and leverage our technology innovation and adoption capability to promote automated, labour-saving operations.

3. Drive and increase profitability in each business we are in — driving profitability is the foundation underlying all our goals and strategies. We need to focus on delivering margin expansion and cost leverage as we drive continuous improvement in our productivity and efficiency, partnerships with suppliers and clients, management of fixed and working capital, as well as management of product mix and price.

CREATING NEW AND LONG-TERM VALUE

As we reset our business and look forward to a new sunrise, we anticipate and embrace the hope and potential of a flourishing future. We understand that the challenges we face today will shape the success of our future, and for this reason we are committed to embracing change and continuous improvement, as well as building a strong and resilient foundation for our business by incorporating innovative methods and sound practices.

Our OEM business is in an unfavourable bargaining power position for the past years. We need to take further steps to deliver added value to our clients and stakeholders under the Group's new manufacturing model. The strategy to achieve vertical integration from fabric/material innovation, fabric/product colouring, manufacturing process automation and re-engineering to smart retail will allow us to control the supply chain from manufacturing to sales. All our investments are centred around the fundamental principle to achieve business transformation to a high-revenue-earning business model that anticipates societal needs and issues. Exploring new business models is as important as strengthening existing businesses to extend and solidify our current market leadership position. This is critical as stronger market leadership will lead to a more powerful economic model.

To increase our probability of success, we will remain focused and deliberate in our efforts to invest in areas we know or where we have advantages, or steadily expand into other peripheral sectors. We have invested in four major projects in the past few years leveraging our existing capabilities to create a network effect in our supply chain. While these new investments are delivering significant benefits in creating a strategic value chain advantage for our group, each company can also operate independently with the potential to yield compelling and long-term values for our shareholders.

OUR SUSTAINABILITY AND DIGITALIZATION SOLUTIONS

SEWSEWYOU

social e-commerce on-demand manufacturing

NTX® Cooltrans®

most sustainable coloration system available in the world

HeatTranX

non-toxic on-demand digital printing

eXtreme protective comfort technology

LABS

think | create | innovate

SOME OF OUR AUTOMATION INVESTMENTS IN CHINA AND CAMBODIA


Cooltrans Post-Setting Stenter


Cooltrans Rocket Machine


Cooltrans Media Printer


Cooltrans Transfer Printer

Luentech Textile Solutions — our partnership with NTX™ helped to enhance our sustainable supply chain capabilities, and achieve vertical integration to streamline the processes from fabric/garment material innovation, fabric coloring, product design and development to product printing. This is a great example of us leveraging our current manufacturing capabilities to expand product offerings to our clients. The use of eco-friendly waterless textile coloration technology significantly reduces water, energy, and chemical use, as well as further cutting our carbon footprint and overall waste materials while keeping highly competitive economics. Our customers who are top sportswear and fashion brands in the world want to deepen their collaborations with us and have chosen us as a key enabler in helping them achieve their ambitious sustainability goals. This is not only a new business that can attract a new group of clients, but also a key strategy for us to retain and deepen our relationships with existing customers. HeatTranx technology powered by NTX™ is another capability we have added for vertical integration. The disruptive waterless product coloring technology replaces traditional screen print and allows for printing on garment with no limitation on color and minimum order quantity. The technology enables us to produce products at much lower cost with better quality, higher output and reduced processing time for faster development and production. The cutting-edge invention will allow faster change of request and quick response to market demand that can add significant value to our customers. The unfair advantage we have to deliver the success we would like to see is the support of our existing customers. We have a strong value proposition in our offering that fulfils market demand to reach product/market fit.



LTLabs — the division was part of our internal information technology (IT) functions and has transformed into a new business unit since 2019. The solution we have built within our organization provides high accuracy of product fit by leveraging Luen Thai's factory user requirements and feedback. The user-centric design enables factories to acquire and analyse valuable data that could facilitate end-to-end workflow, support decision making and corrective actions to increase collaboration and enhance overall efficiency with more visibility and transparency across the production floor. The significant changes are reflected on our production process with a 51% reduction in sewing defects, 85% reduction in Non-Productive Time (NPT) caused by sewing, and savings of 13 hours of NPT per sewing line. Another great benefit of such solution is that we could easily integrate with other vendors and consolidate data to increase supply chain traceability and transparency that would benefit not just our internal operations, but more importantly help customers to gain a holistic view of all their suppliers. The technology has attracted the attention of other factories outside of Luen Thai. Some of our sales activities are led by our existing customers hoping to implement the technology in factories of other suppliers or vendors they are working with. Our industry knowhow combined with strong business foundation is the key competitive advantage that sets us apart from others.

LT LABS
THINK | CREATE INNOVATE

SEW SEW YOU

SewSewYou — our e-commerce platform with direct-to-consumer, build-to-order business model is a good illustration of the successful integration of our traditional business and the new business initiatives for margin expansion. We leverage the Group's technical expertise in developing high-quality garment products, coupled with advanced sustainable printing technologies to offer an end-to-end solution for influencers to create green and fine clothing collections using excess fabrics and materials derived from our manufacturing process. The on-demand manufacturing capability provided by Luen Thai and access to premium excess materials through manufacturing for other top fashion and sports brands give us an unfair competitive advantage to execute our company's mission to practice lean manufacturing to eliminate overproduction waste.

We have found the product market fit with increasing sales volume and product launches in 2022. Apart from the 200% YoY growth in number of influencers, we are also drawing attention of top international intellectual property (IP) brand owners wanting to work with us to drive sustainability and expand product offerings to their fans around the world. The business operations have seen improvements in many aspects for the past year. The use of the proprietary 3D fit and product development software has shortened the design to launch time to five weeks. We have also found the right formula to pair the right influencers with the right product to drive sales volume. Our average return rates from the end-consumer is around 7% across all product launches which is much lower than average ecommerce return rate of around 20% to 30%. We have also worked to reduce the logistics costs by around 37% and shorten the delivery time to provide better customer experiences. We will be able to scale our business with continuous improvements and process streamlining in key business impacts.

10A — we established a personal protective equipment (PPE) business in the fight against COVID-19. Leveraging our material innovation capabilities and NTX™ nanofiber technology, we have quickly developed highly protective, breathable, medical-grade, reusable face masks that meet WHO specified performance standards for PPE and passed dual certified protection standards (EN14683 Type IIR and EN149 FFP2). The superior protection comes with antiviral function and 99.99% bacterial filtration efficiency certified by ISO 18184 and ISO 20743. Our factory is also an ISO 14644 Class 7 Cleanroom facility with ISO 13485 Quality Management System for Medical Devices. We will continue to take advantage of NTX™ nanofiber technology to provide our customers the material innovation capability, and expand our efforts to develop FFP3 surgical respirators and other sustainable and highly functionable PPEs such as medical gowns and gloves that are in high demand around the world.

The overall opportunity is enormous when we extend our offering in each of the space described above, and 2023 will be a year of focus and execution. All our technology start-up investments have made solid progress to launch new or updated products and services to the market in 2022. However, launching the products is only the starting line, not the finish line. The game-changing inventions are cultivated through relentlessly debating, re-defining, tinkering, iterating, and experimenting.

Commitment on our long-term strategy and plan requires tremendous amount of work and could create short term pressure on our operations and cash flow. It is important for us to execute our plans correctly with the right balance and effective cash flow management to navigate the short-term challenges. I believe our continuous efforts will turn into something that resonates with customers, and eventually makes meaningful changes that affect not only our customers but also others within the whole ecosystem.

MOVING FORWARD WITH SDGS (SUSTAINABLE DEVELOPMENT GOALS)

As a responsible business, we have a duty and role to play in ensuring that the environment is preserved, and our organization takes steps to reduce its impact and on climate change. We are committed to managing and maximising our positive impacts on nature and society, embedding sustainability as a key business driver and decision-making criteria, promoting a culture of sustainability in our business and industry, and working with our value chain, clients, and partners to support their own sustainability efforts.

I am pleased to once again reaffirm Luen Thai's strong support for the Ten Principles of the United Nations Global Compact (UNGC) in the areas of Human Rights, Labor, Environment and Anti-Corruption. As an early signatory of the United Nations Global Compact (UNGC) since 2003, we remain steadfastly committed to supporting initiatives that contribute to building a more peaceful and prosperous world for all. All Group-level actions implemented are at the GC-Advanced level, thus, further refining our targets.

We actively look for ways to deliver concrete actions across our value chain and continue to demonstrate our eXtraOrdinary (XO) Care with a very clear purpose to drive positive changes for our people, community, and environment. I would like to share with you some of the highlights of our actions and achievements in 2022 below. More details of our contributions and targets will be presented in our ESG report which I invite you to read and learn more about our initiatives.

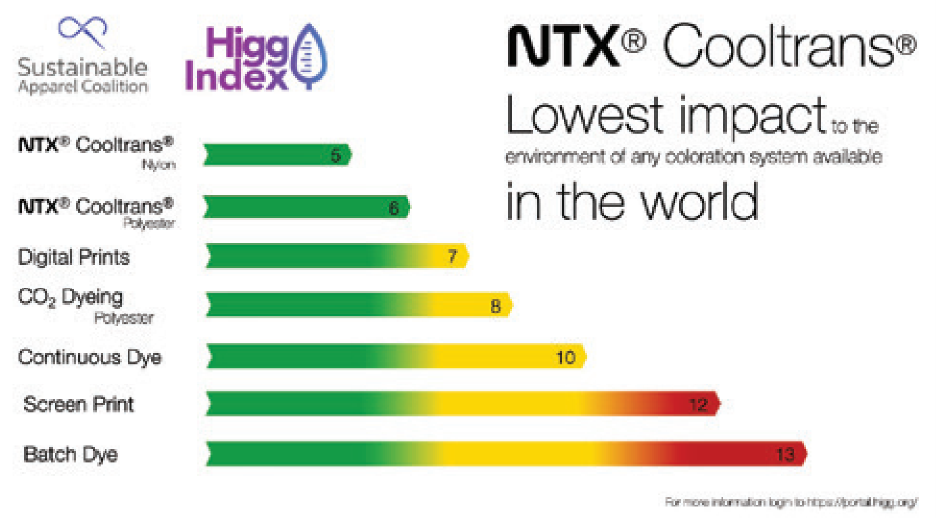
XO Care for our community — in 2022, we have launched various Football Club initiatives for children across nations to attain essential skills including physical fitness, leadership, teamwork, and well-being. Kick It Heart (仁足社) is our key football charity partner.

Luen Thai supports the charity in different countries and regions (China, Hong Kong, Philippines and Cambodia) through partnerships with various organizations and clubs (Chelsea Soccer School in Hong Kong, Tuloy Football Club, XO United Football Club, and Northern Mariana Islands Football Association) with an ultimate goal to enable children to learn football, set clear objectives and plans for participants to develop physical, mental, and emotional growth. I am proud of the work we have done to make positive changes to the life of those children we have helped with throughout the years. Many of our football club players have been included to play in elite teams such as Philippines' Senior National Team, Philippines Football League, U16 and U19 Boys Philippines National Team, U18 Girls Philippines National Team, and Philippines' First Futsal National Team. We have also expanded our projects to create more soccer training centres to help more people in need.

XO CARE FOR OUR ENVIRONMENT

XO Care for our environment — we have continued to advance our leadership and partnerships across the industry as we further hone our environmental, social and governance (ESG) strategy and approach to managing ESG issues and opportunities.

We worked to reduce the use of natural resources including water, energy, and harmful chemical materials without having to compromise economic growth through advanced technologies. The use of NTX™ eco-friendly waterless textile and product coloration technologies significantly reduces water, energy, and chemical use, as well as further cutting our carbon footprint and overall waste materials while keeping highly competitive economics. SewSewYou on-demand manufacturing and build-to-order business model has seen over 40,000 yards of excess fabrics saved from landfill. We also created the highly protective reusable masks using the proprietary nanofiber technology that helped reduce plastic pollution.



XO CARE FOR OUR PEOPLE

XO Care for our people — we work to build a positive place where every employee is respected, valued, and connected through promoting diversity and inclusion in our workforce. Our focus on prioritizing the well-being of our employees results in higher productivity, motivation, and commitment. The GRA data has shown that our talents are composed of people from around 20 different countries and more ethnicities around the world.

We continue to see a balanced team with a male-female ratio of 57 to 43 at the directors' level and above. We have also developed many best-in-class training programs to benefit both our team members and customers covering topics such as leadership skills, experience sharing, mentorships, safety awareness, culture exchange, and embracing innovative and new technologies.

We believe that our business performance and ESG performance go hand in hand. With our core focus in aligning with a greater purpose, our existing customers who share the same value will look to expand their partnerships with us and eventually increase our market share.

CLOSING

As we reset and renew our commitment to our company, I'd like us to also look to the sunrise. I believe that the new dawn of our business journey will be one of prosperity and success; this will involve a great amount of hard work, determination, and versatile thinking.

The past year's success is the product of a talented, smart, hard-working group, and I take great pride in being a part of this team. We are incredibly fortunate to have this group of dedicated employees whose sacrifices and passion build Luen Thai. The strategy we have requires long time commitment and continuous iteration to achieve the transformational results we would like to see. With our united efforts, we will be able to demonstrate the operational excellence leveraging our new manufacturing model to deliver the sustainable shared success to all our stakeholders. I am looking forward to the sunrise we will all share as we carry on our journey.

I am truly grateful for valuable contributions of our employees, business and trust from our customers, as well as the support, guidance and encouragement of our board directors and our largest shareholder Orient International (Holding) Co., Ltd.

Luenthai
an Extraordinary company

Management Discussion and Analysis

RESULT REVIEW

Unlike in 2021, which was merely dominated by the theme of COVID-19 pandemic and recovery, 2022 was a very eventful year across all spheres of life. The worldwide economy, particularly in advanced countries, were initially reactivated and boosted to a certain extent due to active launch and implementation of vaccination programmes and numerous fiscal and monetary measures. While the adverse impact of COVID-19 pandemic began to subside, the outbreak of Russia-Ukraine war in February 2022 has shocked the world. It would seem that Russia believed its military capacity was large enough to enable a swift victory, but the war has turned into one of attrition. The post-pandemic economic recovery of the world has been faded by the ongoing war in Ukraine and the subsequent unprecedented sanctions imposed by the Western nations on Russia have had repercussions on the social, economic and political of the globe that are still unfolding and will continue to affect the worldwide markets.

On the other hand, the economic growth of the People's Republic of China (the "PRC"), the global economic locomotive in the past decades, was dampened by the successive outbreaks of COVID-19 pandemic in various cities in 2022. Fortunately, through implementation of a series of fiscal and monetary policy by the PRC government, the PRC economy avoided a recession and still achieved a growth by 3.0% in 2022 based on the National Bureau of Statistics of China. The PRC government has been proactively launching or revising fiscal policies to stimulate the domestic economy, but it will take time to pick up to a normal level.

Management Discussion and Analysis

Despite this extremely difficult operating environment, the Group delivered a growth of 7.9% in revenue to approximately US$858,861,000 for the year ended 31 December 2022, representing an increase of approximately US$63,202,000 as compared to approximately US$795,659,000 for the year ended 31 December 2021. Due to the increase in revenue, gross profit of the Group increased by approximately US$4,689,000 to US$128,333,000, 3.8% higher than last year. Consequently, the Group achieved a net profit attributable to owners of the Company ("Net Profit") of approximately US$13,138,000 in contrast with a Net Profit of approximately US$11,195,000 for last year.

The improvement of financial performance of the Group for the year ended 31 December 2022 was mainly attributable to (i) the robust performance of the Accessories Division; (ii) certain brand customers placed large inventory orders in advance to guard against possible supply chain disruptions; and (iii) the ongoing implementation of stringent cost control measures across the Group throughout the year ended 31 December 2022. Performance of the Group's business is covered in more detail under the "Segmental Review" section below.

Management Discussion and Analysis

SEGMENTAL REVIEW

Apparel and Accessories businesses were the two revenue streams of the Group, which accounted for approximately 60.6% and 39.4% respectively of the Group's total revenue for the year under review.

Apparel

Segment revenue of the Apparel Division increased by approximately US$44,496,000 or 9.4%, from approximately US$475,623,000 for the year ended 31 December 2021 to approximately US$520,119,000 for the year ended 31 December 2022. Despite the increase in segment revenue, the segment profit of the Apparel Division amounted to approximately US$636,000, representing a decrease of approximately 94.9% or US$11,934,000 as compared to the last year.

The decline in segment profit of the Apparel Division was mainly due to the substantial operating loss of our sport activewear division as a result of the unfavorable performance of one of its customers and the start-up losses relating to our on-demand manufacturing business and personal protective equipment business. In addition, we have to comply with the stringent COVID-19 pandemic prevention and control measures promulgated by the PRC authority which unavoidably disrupted part of the production schedules and orders allocations of our factories in the PRC, and hence the efficiency and profitability of these factories have been affected to some extent.

Management Discussion and Analysis

Accessories

The revenue of the Accessories Division during the year increased by approximately 5.8% to approximately US$338,742,000. Despite of the single digit growth in the segment revenue, the segment profit of the Accessories Division increased by approximately 102.7% or US$14,322,000 to approximately US$28,273,000 when compared with last year mainly due to the turnaround of the accessories operation in Myanmar notwithstanding the political tension since the coup d'etat started in February 2021.

Other factors contributing to the growth in the segment profit of the Accessories Division were mainly attributable to (i) strong growth momentum of order inflows from certain existing major customers; (ii) continuous improvement in production efficiency in Cambodia; (iii) the increase in average selling price of certain products; and (iv) certain effective cost saving initiatives.

MARKETS

Consistent with the Group's geographical market distribution for the year ended 31 December 2021, the US, Europe and Asia (mainly the PRC and Japan) remained as our top three markets for the year under review. The revenue derived from customers in the US, Europe and Asia market accounted for 49.0%, 17.7% and 19.4% respectively of the total revenue of the Group for the year ended 31 December 2022.

Management Discussion and Analysis

ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There was no material acquisition or disposal of subsidiaries, associates or joint ventures during the year ended 31 December 2022.

FUTURE PLANS AND PROSPECT

While the lifting of COVID-19 pandemic restrictions globally will be positive for the global economy, a bundle of challenges remains. The global economy will continue to encounter multiple and interconnected crises, particularly the drawn-out military conflict between Russia and Ukraine has had major ripple effects across the globe.

Prior to the war, Russia and Ukraine were top suppliers of wheat and the Russia Ukraine war has not only turned food insecurity into a grave concern but also triggered a spike in commodity price since the 1970s due to the sanctions on Russia imposed by the Western nations, as Russia has been one the major exporters of energy and metals of the world.

The rapid rise in energy and food costs has further exacerbated the inflationary pressures brought on by COVID-19 pandemic supply constraints and pushed the inflation rates in the United States and Europe to multi-decade highs. In a bid to curb the inflation, the major central banks across the world have no choice but to adopt tighter monetary policy decisions to tame the rampant inflation. The US Federal Reserve has been the most aggressive of the main central banks in using interest rate hikes as an inflation-cooling tool.

Tighter monetary policy and escalated interest rates, coupled with global hyperinflation which not only increased the financing cost but also dampened consumer confidence and eroded disposable income. According to the global wage report 2022–23 of the International Labour Organization, the global monthly wages are estimated to fall in real terms to minus 0.9% in the first half of 2022 which was the first time this century

Management Discussion and Analysis

that real global wage growth has been negative. The severe inflationary crisis is damaging the purchasing power of the middle classes and harming low-income households particularly hard, an increasingly larger portion of their income will be dedicated on food and energy, and hence their expenditure on apparel and accessories products must be affected to a certain degree.

In addition, the inventory level of a majority of brand owners has increased substantially in response to the global supply chain disruptions during the raging period of COVID-19 pandemic. However, global retail sales of clothing and accessories have been dragged down by high inflation and depressed consumer sentiment led to inventory gluts of many brand owners. Hence, the demand for our quality products might be decreased particularly in the first half of 2023.

Despite the existing business environment featuring high inflation, weak consumer sentiment and full of uncertainty, the Board remains cautiously optimistic about the long-term development of our business. The Group will continue to navigate the businesses diligently amid the challenges and uncertainties ahead. In order to minimize the risks and to provide sustainable growth for the Group in the long run, we will continue to implement disciplined financial management measures. The Group will also continue to closely monitor the market conditions and will make adjustment to its business strategies when necessary.

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 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 management of the Group will also devote more efforts to strengthen our financial position, in order to well prepare for the unforeseeable challenges and to take advantage of any opportunities that arise in the future.

Management Discussion and Analysis

INVESTOR RELATIONS AND COMMUNICATIONS

The Group acknowledges the crucial importance of communication with our shareholders. The Group has a policy of proactively promoting investor relations through meetings with analysts and investors, and participation in investors' conferences, company interviews and manufacturing plant visits. The annual general meeting will be called by giving not less than 20 clear business days' notice and our Directors shall be available at the annual general meeting to answer questions on the Group's businesses.

The Group encourages dual communications with both private and institutional investors and responds to their enquiries in an informative and timely manner. The Group has established various forms of communication channels to improve its transparency, including proactive and timely issuance of press releases so as to inform investors of our latest corporate developments. The Group regularly updates its corporate information on the Company's website (www.luenthai.com) in both English and Chinese on a timely basis to all concerned parties.

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 31 December 2022 (31 December 2021: 21,354,000).

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 as 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.

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.

Management Discussion and Analysis

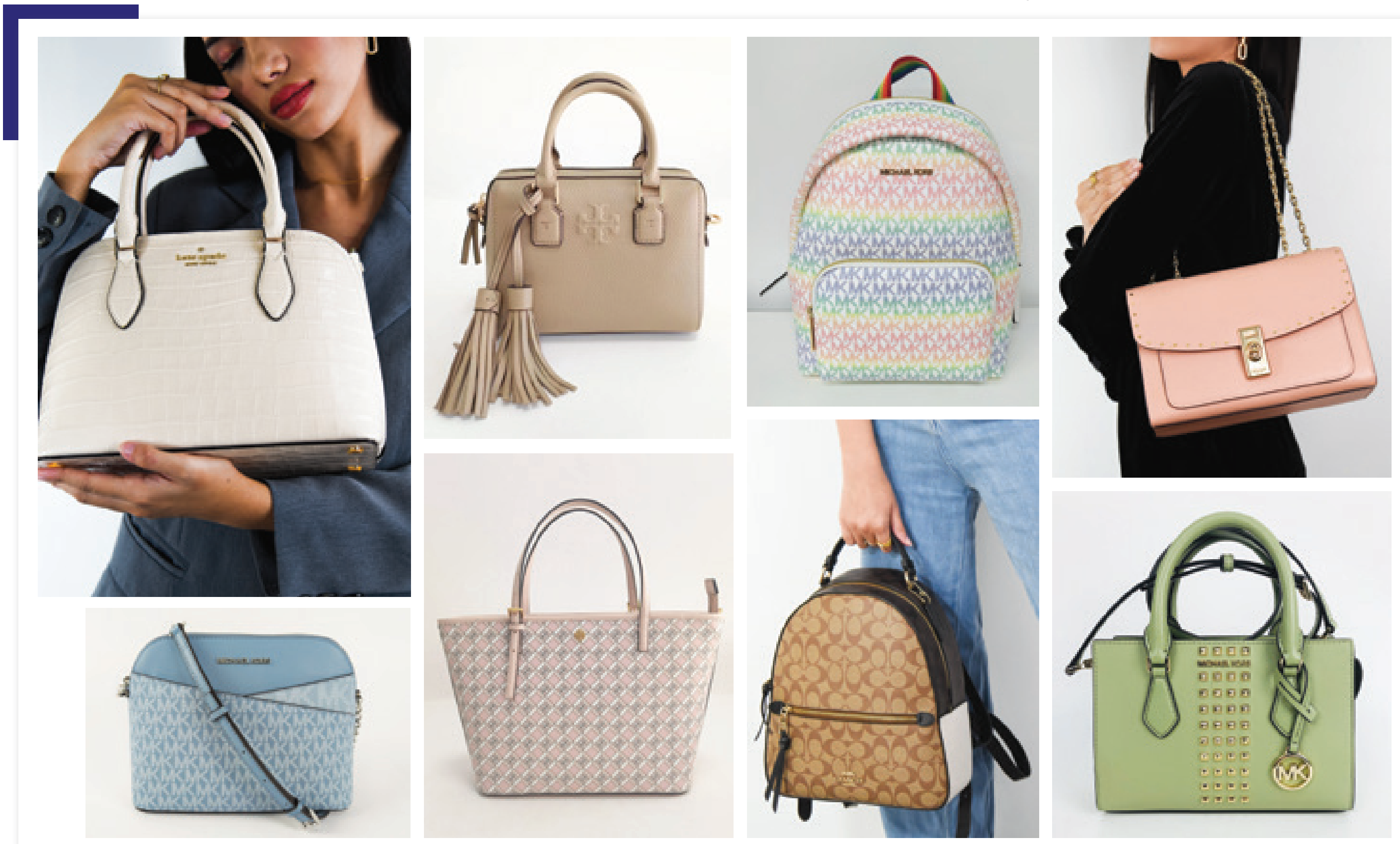
During the year ended 31 December 2022, the subsidiary of Sachio has paid the Cambodia tax authority a total amount of US$220,000 on cases related to periods prior to the acquisition. The amount has been recovered from the previous owner in full. Accordingly, the amounts of contingent liability and indemnified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

For the remaining contingent liabilities of approximately US$4,389,000 (31 December 2021: 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the total amount of cash and bank deposits of the Group was approximately US$93,952,000, representing a decrease of approximately US$5,197,000 as compared to that as at 31 December 2021. The Group's total bank borrowings as at 31 December 2022 was approximately US$148,501,000, representing a decrease of approximately US$1,268,000 as compared to that as at 31 December 2021.

As at 31 December 2022, based on the scheduled repayments set out in the relevant loan agreements with banks, the maturity profile of the Group's bank borrowings spread over five years with approximately US$139,890,000 repayable within one year, approximately US$6,944,000 repayable in the second year and approximately US$1,667,000 in the third to fifth year.



Management Discussion and Analysis

Gearing ratio of the Company is defined as the net debt (represented by bank borrowings net of cash and bank balances) divided by shareholders' equity. As at 31 December 2022, the gearing ratio of the Group was 26.4%.

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 to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement if necessary. During the years ended 31 December 2022 and 2021, no forward foreign exchange or hedging contracts had been entered into by the Group.

HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY

Luen Thai continues to be an employer of choice through focused 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 36,000 employees around the world, Luen Thai continuously strives to foster open communications with its employees through various channels. Under its employee care initiatives, Luen Thai has provided safe and enjoyable work and living environments,

Management Discussion and Analysis

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 employees' 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). After having made specific enquiry of all Directors of the Company, all the Directors are of the view that they have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions for the year ended 31 December 2022.

MANAGEMENT EXECUTIVES

EXECUTIVE DIRECTORS

QU Zhiming, aged 66, is the Chairman of the Board and the Chairman of the Nomination Committee. Mr. Qu is a senior economist who has been conferred an MBA degree by the Asia International Open University (Macau). In 1997, Mr. Qu began to serve as the general manager and board chairman at sizeable import and export trading companies and home textiles companies (such positions held until 2007), by way of which he familiarized himself with the operations across the entire industry chain of the textile industry. Mr. Qu became the assistant to the president of Shangtex Holding Co., Ltd. (a substantial shareholder and the controlling shareholder of the Company) upon joining the group in July 2007, and has been acting as its deputy chief economist from February 2014 to December 2018. Currently, Mr. Qu also serves as the vice chairman of The Hong Kong General Chamber of Textiles Limited, and the board chairman of Wiseknit Factory Limited, and is mainly responsible for the operations management of the group's foreign trade enterprises as well as the management of its overseas mergers and acquisitions projects. As an industry expert, Mr. Qu has penetrating market insight in the textile industry.

Dr. TAN Siu Lin, aged 92, is the founder and Honorary Life Chairman of the Group. Dr. Tan is the Honorary Director of Peking University Education Foundation (北京大學教育基金會) and chairman of the board of the Peking University Luen Thai Center for Supply Chain System Research & Development (北京大學聯泰供應鏈系統研發中心), chairman of the board of Tan Siu Lin School of Business in Quanzhou Normal University (泉州師範學院陳守仁商學院). Dr. Tan is the permanent honorary director of the board of the Huaqiao University (華僑大學), the honorable president of the Hong Kong General Chamber of Textiles Limited, and the honorary consul of the Federated States of Micronesia in HKSAR. Dr. Tan was appointed as a non-executive director and chairman of S.A.I. Leisure Group Company Limited (stock code: 1832) on 5 November 2018, a company listed on the Stock Exchange of Hong Kong Limited on 16 May 2019. Dr. Tan holds a honorary Doctoral of Laws degree from the University of Guam and has been awarded honorary university fellowships by both the Hong Kong Baptist University, as well as the Honorary President of The Hong Kong Baptist University Foundation, and the Chinese University of Hong Kong.

TAN Cho Lung, Raymond, aged 61, is the Chief Executive Officer of the Company, Chairman of Financing and Banking Committee and son of Dr. Tan Siu Lin. Mr. Tan joined the Group in 1989 and has over 33 years of experience in the industry. Mr. Tan was the recipient of the Young Industrialist Award of Hong Kong and the DHL/SCMP Owner-Operator award for 2003. In August 2012, Mr. Tan was awarded "Outstanding Entrepreneurship Award" 2012, Hong Kong region. In 2013, Mr. Tan was also awarded "Capital Leader of Excellence 2012" and "Entrepreneur of the Year 2013" which were organized respectively by Capital Magazine and Capital Entrepreneur Magazine. In January 2019, Mr. Tan was the recipient of Asian Chinese Leaders Award organized by the Asian College of Knowledge Management. Mr. Tan is a co-founder and chairman of Chelsea Foundation (Hong Kong) Limited and chairman of Tuloy Foundation in the Philippines. Mr. Tan graduated with a Bachelor's degree in Business Administration from the University of Guam.

MANAGEMENT EXECUTIVES

HUANG Jie, aged 57, is a non-executive director of the Company from 15 February 2017 to 14 February 2020. From 15 February 2020, he has been redesignated as an executive Director of the Company. Mr. Huang is a member of the Remuneration Committee. Mr. Huang is an economist and international business expert who graduated from China Textile University with a Bachelor Degree of Engineering in the year of 1986 (upon completion of a four year fulltime programme), and obtained his MBA degree in the year of 1998 by attending an 1996 EMBA programme at China Europe International Business School as an on-the-job postgraduate student. Immediately upon graduating from the university, Mr. Huang joined Shangtex Holding Co., Ltd ("Shangtex") and its subsidiaries (collectively, the "Shangtex Group") and has been serving at a number of Shangtex Group's subsidiaries, including acting as the deputy general manager of Shanghai Shenda Co., Ltd. (上海申達股份有限公司) (an A-share listed company under the Shangtex Group) between 1995 and 2000 and as the vice president of Shanghai Dragon Corporation (上海龍頭(集團)股份有限公司) (another A-share listed company under the Shangtex Group) between 2001 and 2010, taking charge of import and export trading. Mr. Huang acted as the president of international business unit of Orient International (Holding) Co., Ltd. (東方國際(集團)有限公司) from March 2018 to November 2020. Since March 2018, Mr. Huang has been the director and president of Shangtex (Hong Kong) Limited (上海紡織(香港)有限公司) and he also serves as the director and president of the Orient International Holdings Hong Kong Company Limited (東方國際香港有限公司) started from 2020, taking charge of the transformation and upgrading of the group's foreign trade business as well as the business operations of its overseas companies. Mr. Huang also serves as the director of Wiseknit Factory Limited (慧聯織造廠有限公司), which is a subsidiary of Orient International (Holding) Co., Ltd. Mr. Huang has profound knowledge and understanding of the upstream and downstream operations of the textile industry, coupled with his rich experience in corporate governance and a remarkable capability of conducting domestic and foreign businesses.

ZHANG Min, aged 50, is an executive Director and a member of the Financing and Banking Committee. Mr. Zhang graduated from Shanghai University of Finance and Economics with a Bachelor degree of Economics in 1995, and graduated from Fudan University with a Master degree of Economics (on-the-job postgraduate) in 2002. Mr. Zhang is a certified International Business Engineer. Mr. Zhang joined Orient International (Holding) Co., Ltd. ("OIH") in 1995 and commenced his career in human resources department. During 2006 and 2007, Mr. Zhang was assistant director of Business Development Department of OIH and stationed in United States for one year. From September 2007 to July 2012, Mr. Zhang worked in Hong Kong as assistant general manager of Orient International Holdings Hong Kong Co. Limited and continues to serve as assistant director of Business Development Department of OIH. From July 2012 to August 2014, Mr. Zhang worked in Hong Kong serving as deputy general manager of Orient International Holdings Hong Kong Co. Limited. From August 2014 to March 2018, Mr. Zhang served as director of CEO's Office and director of Production Safety Committee Office at the same time in OIH. From March 2018 to November 2022, Mr. Zhang acted as the general manager of Overseas Enterprises Management Department of OIH. Since October 2022, Mr. Zhang has been serving as director of CEO's Office and starting from December 2022 he also acts as director of Overseas Enterprises Management Office of OIH at the same time.

NON-EXECUTIVE DIRECTOR

MOK Siu Wan, Anne, aged 70, is an executive director of the Company from 3 June 2005 to 31 January 2020. Ms. Mok had been working as the President of the Company and Chief Merchandizing Officer of Luen Thai International Group Limited before she was re-designated as a non-executive director of the Company from 1 February 2020 and Ms. Mok is currently a member of the Audit Committee. Ms. Mok is an accomplished industry professional with years of experience in key executive and board member positions out of which over 20 years were spent holding various management positions within the Swire Pacific Group Companies. Ms. Mok also held senior management positions with other prominent organizations including Li & Fung Limited and the Pentland Group plc, a London based international group which develops and owns some leading brands in Sports and Fashion. Ms. Mok graduated with a Bachelor of Arts degree from the University of Hong Kong. She has also been sponsored to continue with her executive education by attending various management programmes and courses organized by Harvard University, Tsinghua University and INSEAD Euro-Asia Centre. Ms. Mok was a member of the Board of Governors for the American Chamber of Commerce in Hong Kong from 1998 to 2003 and the Chairman of the Textiles Committee for the American Chamber of Commerce in Hong Kong in 1996 and 1997. Ms. Mok joined the Group in 2003 and was appointed to the Luen Thai Holdings Board as an executive director in June 2005. In 2013, Ms. Mok was awarded "Outstanding Business Woman of the Year" by Capital Entrepreneur magazine. On behalf of GJM, one of Ms. Mok's operating companies, she was also the proud recipient of the Leadership Award 2013 presented by Ann Inc, in recognition of GJM's achievements in CSR initiatives and continuous commitment to improving women's health and welfare in the workplace.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry, aged 57, is a member of the Audit Committee, Nomination Committee and the Remuneration Committee. Mr. Chan has over 35 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a director of The Stock Exchange of Hong Kong Limited and was a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, an independent non-executive director of Hengan International Group Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited which engages in the manufacture and distribution of personal hygiene products. Mr. Chan was a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan obtained his Master's degree in Business Administration from Asia International Open University (Macau) and his Bachelor's degree in Arts from Carleton University in Canada. He joined the Group in 2004.

SEING Nea Yie, aged 75, is the Chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. Mr. Seing is the sole proprietor of both accounting firms Messrs. Chan, Seing & Co. and Messrs. Chen Yih Kuen & Co. Certified Public Accountants (Practising). Mr. Seing has over 46 years of audit experience and is currently holding CPA (Practising) at Hong Kong Institute of Certified Public Accountants. Mr. Seing is an active contributor to the charity activities in the community. He was the director of Po Leung Kuk, an authorized charity organization in Hong Kong, from 1987 to 1990 and became the Vice Chairman in 1990 and 1991. Mr. Seing was also a member of audit committee of Po Leung Kuk from 1996 to 2000. Currently, Mr. Seing is the honorary president of The Fukienese Association Limited. He joined the Group in January 2005.

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WANG Ching, aged 68, is a member of the Audit Committee, Nomination Committee and the Remuneration Committee. Dr. Wang has over 30 years' managerial experience in investment banking, securities, treasury and asset management in the United States, Hong Kong, Taiwan and the PRC. Dr. Wang was the managing director of Shanghai International Asset Management (HK) Co., Ltd., a licensed corporation registered with Hong Kong Securities and Futures Commission, the executive director of Shanghai International Shanghai Growth Investment Limited ("Shanghai Limited"), an investment fund company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 770). Dr. Wang also serves as independent non-executive director of Minth Group Limited (敏實集團有限公司) (stock code: 425) and China Shuifa Singyes Energy Holdings Ltd (中國水發興業能源集團有限公司) (stock code: 750), which are both listed on the Stock Exchange and are third parties independent of the Company and connected persons of the Company. Dr. Wang received his bachelor degree majoring in economics from the National Taiwan University in 1977. Dr. Wang obtained his Master's degree in business administration from the University of Houston and Ph.D from the Graduate School of Business, Columbia University in the city of New York. He joined the Group in April 2019.

SENIOR MANAGEMENT

SAUCEDA Francisco, age 64, is the COO — Lifestyle Apparel and concurrently President of L&T International Group Inc., Philippines. He is responsible for the apparel business units which manufacture international brand names in facilities/offices such as the Philippines, Cambodia, Vietnam, China, U.S., Indonesia, India, and Bangladesh. He also oversees Corporate Communications for Luenthai and has been with the Group since 1994. Mr. Sauceda obtained his degree in Business Administration from Texas Southmost College/University of Texas. He is senior board member of the Confederation of Wearable Exporters of the Philippines (CONWEP) and is involved in trade initiatives for Philippines. Mr. Sauceda is also a member of the Hong Kong Chamber of Commerce and the Mexican Chamber of Commerce in Hong Kong.

KORNBLUM Joerg, aged 59, is the Chief Financial Officer of the Group. Mr. Kornblum has a Master's degree in Business Administration and Mechanical Engineering from the University of Darmstadt in Germany. From 1991 to 2002, he has held various senior management positions at The Freudenberg Group, including the position of General Manager of Freudenberg & Vilene International Limited in Hong Kong from 1997 to 2001. Mr. Kornblum joined TMS Group, a Business Division of Luen Thai, in the capacity of CFO in 2002 before heading the TMS Group as Executive Vice President. In April 2017, he was appointed as the Chief Financial Officer of the Group and Chair of the Finance & Governance Committee. In January 2021, he was also appointed as President of Tien Hu Group, the Sweater Business Division of Luen Thai.

FOK Sandy, aged 56, is the Chief People Officer of the Group, responsible for developing the Group's employee engagement and human resources strategy to support the Company's overall business plan and strategic direction. Ms. Fok leads the areas of succession planning, talent management, change management, and organizational performance. Ms. Fok had over twenty some years of experience in general business and human resources management and had held multiple senior positions at Swire Pacific group companies. She later founded her own consulting firm in 2010 and had since been involved in leadership development and organisational culture development consulting work for listed companies and multinational brands. Ms. Fok graduated from the University of Hong Kong with a major in Psychology and a Master of Social Sciences degree in Behavioral Health. She was the past Chairman of the University of Hong Kong's Career Advisory Board and the Past Chairman of the University of Hong Kong's Graduate House.

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SU Kelvin, aged 41, is the President of YTI, LTLabs, and board member of LTS HK. He has over 20 years of management experience in various industries ranging from aerospace, retail, software development and textiles. He joined Luen Thai in 2014 and has managed business operations in Cambodia, China, and Philippines for the Group as Executive Vice President. He was appointed President in 2021 managing the Groups' emerging businesses with a primary focus in Cambodia. Mr. Su obtained his Bachelor of Science Degree in Management Sciences from The Pennsylvania State University.

CHESSIS Sarah Anne, aged 53, is the Managing Director of SewSewYou ("SSY"), an innovative, authentic, on-demand and sustainable clothing e-commerce platform under the Group. Ms. Chessis joined the Group in December 2018. She leads SSY to work with the world's leading influencers and celebrities to create and sell their own clothing or accessories lines through the smart system of SSY. Prior to joining Luen Thai, Sarah had spent five years as an entrepreneur having founded and built her on-demand custom clothing brand Isabella Wren in Hong Kong. Before Isabella Wren, she spent 18 years working with top financial institutions such as Jefferies, BNP Paribas, Societe Generale and ING Barings.

COMPANY SECRETARY

CHIU Chi Cheung, aged 59, is the Senior Vice President of Corporate Finance, Company Secretary of the Company. Mr. Chiu has over 30 years of experience in the field of company secretarial, auditing and accounting. He joined the Group in 2002. He was an auditing manager of an international auditing firm. Mr. Chiu is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chiu holds a Bachelor of Business Administration degree from the University of Hong Kong.

REPORT OF THE DIRECTORS

The board of directors of Luen Thai Holdings Limited (the "Directors") has the pleasure in presenting to the shareholders this annual report together with the audited consolidated financial statements of Luen Thai Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2022.

GROUP PROFIT

The consolidated statement of profit or loss is set out on page 73 and shows the Group's profit for the year ended 31 December 2022. A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided on pages 22 to 31 of this annual report.

DIVIDENDS

An interim dividend of US0.220 cent (or equivalent to HK1.72 cents) per share was paid to the shareholders during the year totaling approximately US$2,275,000. The Directors recommend the payment of a final dividend of US0.268 cent (or equivalent to HK2.10 cents) per share totaling to approximately US$2,771,000. The proposed final dividend, if approved by the shareholders at the annual general meeting on 25 May 2023 ("AGM"), is expected to be distributed on 14 July 2023 to shareholders whose name appear on the register of members on 9 June 2023.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 9 to the consolidated financial statements. An analysis of the Group's performance for the year by operating segment is set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of business of the Group, particulars of material events affecting the Group that have occurred since the end of the financial year 2022 (if any), a description of the principal risks and uncertainties facing by the Group, analysis using key financial performance indicators as well as an indication of likely future development in the Group's business, are provided in the "Chairman's Statement", "Management Discussion and Analysis" and "Notes to the Consolidated Financial Statements" sections of this annual report.

Discussions on the Group's environmental policies/performance and our relationship with key stakeholders are covered by a separate Environmental, Social and Governance ("ESG") Report which will be available on the Company's website under the "Investor Relations" section and the website of the Stock Exchange at the same time as the publication of this annual report. The ESG report forms part of this Report of the Directors.

Compliance with laws and regulations

The Group's production and operations are mainly carried out by the Company's subsidiaries in mainland China and certain Southeast Asian countries including the Philippines, Vietnam, Cambodia and Myanmar, while the Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Sufficient resources have been allocated to ensure the on-going compliance with applicable laws and regulations. During the year under review and up to the date of this report, the Board is not aware of any material non-compliance with the relevant laws and regulations in the countries where the Group is operating.

PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Details of the principal subsidiaries and joint ventures of the Company and the Group as at 31 December 2022 are set out in notes 9 to 10 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2022, the Company's reserves available for distribution to the Shareholders of the Company amounted to US$73,693,000. Details of the movements in the reserves of the Company are set out in note 32(a) to the consolidated financial statements. Under the Companies Law (Revised) of the Cayman Islands, the funds in the capital reserve account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 156 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in note 19 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately US$557,300.

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, pursuant to which options may be granted to eligible participants ("Eligible Participants") to subscribe for shares in the Company. The principal purposes of the share option schemes are to provide the Company with a flexible means of recognizing and acknowledging the contributions of the Eligible Participants and to attract and retain and appropriately remunerate the best possible quality of employees and other Eligible Participants.

The following persons shall be eligible for participation in the share option scheme:

(i) any director ("Group Director") of any member company with the Group ("Group Company") and any full-time employee for the time being of any Group Company ("Employee") (and any proposed Group Directors and Employees);

(ii) any customer, supplier or provider of services, landlord or tenant, agent, partner, consultant, or adviser of or a contractor to or person doing business with any Group Company;

(iii) the trustee of any trust the principal beneficiary of which is, or any discretionary trust the discretionary objects of which include, any person referred to in (i) or (ii) above;

(iv) a company controlled by any person referred to in (i) or (ii) above; and

(v) such other persons (or classes of persons) as the Board may in its absolute discretion determine should be Eligible Participants. In exercising such discretion, the Board shall have regard to factors such as any contributions which have been made, or may be made, by such persons to the Group and other factors as the Board may consider appropriate.

Pursuant to the share option scheme, no option may be granted to any person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the options already granted and to be granted to such person (including exercised, cancelled and outstanding options but excluding lapsed options) in the 12-month period up to and including the date of such new grant exceeding 1% of the shares of the Company in issue as at the date of such new grant.

The basis of determining the exercise price under the share option scheme shall not be less than the highest of:

(i) the closing price of a share of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant of the relevant option;

(ii) an amount equivalent to the average closing price of a share of the Company as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant Option; and

(iii) the nominal value of a share of the Company.

The share option scheme will remain in force for ten years from 26 May 2014, unless otherwise determined in accordance with its term. An option may be exercised at any time during a period to be notified by the Board to each grantee. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.

Under the share option scheme, each grantee shall pay a consideration of HK$10 upon acceptance of the offer of the option and the exercise price of the share options is subject to the adjustment in the event of any alteration in the capital structure of the Company.

During the year, no share option was granted under the share option scheme and there is no share option outstanding as at 31 December 2022.

As at the date of this report, the total number of shares available for issue under the share option scheme is 103,411,266, representing approximately 10% of the total issued share capital of the Company as at the date of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year ended 31 December 2022.

DIRECTORS

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

Executive Directors

QU Zhiming
TAN Siu Lin
TAN Cho Lung, Raymond
HUANG Jie
ZHANG Min

Non-executive Director

MOK Siu Wan, Anne

Independent non-executive Directors

CHAN Henry
SEING Nea Yie
WANG Ching

Pursuant to Article 88 of the Articles of Association of the Company ("Articles"), Messrs. Qu Zhiming, Huang Jie, Zhang Min and Seing Nea Yie shall retire from office at the forthcoming annual general meeting. Messrs. Qu Zhiming, Huang Jie and Seing Nea Yie have informed the Company that they will not offer themselves for re-election at the forthcoming annual general meeting, and they will retire at the conclusion of the forthcoming annual general meeting. The other retiring Director, namely Mr. Zhang Min being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Except for Mr. Tan Cho Lung, Raymond and Mr. Huang Jie whose service contract were expired on 31 December 2022 and 14 February 2023 respectively, each of the executive Directors, non-executive Director and independent non-executive Directors has entered into service contracts and/or letter of appointment with the Company for a term of three years and is subject to termination by either party by giving not less than three months' written notice or compensation in lieu.

Under the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation. And, according to the Corporate Governance Code, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. A retiring Director is eligible for re-election and continues to act as a Director throughout the meeting at which he retires.

The Articles provide that any Director appointed by the Board, either to fill a casual vacancy in the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "Connected Transactions and Directors' Interests in Contracts" below, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director and the Director's connected entities had a material interest, whether directly or indirectly, subsisted as at 31 December 2022 or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors and Chief Executives' Interests in Shares" and for the share option scheme adopted by the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of an acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of directors and senior management are set out in the section headed "Management Executives" on pages 32 to 36 of this annual report.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association 168(1) provides that every Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses as a result of any act or failure to act in carrying out his/her functions. The Company has also maintained Directors and officers liability insurance during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2022, 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 the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

Long position in the Shares

Name of Director	Capacity	No. of Shares	Percentage of interests in the Company (Note a)
TAN Siu Lin	Trustee (note b)	1,840,757	0.18%
	Interest of controlled corporation (note b)	10,992,986	1.06%
TAN Cho Lung, Raymond	Interest of controlled corporation (note c)	15,655,639	1.51%
	Interest of spouse (note c)	2,050,000	0.20%
MOK Siu Wan, Anne	Beneficial Owner (note d)	2,000,000	0.19%

Notes:

a. The percentage has been compiled based on the total number of shares of the Company issued (i.e. 1,034,112,666) as at 31 December 2022.

b. Dr. Tan Siu Lin as a trustee indirectly controls the entire issued share capital of Wincare International Company Limited, which in turn holds directly 1,840,757 shares of the Company ("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 10,992,986 Shares.

c. Mr. Tan Cho Lung, Raymond wholly owns Flying Base Limited, which owns 15,655,639 Shares.

A total of 2,050,000 Shares was acquired by an associate of Mr. Tan Cho Lung, Raymond. He 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.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

The related party transactions of the Company for the year ended 31 December 2022 are set out in note 31 to the consolidated financial statements. Other than disclosed below, the related party transactions of the Company did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement and/or independent shareholders' approval requirements under the Listing Rules.

REPORT
OF THE DIRECTORS

Non-exempt Continuing Connected Transactions

A number of agreements and arrangements with connected persons (as defined under Chapter 14A of the Listing Rules) have been entered into in the ordinary and usual course of business. The transactions disclosed under this section constituted non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

The following table is a summary of the approximate aggregate value and the annual caps of each category of the non-exempt continuing connected transactions of the Group pursuant to Chapter 14A of the Listing Rules for the year ended 31 December 2022. Details of these connected transactions are set out below in accordance with the Listing Rules.

Connected Party	Category	Approximate aggregate value for the year ended 31 December 2022 US$'000	Annual Cap for the year ended 31 December 2022 US$'000
IST BVI	Provision of technological support services (note a)	1,920	2,400
LTG	Lease agreements		
	– Group as tenants of QZ LT Estate and LTID (note b)	840	950
	– Group as tenants of DGLT (note c)	1,439	1,750
CTSI	Logistics services to the Group (note d)	1,493	2,000
LTE	Provision of services (note e)	55,252	160,000
Shangtex Group	Purchase of textile and related products (note f)	–	4,500
	Provision of services (note g)	–	2,000

Notes:

(a) On 15 November 2021, Luen Thai Overseas Limited ("LTO"), a subsidiary of the Company, entered into an agreement with Luen Thai Group Ltd. for a term of 3 years from 1 January 2022 to 31 December 2024 pursuant to which LTG, through its indirectly wholly owned subsidiary, Integrated Solutions Technology Limited ("IST BVI"), shall continue to provide technological support services to the Group including but not limited to software and system development and maintenance services such as process mapping, analysis and design, process reengineering, scheduling, management reporting and analysis (the "Master IT Services Agreement").

IST BVI has been providing technological support services to the Group since the Company's listing on the Stock Exchange in 2004 (the "Listing"). The fees charged under the Master IT Services Agreement were based on similar rates charged by service support consultants in the market. While the fees for such technological support services reflect normal commercial terms negotiated on an arm's length basis and are comparable to the terms given by independent third parties, the Directors believe that the Group will benefit from the continuation of such technological support services by IST BVI, which has a better understanding of the Group's existing systems due to its long-term service and has been providing smooth and efficient technological support services to the Group. Therefore, such transactions are beneficial to the Group as a whole as the Group is able to leverage on its long-established relationship with IST BVI. The Directors further believe that IST BVI's expertise and knowledge of the Group's operations, coupled with its development of various software and systems for the Group, should also warrant the continued engagement of IST BVI for provision of technical support services to the Group.

Given the quality services offered by IST BVI to the Group in the past and the benefits of continuity, the Directors (including the independent non-executive Directors) consider that such technological support services and their respective terms are on normal commercial terms, fair and reasonable and are in the interests of the Group and the Company's shareholders as a whole.

REPORT OF THE DIRECTORS

IST BVI is an indirectly wholly-owned subsidiary of LTG. LTG is ultimately owned as to 30% by a discretionary family trust founded by Dr. Tan Siu Lin, being an executive Director of the Company and he controls the composition of the board of directors of the discretionary trustee of the said family trust. Hence, LTG is a connected person of the Company. IST BVI is therefore deemed an associate, and hence a connected person of the Company.

(b) On 16 December 2021, LTO entered into an agreement with the LTG in relation to the leasing of properties mainly as office premises between the Group and the LTG and its subsidiaries (collectively, the "LTG Group"), pursuant to which such leasing arrangements will be for a term of 1 year from 1 January 2022 to 31 December 2022 (the "Old Office Lease Master Agreement").

The LTG Group, with a diverse and wide business network, has been leasing properties to the Group since the Listing. The Directors believe that such transactions are beneficial to the Group as a whole as the Group is able to leverage on its long-established relationship with the LTG Group.

The rentals under the Old Office Lease Master Agreement were determined based on the prevailing market rentals for similar properties in the nearby locations of the leased properties. While the rentals payable by the Group pursuant to the Old Office Lease Master Agreement reflect normal commercial terms negotiated on an arm's length basis and are comparable to the terms given by independent third parties, the Directors therefore consider that the Group will benefit from the continuity of the leasing arrangements and will save the relocation costs which may otherwise have to be incurred due to any discontinuation of the existing leasing arrangements. The Directors further believe that all the above leasing arrangements and their respective terms are on normal commercial terms, fair and reasonable and are in the interests of the Group and the Company's shareholders as a whole.

LTG is ultimately owned as to 30% by a discretionary family trust founded by Dr. Tan Siu Lin, being an executive Director of the Company and he controls the composition of the board of directors of the discretionary trustee of the said family trust. Therefore, LTG is a connected person of the Company.

The Old Office Lease Master Agreement expired on 31 December 2022 and the Company expects to continue this continuing connected transaction thereafter, as the Company will benefit from such leasing arrangements for cost efficiency and better utilization of the Group's office premises, which is beneficial to the Group as a whole. In this connection, LTO entered into a new office lease master agreement (the "Office Lease Master Agreement") with Luen Thai International Development Limited on 21 October 2022. Pursuant to the Office Lease Master Agreement, the maximum aggregate fee to be paid by the Group for the year ending on 31 December 2023 will not exceed US$1,000,000.

(c) On 16 December 2021, LTO entered into an agreement with the LTG in relation to the leasing of certain factory premises ("Factory") between the Group and the LTG Group, pursuant to which such leasing arrangement will be for a term of 1 year commencing from 1 January 2022 to 31 December 2022 (the "Old Factory Premises and Dormitories Lease Master Agreement").

The Factory was using by the Group as manufacturing premises and relocation of the manufacturing facilities and staff would involve costs and potential loss of labour, the Directors propose to continue its manufacturing operations in the Factory subject to the terms of the relevant leases being more favourable than or at least the same as those offered by other landlords and subject to the Group's needs and operation plans in the future.

LTG is ultimately owned as to 30% by a discretionary family trust founded by Dr. Tan Siu Lin, being an executive Director of the Company and he controls the composition of the board of directors of the discretionary trustee of the said family trust. Therefore, LTG is a connected person of the Company.

The Old Factory Premises and Dormitories Lease Master Agreement expired on 31 December 2022 and the Company expects to continue this continuing connected transaction thereafter, as the Company will save the relocation costs. In this connection, LTO entered into a new lease agreement (the "Factory Premises and Dormitories Lease Master Agreement) with LTG on 21 December 2022. Pursuant to the Factory Premises and Dormitories Lease Master Agreement, the maximum aggregate fees to be paid by the Group for the year ending on 31 December 2023 will not exceed US$1,700,000.

(d) On 19 December 2019, LTO entered into an agreement with CTSI Holdings Limited ("CTSI") in relation to the provision of freight forwarding and logistics services (the "Old Logistics Master Agreement") by the CTSI and its subsidiaries ("CTSI Group"), pursuant to which such services will be for a term of 3 years from 1 January 2020 to 31 December 2022.

The Group was using the freight forwarding and logistics services provided by CTSI Group for transportation of its products. The Directors propose to continue to use the freight forwarding and logistics services to be provided by CTSI Group for the purpose of transporting its apparel and bags products in Hong Kong, the Philippines, Cambodia, Vietnam and the United States of America, etc., subject to the relevant terms of such services being more favourable than or at least the same as those provided by other parties.

CTSI is an indirect wholly-owned subsidiary of LTG. LTG is ultimately owned as to 30% by a discretionary family trust founded by Dr. Tan Siu Lin, being an executive Director of the Company and he controls the composition of the board of directors of the discretionary trustee of the said family trust. CTSI is therefore an associate, and hence a connected person of the Company.

The Old Logistics Master Agreement has expired on 31 December 2022 and the Company expects to continue this continuing connected transaction thereafter. In this connection, LTO entered into a new agreement for the freight forwarding and logistics services (the "New Logistics Master Agreement) with CTSI on 9 December 2022. Pursuant to the New Logistics Master Agreement, the maximum aggregate fees to be paid by the Group for each of the three years ending on 31 December 2025 will amount to approximately US$1,600,000, US$1,700,000 and US$1,800,000 respectively.

(e) On 29 October 2020, LTO entered into the services master agreement (the "Services Master Agreement") with LTE in relation to the apparel manufacturing service ("Services") offered by the LTO Group to the LTE Group. The Services Master Agreement was subsequently approved, confirmed and ratified by the independent shareholders on 18 December 2020. Pursuant to the Services Master Agreement, the maximum aggregate fee to be received by the Group for each of the three years ending on 31 December 2023 will amount to US$115,000,000, US$160,000,000 and US$200,000,000, respectively.

The Directors believe that the transactions contemplated under the Services Master Agreement will enhance the revenue streams of the Group and will help optimize the productivity of the Group, which is beneficial to the long-term development of the Group. In addition, the Directors believe that the transactions with the LTE Group under the Services Master Agreement would be a less risky option for the Group to take part in the retail business, as the Group may otherwise need to incur additional time and cost in due diligence exercise.

The determination of the above proposed annual caps in respect of the Services under the Services Master Agreement is based on: (i) the expected delivery schedules for products to be supplied for each of the years ending 31 December 2021, 2022 and 2023, which was projected and provided by the LTE Group to the LTO Group; (ii) a buffer has been included for the potential transactions under the Service Master Agreement which provide flexibility for the LTO Group to accommodate any further growth in the provision of Services in the next three years; (iii) the historical growth and recent trend of the business with the LTE Group; (iv) the payment and credit terms for the potential transactions under the Services Master Agreement; (v) production capacity of the Group in the PRC; and (vi) future market trends.

LTE is ultimately owned by the family trust founded by Dr. Tan Siu Lin, being an executive Director of the Company and he controls the composition of the board of directors of the discretionary trustee of the said family trust. LTE is therefore an associate, and hence a connected person of the Company.

(f) On 19 December 2019, LTO entered into an agreement with the Shangtex Holding Company Ltd ("Shangtex") and its subsidiary excluding the Group ("Shangtex Group") in relation to the purchase of textile and apparel related products by the Group from the relevant members of the Shangtex Group (the "Sale and Purchase Framework Agreement"), pursuant to which such transaction will be for a term of 3 years from 1 January 2020 to 31 December 2022.

The Group is engaged in the manufacturing and trading of apparel and accessories and has a regular demand for the types of textile and apparel related products offered by the Shangtex Group. The Directors believe that the Shangtex Group, being a leading textile manufacturer and trader in the PRC, is able to offer quality textile and apparel related products that are suitable for the Group's business at competitive prices.

Shangtex (Hong Kong) Limited ("Shangtex HK") is a controlling shareholder of the Company and Shangtex, being the holding company of Shangtex HK, is an associate of Shangtex HK and hence a connected person of the Company. Accordingly, the transactions under the Sale and Purchase Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

(g) On 19 December 2019, LTO entered into an agreement with the Shangtex Group in relation to provision of services including solicitation of customers for the Shangtex Group's products as well as custom clearance and logistics arrangement (the "Services Framework Agreement"), pursuant to which such services will be provided for a term of 3 years from 1 January 2020 to 31 December 2022.

The Group is engaged in the manufacturing and trading of apparel and accessories. Through the collaboration of efforts by the Group and Shangtex Group, the Directors believe that Shangtex Group can expand its customer base for its products and the Group can benefit by providing the related services to the Shangtex Group.

Shangtex HK is a controlling shareholder of the Company and Shangtex, being the holding company of Shangtex HK, is an associate of Shangtex HK and hence a connected person of the Company. Accordingly, the transactions under the Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

The aforesaid continuing connected transactions have been reviewed by the directors (including the independent non-executive directors) of the Company.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the aforesaid continuing connected transactions and have confirmed that these continuing connected transactions (a) were entered into in the ordinary and usual course of business of the Group; (b) were either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) were in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 43 to 45 of the Annual Report in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save as disclosed above:

(i) no contracts of significance subsisted to which the Company or any of its subsidiaries was a party and in which any one of the Directors of the Company had a material interest, whether directly or indirectly at the end of the year or at any time during the year; and

(ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2022, the register of substantial shareholders maintained pursuant to Section 336 of Part XV of the SFO showed that other than the interest 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 (Note a)
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 Holding 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 complied based on the total number of shares of the Company in issue (i.e. 1,034,112,666) as at 31 December 2022.

(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 of the Company. 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 96.65% 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 are no other person (not being a Director or chief executive of the Company) who has an 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 is 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 year ended 31 December 2022.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the latest practicable date prior to the issue of this report as required under the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, there were no competing business of which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year which is required to be disclosed.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 66.6% (2021: 67.3%) of the total sales. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 21.7% (2021: 18.8%) of the total sales. During the year, none of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CORPORATE GOVERNANCE

The Group is committed to maintaining a high level of corporate governance practices. A detailed Corporate Governance Report of the Company is set out in pages 49 to 64 of this annual report.

AUDITOR

The consolidated financial statements for the year have been audited by Messrs. PricewaterhouseCoopers. A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Messrs. PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board
Tan Cho Lung, Raymond
Chief Executive Officer and Executive Director

28 March 2023

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Luen Thai Holdings Limited together with its subsidiaries (the "Group" or "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 year ended 31 December 2022, the Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in the Appendix 14 of the Listing Rules. This report includes key information relating to corporate governance practices of the Company during the year ended 31 December 2022 and significant events after that date and up to the date of this report.

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 as set out in Appendix 10 of the Listing Rules. After having made specific enquiry of all Directors of the Company, all the Directors are of the view that they have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions for the year ended 31 December 2022.

BOARD OF DIRECTORS

The Board

The Board is scheduled to meet at least four times a year to determine overall strategic direction and objectives and approve interim and annual results and other significant matters. Each of the Directors is required to give sufficient time and attention to the affairs of the Company. In 2022, four Board meetings were held with satisfactory attendance, details of which are presented below.

Board Members	Meetings Attended/Held	Average Attendance Rate
Executive Directors		100%
QU Zhiming	4/4	100%
TAN Siu Lin	4/4	100%
TAN Cho Lung, Raymond	4/4	100%
HUANG Jie	4/4	100%
ZHANG Min	4/4	100%
Non-executive Director		100%
MOK Siu Wan, Anne	4/4	100%
Independent non-executive Directors		91.7%
CHAN Henry	3/4	75%
SEING Nea Yie	4/4	100%
WANG Ching	4/4	100%

Directors are consulted to include any matter in the draft agenda. As part of our best practices, the agenda of Board meetings are finalized by the Chairman after taking into consideration any matters proposed by other Directors, including the independent non-executive Directors. The notice and agenda are generally released at least 14 days in advance. The Company's articles of association (the "Articles of Association") provide that a Board meeting shall be held in cases where a substantial shareholder or Director has a conflict of interest in a material matter, in which the substantial shareholder or Director is required to abstain from voting and shall not be counted in quorum. This is also in conformity with the requirements of the CG Code.

Up to the date of this report, the Chairman of the Company has held various meetings with the non-executive Director(s) (including the independent non-executive Directors) without the presence of the executive Directors.

The Company Secretary is responsible for taking minutes of meetings of the Board and the Committees under the Board ("Board Committees"). Draft and final minutes are sent to all Directors for comments within a reasonable time. A final draft of each minutes of meetings is made available for inspection by Directors/Committee Members.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters. They are also encouraged to take independent professional advice at the Company's expense in performance of their duties, if necessary. If a substantial shareholder or a Director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter. Furthermore, all the Directors are covered by the Directors' & Officers' Liability Insurance.

Board responsibilities

The Board acknowledges its responsibility for the management of the Group and is collectively responsible to ensure sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of the shareholders. The Board is responsible to formulate the overall strategies of the Group, monitors operating and financial performance, reviews the effectiveness of the internal control system and determines the corporate governance policy of the Group. The Board members have separate and independent access to the senior management, and are provided with complete and timely information about the conduct of the business and development of the Company, including monthly reports and recommendations on significant matters.

Regarding our Group's corporate governance, the Board as a whole is responsible to perform the following corporate governance duties including:

(i) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(ii) to develop and review the Company's policies and practices on corporate governance;

(iii) to review and monitor the training and continuous professional development of directors and management;

(iv) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance report; and

(v) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors.

Corporate Governance Functions

The Board is responsible for performing the corporate governance functions, which includes formulating and reviewing the Group's policies and practices on corporate governance, reviewing and monitoring the training and continuous professional development of the Directors and the senior management, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, formulating, reviewing and monitoring the code of conduct, guidelines and compliance manual applicable to employees and Directors, as well as reviewing the Group's compliance with the CG Code and disclosures in this Corporate Governance Report.

Corporate Culture

As part of our efforts to constantly improve, we launched "Be eXtraOrdinary Daily", a global cultural value and branding of numerous XO (eXtraOrdinary) programs to make sure it is realized in many specific areas. We have also re-introduced our vision of "Sustainable Shared Success through Reinvention," which serves as the umbrella for numerous specific programs focusing on building a strong and motivating corporate culture. Corporate belief must be practiced and supported by all levels of employees, hence we have put major emphasis in developing our people as business partners cultivating a culture of shared responsibility in every aspects of our business. Having considered the range of the corporate culture, the culture and its purpose are considered to be in line with the strategy of the Group.

Chairman and Chief Executive Officer

To ensure a balance of power and authority, the roles of the Chairman and the Chief Executive Officer should be separated and should not be performed by the same individual. During the year 2022 and as of the date of this report, Mr. Qu Zhiming is the Chairman of the Board and Mr. Tan Cho Lung Raymond is the Chief Executive Officer of the Company.

The Chairman is responsible for providing leadership to, and overseeing the functioning of the Board to ensure that the Board acts in the best interests of the Group. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters raised by other Directors for inclusion in the agenda. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive reliable, adequate and complete information in a timely manner. The Chairman also actively encourages Directors to fully engage in the Board's affairs and make contribution to the Board's functions.

The Chief Executive Officer is in charge of the Company's operations and day-to-day management. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Composition

During the year ended 31 December 2022, there were five executive Directors, including the Chairman of the Board, one non-executive Director and three independent non-executive Directors. The number of independent non-executive Directors constitute one-third of the Board which is in compliance with the requirement under Rule 3.10(A) of the Listing Rules. Hence, there has a strong independence element in the composition of the Board. Each of the Directors has the relevant experience, competencies and skills appropriate to the requirements of the business of the Group. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Company.

Biographical details of the Directors are set out on pages 32 to 35 of this annual report. Dr. Tan Siu Lin, the Honorary Life Chairman, is the father of Mr. Tan Cho Lung, Raymond, the Chief Executive Director and an executive Director. Save as disclosed, to the best knowledge of the Company, there are no financial, business, family or other material or relevant relationships amongst members of the Board.

Board Independence

The Company recognizes that Board independence is key to Board effectiveness and good corporate governance. The Board has established mechanisms to ensure independent views and input from any Director of the Company are conveyed to the Board for enhancing an effective and objective decision making. The mechanisms are reviewed by the Board on an annual basis, through its Nomination Committee and Remuneration Committee, to ensure its effectiveness:

(i) The Board includes three independent non-executive Directors, representing one-third of the Board, which is in compliance with the Listing Rules;

(ii) External independent professional advice is also available to all Directors (including Independent Non-executive Directors) whenever deemed necessary;

(iii) No equity-based remuneration with performance-related elements will be granted to Independent Non-executive Directors as this may jeopardize their decision making and compromise their independence and objectivity;

(iv) A Director (including Independent Non-Executive Director) who has a material interest in a contract, transaction, other arrangement shall not vote or be counted in the quorum on any Board resolution approving the same;

(v) The Chairman of the Board meets with Independent Non-Executive Directors annually without the presence of the executive Director and non-executive Directors;

(vi) The Company has a vigorous selection criteria, nomination and appointment/re-appointment process for Directors (including Independent Non-executive Directors), see "Nomination Procedures" on page 58 of this report;

(vii) To facilitate participation and attendance at Board and Board committee meetings, the Company plans meeting schedules for the year in advance, with remote facilities for attendance. All Directors are encouraged to express freely their independent views and constructive challenges during the Board or Board Committee meetings; and

(viii) The independent non-executive Directors and their immediate family receive no payment from the Company or its subsidiaries (except the director fee). No family member of any independent non-executive Directors is employed as an executive officer of the Company or its subsidiaries or has been so in the past three years. The independent non-executive Directors are subject to retirement and re-election at the annual general meeting in accordance with the provisions of the Articles of Association.

During the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of Independent Non-executive Directors as mentioned in item (i) above. The Company has also received a written annual confirmation from each of the Independent Non-executive Directors in respect of their independence writing of independence with reference to the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgement.

Supply of and access to information

In respect of regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all Directors at least 3 days before the intended date of a meeting. The management has the obligation to supply the Board and the various committees with adequate information in a timely manner to enable the members to make informed decisions. All board papers and minutes are also made available for inspection by the Board and its Committees.

Continuing professional development

Directors are committed to comply with Code Provision C.1.4 of the CG Code on Directors' training so as to ensure that their contribution to the Board will be informed and relevant. All Directors have participated in appropriate continuous professional development to develop and refresh their knowledge and skills and provided the Company their record of training they received for the year ended 31 December 2022.

Individual directors had also attended seminars and/or conferences or workshops or forums relevant to his profession and duties as directors.

A summary of training record of each Director for the year ended 31 December 2022 is summarized below:

Board Members	Type of training
Executive Directors	
QU Zhiming	B
TAN Siu Lin	B
TAN Cho Lung, Raymond	B
HUANG Jie	B
ZHANG Min	B
Non-executive Director	
MOK Siu Wan, Anne	A, B
Independent non-executive Directors	
CHAN Henry	B
SEING Nea Yie	A, B
WANG Ching	B

A: attending seminars/conferences/workshops/forums

B: reading newspapers/journals and updates relating to their profession and director's responsibility

During the year ended 31 December 2022, Mr. Chiu Chi Cheung, the Company Secretary, has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

BOARD COMMITTEES

The audit committee ("Audit Committee"), remuneration committee ("Remuneration Committee") and nomination committee ("Nomination Committee") of the Company (collectively, "Board Committees") have been established by the Board in accordance with the CG Code and these Board Committees are mainly composed of independent non-executive Directors. Each of these Board Committees has specific written terms of reference which are posted on the website of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference that sets out the authorities and duties of the Audit Committee adopted by the Board. The functions of risk management and corporate governance was adopted into the terms of reference of Audit Committee in compliance with the Listing Rules.

The Audit Committee currently comprises three independent non-executive Directors and one non-executive Director, none of the members of the Audit Committee is a former partner of the external auditor. The Audit Committee must meet not less than two times a year with the Company's external auditor and meetings shall be held at such other times on an ad hoc/as-needed basis. It meets with the external auditor and the management of the Group, to ensure that the audit findings are addressed properly. The Audit Committee is authorized to take independent professional advice at Company's expense. The principal responsibilities of the Audit Committee include the following:

(i) To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.

(ii) To review the financial statements and reports and consider any significant or unusual items raised by the external auditor or qualified accountant before submission to the Board.

(iii) To review the effectiveness and adequacy of the Company's financial reporting system, internal control systems and associated procedures, risk management and corporate governance matters.

(iv) To review the resources, qualifications, experience, training programs and budget of the staff of the Group's financial reporting and accounting and internal audit functions are adequate.

The Audit Committee held three meetings during the year to review the financial results and reports, financial reporting and compliance procedures, internal control and risk management systems, corporate governance matters and the re-appointment of the external auditor. The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming AGM of the Company, Messrs. PricewaterhouseCoopers be re-appointed as the external auditor of the Group for 2023.

In 2022, three Audit Committee meetings were held and the attendance is presented below:

Audit Committee Members	Meeting Attended/Held
Independent non-executive Directors	
CHAN Henry	2/3
SEING Nea Yie	3/3
WANG Ching	3/3
Non-executive Director	
Mok Siu Wan Anne	3/3

The consolidated financial statements for the year have been audited by PricewaterhouseCoopers. During the year, remuneration of approximately US$649,000 was payable to PricewaterhouseCoopers for the provision of audit services. In addition, approximately US$430,000 was payable to PricewaterhouseCoopers for non-audit services. Non-audit services mainly included tax advisory services, interim review service and preparation of ESG Report. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

REMUNERATION COMMITTEE

The Remuneration Committee was set up with the responsibility of recommending to the Board the remuneration policy of all the Directors and the senior management. In addition, the Remuneration Committee provides effective supervision and administration of the Company's share scheme. The authorities and duties of the Remuneration Committee are set out in its written Terms of Reference (the "RC Terms of Reference"), which are available on the Company's website: http://www.luenthai.com. The Remuneration Committee comprises three independent non-executive Directors and one executive Director.

The Chairman of the Remuneration Committee is required to report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

A meeting of the Remuneration Committee is required to be held at least once a year to coincide with key dates within the financial reporting and audit cycle.

The attendance record for the Remuneration Committee's meeting during the year ended 31 December 2022 is as follows:

Remuneration Committee Members	Meeting Attended/Held
Independent non-executive Directors	
CHAN Henry	1/1
SEING Nea Yie	1/1
WANG Ching	1/1
Executive Director	
HUANG Jie	1/1

The Remuneration Committee is authorized to investigate any matter within the RC Terms of Reference and seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if it considers necessary. The Remuneration Committee shall make recommendations to the Board on the Company's remuneration policy and structure for all Directors' and senior management. The Remuneration Committee has reviewed the compensation of the Directors and senior executives for 2022.

Pursuant to code provision E.1.5 of the CG Code, the emolument of the members of the senior management (other than the emoluments of Directors and five highest paid individuals disclosed in notes 24(b) and 33(a) pursuant to Appendix 16 to the Listing Rules) paid by the Group by band for the year ended 31 December 2022 is set out below:

Emolument band	Number of individuals
US$256,410 to US$320,512 (equivalent to HK$2,000,001 to HK$2,500,000)	1
US$320,513 to US$384,615 (equivalent to HK$2,500,001 to HK$3,000,000)	1

In 2022, total Directors' remuneration amounted to approximately US$2,550,000 (2021: US$2,026,000). The executive Directors and senior management's compensation, including the long-term incentive, shall be based on the corporate and individual performance. Details of the remunerations of the Directors are set out in note 33(a) of the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established in March 2012 with written terms of reference in compliance with the requirements of the Listing Rules and the CG Code, which is published on the website of the Stock Exchange and the Company. The Nomination Committee comprises three independent non-executive Directors and one executive Director.

Upon acceptance of appointment, a new Director is provided with sufficient orientation package, including introduction to Group's activities (when necessary), induction into their responsibilities and duties, and other regulatory requirements, to ensure that he has a proper understanding of the business and his responsibilities as a Director.

The Nomination Committee reviews regularly the structure, size and composition of the Board and may make recommendations to the Board on the nominees for appointment as Directors for their consideration and approval. For the year ended 31 December 2022, one Nomination Committee meeting was held. During the year ended 31 December 2022, the Nomination Committee reviewed the structure, size and composition of the Board.

The attendance record for the Nomination Committee's meeting during the year ended 31 December 2022 is as follows:

Nomination Committee Members	Meeting Attended/Held
Executive Director	
QU Zhiming	1/1
Independent non-executive Directors	
CHAN Henry	1/1
SEING Nea Yie	1/1
WANG Ching	1/1

Board Diversity Policy

The Board has adopted a policy on board diversity ("Board Diversity Policy") which sets out the approach by the Company to achieve diversity on the Board. Pursuant to the Board Diversity Policy, the Company recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible, should be balanced appropriately. All Board appointments are made on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board has reviewed the implementation and effectiveness of the Board Diversity Policy of the Company for the year ended 31 December 2022 and considered it to be effective.

Gender Diversity

The Company aims to avoid a single gender Board and will review the gender diversity of the Board from time to time in accordance with the business development of the Group. The Company believes the gender diversity of the Board would enhance the business development of the Group and bring more inspiration to the Board, hence gender diversity is one of the essential factors for the Company to select suitable candidate as a Director. As at the date of this annual report, the Board consists of one female and eight male Directors. The Board considers that the gender diversity in respect of the Board taking into account the specific needs of the Company is currently satisfactory.

The Group has also taken steps to promote diversity at all levels of its workforce (including senior management). Opportunities for employment, training and career advancement are equally opened to all eligible employees without discrimination. Currently, the female to male ratio in the workforce of the Group is approximately 7:3 which is in line with the apparel and accessories manufacturing industry. The Board considers that the gender diversity in workforce is currently achieved.

Nomination Policy

The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint Directors to fill casual vacancies. When the Nomination Committee considers it appropriate, it invites Board members or any person to nominate candidates and makes final recommendations for the Board's consideration and approval.

Selection Criteria

When assessing and selecting candidates for directorships, the members of the Nomination Committee shall consider the following factors:

(a) age, skills, knowledge, experience, expertise, professional and educational qualifications, background and other personal qualities of the candidate;

(b) effect on the Board's composition and diversity;

(c) commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organizations, and other executive appointments or significant commitments will be considered;

(d) potential/actual conflicts of interest that may arise if the candidate is selected;

(e) independence of the candidate;

(f) in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served the Company; and

(g) other factors considered to be relevant by the Nomination Committee on a case-by-case basis.

These factors are for reference only, and not meant to be decisive and exhaustive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Nomination Procedures

Appointment of Directors

(a) The Nomination Committee identifies individual(s) suitably qualified to become Board members, having due regard to the Nomination Policy, and the Board Diversity Policy, and assesses the independence of the proposed independent non-executive Director(s) as appropriate;

(b) The Nomination Committee may use any process it deems appropriate to evaluate the candidate(s), which may include personal interviews, background checks, presentations or written submissions by the candidate(s) and third party references;

(c) The Nomination Committee makes recommendation(s) to the Board;

(d) The Board considers the individual(s) recommended by the Nomination Committee, having due regard to the Nomination Policy, the Board Diversity Policy and the Corporate Governance Guidelines;

(e) The Board confirms the appointment of the individual(s) as Director(s) or recommends the individual(s) to stand for election at a general meeting. Individual(s) appointed by the Board to fill a casual vacancy or as an addition to the Board will be subject to re-election by shareholders of the Company (the "Shareholders") at the next annual general meeting after initial appointment in accordance with the Company's articles of association; and

(f) The Shareholders approve the election of individual(s), who stand(s) for election at general meeting, as Director(s).

Re-appointment of Directors

(a) The Nomination Committee considers each retiring Director, having due regard to the Nomination Policy, the Board Diversity Policy and the Corporate Governance Guidelines, and assesses the independence of each retiring independent non-executive Director;

(b) The Nomination Committee makes recommendation(s) to the Board;

(c) The Board considers each retiring Director recommended by the Nomination Committee, having due regard to the Nomination Policy, the Board Diversity Policy and the Corporate Governance Guidelines;

(d) The Board recommends the retiring Directors to stand for re-election at the annual general meeting in accordance with the Company's articles of association; and

(e) The Shareholders approve the re-election of Directors at the annual general meeting.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2022, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. Accordingly, the Directors have prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. In addition, an explanation of the basis on which the Company generates or preserves value over the longer term and the strategy for delivering the Company's objective is included in the Chairman's Statement, Message from our CEO and the Management Discussion and Analysis sections on pages 3 to 8, pages 9 to 21 and pages 22 to 31 respectively.

Risk Management and Internal Control

The Board has overall responsibility for the system of risk management and internal controls of the Company and for reviewing its effectiveness through the Audit Committee. Such system is aimed to provide reasonable but not absolute assurance against material misstatement, loss or fraud.

The Board has delegated to executive management teams the design, implementation and ongoing assessment of such internal control systems, while the Board through the Audit Committee oversees and reviews the adequacy and effectiveness of relevant internal controls and risk management procedures that have been in place. Qualified personnel within the Group maintain and monitor these systems of controls on an ongoing basis.

The Group operates within an established control environment, which is consistent with the principles outlined in Internal Control and Risk Management — A Basic Framework issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control focused on three major areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

The Board is committed to the management, identification and monitoring of risks (including environmental and social risks and opportunities) associated with its business activities and has implemented an effective and sound risk management and internal controls systems to safeguard the interests of the shareholders and the Group's assets.

The internal control procedures of the Group feature a comprehensive budgeting and financial/management reporting system to facilitate management's ongoing review and monitoring. Business strategic plans and budgets are prepared on an annual basis by the management of individual business and subject to review and approval by the executive Directors. During the budget setting process, the likelihood and potential financial impact of fundamental and emerging business risks have been identified, evaluated and reported by the management. Certain procedures and guidelines have been established for management approval and control including but not limited to capital expenditures, mergers and acquisitions, unbudgeted items and operating expenses.

The executive Directors review the monthly management reports on major business units and the financial results and hold periodic meetings with senior finance and operational management team to review and discuss the business performance against budget, market outlooks, and to address deficiencies of any key issues on a timely basis.

CORPORATE GOVERNANCE REPORT

The Group has adopted a principle of minimizing financial and capital risks. Details of our financial and capital risk management covering market risk (including foreign exchange risk, cash flow interest rate risk), credit risk and liquidity risk are set out in Note 3 to the consolidated financial statements on pages 97 to 106.

All major operations are governed by its standard operating procedures with authorization matrix and key performance indicators and supplemented by written policies and procedures tailored to the respective business units and support functions. These policies and procedures are aimed to provide guidelines on key risk management and control standards for our global operations and are updated on a regular and timely basis.

Significant investments and acquisitions (with consideration above a preset threshold) require the Board's approval. Established procedures are in place to monitor the ongoing performance of the investments against targeted objectives. Post-acquisition Management team was established to support and monitor the key integration process of acquired business through a structured integration program focusing on the alignment of operational, financial and compliance controls with the Group's standards and practices, and projected synergies and developments. The Internal Audit Team ("IA Team") also reports to the management and the Audit Committee any significant integration issues and rectification actions which were identified during the internal audit review.

The IA Team was established in May 2005 with an Internal Audit Charter approved and adopted by the Audit Committee. The IA Team is an independent unit established within the Group, which provides the Board with an independent appraisal of the Group's system of risk management and internal controls (including fraud assessment) and evaluation of the adequacy and effectiveness of the controls established to safeguard shareholders' investment and the Group's assets on an ongoing basis. The head of Internal Audit has a direct reporting line to the Audit Committee.

The IA Team independently reviews compliance with Group policies and guidelines, legal and regulatory requirements, risk management and internal controls and evaluates their adequacy and effectiveness. The IA Team is also tasked to review special areas of concern or risk as raised by the Audit Committee or the management.

The Internal Audit plan is risk-based that covers the Group's significant operations over a cycle and recurring basis. The annual internal audit review plan is reviewed and endorsed by the Audit Committee, the head of Internal Audit attends meetings of the Audit Committee held during the year to report its progress in achieving the audit plan. The internal audit scope covers significant controls including financial, operational and compliance controls, and risk management policies and procedures. Major findings and recommendations including the implementation status of agreed recommendations are reported at the Audit Committee meetings, no major issues but areas of improvement have been identified. Directors and the Audit Committee considered that the major areas of the internal control systems of the Group are reasonably and adequately implemented.

As part of the annual review of the effectiveness of the Group's risk management and internal control systems for 2022, management teams of business units conducted an internal control self-assessment of business operations and relevant accounting and support functions, and considered that sound risk management and internal control practices were in place for 2022.

Our external auditor performs independent statutory audits of the Group's consolidated financial statements. The external auditor also reports to the Audit Committee any significant weaknesses in our internal control which come to notice during the course of the audit. Responsible management have been responded and followed up recommendations from the external auditor.

Over the years, the Company has adopted a code of business ethics which requires all Directors and employees to conform with a set of high ethical standards in conducting the business. The Company has also adopted the inside information policy setting out the guidelines to the Directors and employees of the Group in accordance with the applicable laws and regulations.

Based on the respective assessments made by management and the IA Team, and also taking into account the results of the audit conducted by the external auditors, the Audit Committee and the Directors considered that for 2022:

(i) the risk management, internal controls and accounting systems of the Group are designed to 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;

(ii) the risk management and internal controls systems of the Group have been implemented with room for improvement and the IA Team has actively conducted follow-up audit for any improvements which were identified;

(iii) there is an on-going process in place for identifying, evaluating and managing significant risks faced by the Group; and

(iv) the resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting and internal audit functions were adequate.

Whistleblowing Policy

The Company has established a well-defined whistleblowing policy for the Group's employees and those who deal with the Group (e.g. customers, suppliers and business partners) to report genuine concerns about any suspected or actual improprieties in any matter related to the Group, which is in line with our commitment to maintain and achieve high standards of openness and accountability. An email account has been set up for this specific purpose. The IA Team will investigate the reported cases in a confidential and timely manner and report the results of investigations with appropriate follow-up action to the Audit Committee on a regular basis.

External Auditors

PricewaterhouseCoopers has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of the external auditor.

COMMUNICATION WITH SHAREHOLDERS

A shareholders' communication policy has been adopted by the Company, with the objective to ensure that the shareholders of the Company (the "Shareholders"), both institutional and individual, are provided with equal, ready and timely access to accurate, balanced, understandable, and transparent information about the Company. Major means of communication with the Shareholders are as follows:

Disclosure of information on corporate website

All material information in both English and Chinese about the Group is made available on the Company's website (www.luenthai.com). The Company regularly updates its corporate information such as annual reports, interim reports, corporate governance practices, business development and operations to all concerned parties on a timely basis. Announcements made through the Stock Exchange, the same information will be made available on the Company's website.

General meetings with shareholders

The Company's general meeting acts as a useful platform for direct communication between the Shareholders and the Board. Separate resolutions are proposed on each substantially separate issue at the general meetings.

The 2022 annual general meeting ("2022 AGM") was held on 26 May 2022. The attendance record of the Directors at the 2022 AGM is set out below:

	AGM Attended/Held
Executive Directors	
QU Zhiming	1/1
TAN Siu Lin	1/1
TAN Cho Lung, Raymond	1/1
HUANG Jie	1/1
ZHANG Min	1/1
Non-executive Director	
MOK Siu Wan Anne	1/1
Independent non-executive Directors	
CHAN Henry	1/1
SEING Nea Yie	1/1
WANG Ching	1/1

The Company's independent external auditor also attended the 2022 AGM.

Voting by poll

Separate resolutions for each issue to be considered will be proposed and voted by a way of poll at the general meetings of the Company. Procedures regarding the conduct of the poll are explained to the Shareholders at the commencement of each general meeting, and questions from Shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day as the poll.

The Company has assessed the implementation and effectiveness of the shareholders' communication policy including but not limited to steps taken at the general meetings, procedures for handling queries received (if any) and the diverse communication channels and engagement in place and considered that the shareholders' communication policy has been properly and effectively implemented for the year ended 31 December 2022.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene Extraordinary General Meeting ("EGM")

Pursuant to Article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The written requisition must state the objects of the EGM and must be signed by the requisitionists concerned and deposited at the registered office of the Company at Rooms 1001–1005, 10th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong for the attention of the Company Secretary. The requisition may consist of several documents in like form, each signed by one or more of the requisitionists concerned.

The EGM convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the Board.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries to the Board in writing through the Company Secretary of the Company whose contact details are as follows:

Luen Thai Holdings Limited
Rooms 1001–1005, 10th Floor, Nanyang Plaza,
57 Hung To Road, Kwun Tong,
Kowloon, Hong Kong
Email: corporate_communications@luenthai.com

The Company Secretary shall forward the Shareholders' enquiries and concerns to the Board and/or relevant board committees of the Company, where appropriate, to answer the Shareholders' questions.

In addition, Shareholders may also make enquiries to the Board at the general meetings of the Company.

Procedures for Shareholders to propose a person for election as a Director

Subject to applicable laws, rules and regulations, including the Listing Rules and the Articles of Association as amended from time to time, if any Shareholder(s) intends to propose a person other than a Director for election as a Director at any general meeting, the following procedures shall apply:

- a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Hong Kong Branch Share Registrar of the Company;

- such notice(s) shall be given within seven (7) days after the day of dispatch of the notice of the meeting (or such other period, being a period of not less than seven (7) days, commencing no earlier than the day after the dispatch of the notice of such meeting and ending no later than seven (7) days prior to the date of such meeting, as may be determined by the Board from time to time); and

- in order for the Company to inform Shareholders of that proposal, such notice(s) for the nomination of a director must state the full name of the person nominated for election as a Director and include the person's biographical details as required by the Listing Rules.

For Shareholders who would like to nominate a person for election as a Director at the forthcoming AGM, please refer to the notice of the AGM to be published for further information on the relevant nomination period.

Constitutional documents

A copy of the Articles is available on the websites of the Company and the Stock Exchange. During the period from 1 January 2022 up to the date of this annual report, there was no significant change in constitutional documents of the Company.

Dividend Policy

The Company intends to maintain a balance between meeting the expectations of the Shareholders and retaining adequate capital for development and operation of the Company's business. According to the dividend policy of the Company ("Dividend Policy"), in deciding whether to declare or recommend a dividend, the Board shall consider the following factors:

- the Group's operating results, actual and expected financial performance;
- the liquidity position of the Group;
- retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;
- the Group's capital expenditure requirements, working capital requirements and future expansion plans;
- general economic and financial conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant and appropriate.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Luen Thai Holdings Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 71 to 155, comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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KEY AUDIT MATTER

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is related to the risk of impairment of non-financial assets relating to the cash-generating units of Apparel and Accessories.

Key Audit Matter	How our audit addressed the Key Audit Matter
Risk of impairment of non-financial assets relating to the cash-generating units of Apparel and Accessories *Refer to Notes 4, 6, 7 and 8 to the consolidated financial statements* As at 31 December 2022, the Group had a total of non-financial assets related to Apparel and Accessories of US$110,885,000 and US$82,184,000, respectively. Annual impairment assessments were performed based on the value in use calculation using the discounted cash flow model in order to determine the recoverable amounts of the cash-generating units of Apparel and Accessories ("CGUs"). After taking into account the result of the impairment assessments performed, no provision for impairment of non-financial assets was made in respect of these CGUs.	We tested management's impairment assessments of non-financial assets which focused on assessing the reasonableness of the key assumptions used in determining the recoverable amounts. Our procedures performed included the following: o Obtained an understanding of the management's internal control and assessment process in identifying the indicators of potential impairment and estimating the recoverable amounts of the CGUs, and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes, uncertainty and susceptibility to management bias or fraud; o involved our internal valuation experts to assess the appropriateness of the methodologies used in determining the recoverable amounts;

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KEY AUDIT MATTER (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Risk of impairment of non-financial assets relating to the cash-generating units of Apparel and Accessories (Continued) We focused on auditing the impairment of non-financial assets because the estimation of recoverable amounts is subject to certain degree of estimation uncertainty. The inherent risk in relation to the impairment assessment of property, plant and equipment, right-of-use assets and intangible assets is considered significant due to subjectivity of significant assumptions used and significant judgements involved in selecting data for determining the discounted cash flow under the value in use calculation. The key assumptions used are as follows: • Average revenue growth; • Average gross profit margin; • Terminal growth rate; and • Discount rate.	o tested the underlying calculations and compared the data used in the discounted cash flow to the latest budgets prepared by management; o assessed the reasonableness of the key assumptions used as follows: • evaluated the assumptions used, mainly average revenue growth, average gross profit margin and terminal growth rate, within the impairment assessment by comparing them to historical results; and • benchmarked the discount rates used in determining the recoverable amount against certain market data and industry research; o performed sensitivity analysis over key assumptions in the models in order to assess the potential impact of a range of possible outcomes; and o reviewed the inclusion of all appropriate assets and liabilities in the cash-generating units. Based on the above, we considered that the management's judgements, assumptions and the methodologies used are supported by the evidence obtained from the procedures performed.

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OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the Corporate Information, Key Financial Highlights, Chairman's Statement, Message from the CEO, Management Discussion and Analysis, Management Executives, Report of the Directors, Corporate Governance Report and Five Year Financial Summary, which we obtained prior to the date of this auditor's report, and the 2022 Environmental, Social and Governance Report, which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the 2022 Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

羅兵咸永道

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT
AUDITOR'S REPORT

pwc 羅兵咸永道

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lai Pui Ling, Sandra.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	As at 31 December 2022 US$'000	2021 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**117,726**	126,157
Right-of-use assets	7	**30,444**	34,297
Intangible assets	8	**44,899**	45,567
Interests in joint ventures and associates	10	**6,231**	2,135
Deferred income tax assets	11	**2,339**	2,426
Deposits, prepayments and other receivables	14	**4,993**	3,330
Total non-current assets		**206,632**	213,912
Current assets			
Inventories	12	**77,506**	72,696
Trade and other receivables	14	**140,989**	171,971
Prepaid income tax		**4,253**	4,250
Cash and bank balances	15	**93,952**	99,149
Restricted cash	15	**29**	16
Derivative financial instruments	21	**–**	1
Total current assets		**316,729**	348,083
Total assets		**523,361**	561,995
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	**10,341**	10,341
Other reserves	17	**(883)**	1,610
Retained earnings		**197,015**	189,513
		206,473	201,464
Non-controlling interests		**1,177**	2,407
Total equity		**207,650**	203,871

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

		As at 31 December	
		2022	2021
	Note	**US$'000**	US$'000
LIABILITIES			
Non-current liabilities			
Borrowings	18	**2,778**	5,000
Lease liabilities	7	**22,822**	26,581
Retirement benefit obligations	19	**8,202**	11,175
Deferred income tax liabilities	11	**2,861**	3,100
Total non-current liabilities		**36,663**	45,856
Current liabilities			
Trade and other payables	20	**120,969**	154,387
Borrowings	18	**145,723**	144,769
Lease liabilities	7	**5,370**	4,833
Derivative financial instruments	21	**106**	–
Current income tax liabilities		**6,880**	8,279
Total current liabilities		**279,048**	312,268
Total liabilities		**315,711**	358,124
Total equity and liabilities		**523,361**	561,995

The consolidated financial statements on pages 71 to 155 were approved by the Board of Directors on 28 March 2023 and signed on its behalf by:

Tan Cho Lung, Raymond
Director

Qu Zhiming
Director

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	2022 US$'000	2021 US$'000
Revenue	5	858,861	795,659
Cost of sales	23	(730,528)	(672,015)
Gross profit		128,333	123,644
Other income and other gains — net	22	1,747	1,321
(Provision for)/reversal of provision for impairment of trade receivables		(233)	271
Selling and distribution expenses	23	(1,637)	(2,084)
General and administrative expenses	23	(105,917)	(101,278)
Operating profit		22,293	21,874
Finance income	25	825	551
Finance costs	25	(8,977)	(5,732)
Finance costs — net	25	(8,152)	(5,181)
Share of losses of joint ventures and associates — net		(601)	(2,014)
Profit before income tax		13,540	14,679
Income tax expense	26	(1,183)	(3,505)
Profit for the year		12,357	11,174
Profit/(loss) attributable to:			
Owners of the Company		13,138	11,195
Non-controlling interests		(781)	(21)
		12,357	11,174
Earnings per share attributable to owners of the Company for the year (expressed in US cents per share)			
Basic and diluted	27	1.3	1.1

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 US$'000	2021 US$'000
Profit for the year		**12,357**	11,174
Other comprehensive income/(loss):			
Item that will not be reclassified subsequently to profit or loss:			
Actuarial gains on retirement benefit obligations		**2,635**	2,410
Item that may be reclassified to profit or loss:			
Currency translation differences		**(5,128)**	1,755
Total comprehensive income for the year, net of income tax		**9,864**	15,339
Attributable to:			
Owners of the Company		**10,645**	15,360
Non-controlling interests		**(781)**	(21)
		9,864	15,339

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company				
	Share Capital (Note 16) US$'000	Other reserves (Note 17) US$'000	Retained earnings US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2021	10,341	(2,555)	178,318	2,490	188,594
Profit for the year	–	–	11,195	(21)	11,174
Other comprehensive income:					
Currency translation differences	–	1,755	–	–	1,755
Actuarial gains on retirement benefit obligations	–	2,410	–	–	2,410
Total comprehensive income	–	4,165	11,195	(21)	15,339
Total contributions by and distributions to owners of the Company, recognized directly in equity					
Dividend declared to non-controlling interests	–	–	–	(62)	(62)
Total transactions with owners, recognized directly in equity	–	–	–	(62)	(62)
Balance at 31 December 2021	10,341	1,610	189,513	2,407	203,871
Balance at 1 January 2022	10,341	1,610	189,513	2,407	203,871
Profit for the year	–	–	13,138	(781)	12,357
Other comprehensive income:					
Currency translation differences	–	(5,128)	–	–	(5,128)
Actuarial gains on retirement benefit obligations	–	2,635	–	–	2,635
Total comprehensive income	–	(2,493)	13,138	(781)	9,864
Total contributions by and distributions to owners of the Company, recognized directly in equity					
Dividend declared and paid to shareholders	–	–	(5,636)	–	(5,636)
Dividend declared to non-controlling interests	–	–	–	(599)	(599)
Issuance of shares to non-controlling interests	–	–	–	150	150
Total transactions with owners, recognized directly in equity	–	–	(5,636)	(449)	(6,085)
Balance at 31 December 2022	10,341	(883)	197,015	1,177	207,650

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 US$'000	2021 US$'000
Cash flows from operating activities			
Cash generated from operations	29(a)	**32,302**	63,363
Interest paid		**(8,977)**	(5,732)
Income tax paid		**(3,067)**	(1,165)
Net cash generated from operating activities		**20,258**	56,466
Cash flows from investing activities			
Purchases of property, plant and equipment	6	**(11,450)**	(9,084)
Decrease in bank deposits with a maturity period of over 3 months		**1**	375
Proceeds from disposals of property, plant and equipment	29(a)	**516**	1,168
Interest received		**825**	551
Investment in an associate		**(120)**	(500)
Net cash used in investing activities		**(10,228)**	(7,490)
Cash flows from financing activities			
Net increase in bank borrowings of trade finances arising from transferred receivables		**5,128**	812
Net increase/(decrease) in bank borrowings of other trade finances		**4,906**	(5,534)
Proceeds from bank borrowings of term loans		**39,518**	33,938
Repayments of bank borrowings of term loans		**(50,820)**	(40,037)
Principal elements of lease payments		**(5,555)**	(4,898)
Dividends paid to shareholders		**(5,636)**	–
Dividends paid to non-controlling interests		**(599)**	–
Proceeds from capital injection from non-controlling interest		**150**	–
Net cash used in financing activities		**(12,908)**	(15,719)
Net (decrease)/increase in cash and cash equivalents		**(2,878)**	33,257
Cash and cash equivalents at beginning of the year		**99,148**	65,822
Exchange (losses)/gains on cash and bank balances		**(2,318)**	69
Cash and cash equivalents at end of the year	15	**93,952**	99,148

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Luen Thai Holdings Limited (the "Company") is 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 in the People's Republic of China (the "PRC"), Cambodia, the Philippines, India 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.

These consolidated financial statements are presented in United States dollars ("US$"), unless otherwise stated.

2 BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (derivative instruments) which are measured at fair value through profit or loss, and plan assets under defined benefit plans, which are measured at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Summary of significant accounting policies

(a) Amended standards adopted by the Group

The Group has applied the following amended standards for the first time for their annual reporting period commencing on or after 1 January 2022:

Amendments to Annual Improvements Project	Annual Improvements to HKFRSs 2018-2020
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope Amendments
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combination

2 BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (Continued)

(a) Amended standards adopted by the Group (Continued)

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current of future periods.

(b) New and amended standards and interpretation not yet adopted by the Group

A new accounting standard and certain amendments to existing standards and interpretation have been published but are not effective for the financial year beginning on or after 1 January 2022 reporting periods and have not been early adopted by the Group.

		Effective for annual reporting periods beginning on or after
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Amendments to HKAS 12 require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

2 BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (Continued)

(b) New and amended standards and interpretation not yet adopted by the Group (Continued)

As a result, deferred taxes arising from certain right-of-use assets and lease liabilities in the Group are expected to be recognized. The Group is assessing and quantifying the impact at the moment.

Mandatory for financial years commencing on or after 1 January 2023, at this stage, the Group does not intend to adopt the standard before its effective date.

Other than the aforementioned amendments, the new accounting standard and other amendments to existing standards and interpretation are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.3 Subsidiaries

2.3.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Principles of consolidation

The Group applies the acquisition method to account for business combinations. See Note 2.3.1(b) for details. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and consolidated statement of financial position, respectively.

(b) Business combinations

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, liabilities incurred to the former owners of the acquired business and the equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS. The acquisition method of accounting is used to account for all business combinations excluding those involving the entities under common control, regardless of whether equity instruments or other assets are acquired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

(b) *Business combinations (Continued)*

In some business combinations, the seller may contractually indemnify the Group for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability; in other words, the seller will guarantee that the Group's liability will not exceed a specified amount or will be compensated by the seller. The Group shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognized at the acquisition date and measured at its acquisition-date fair value, the Group shall recognize the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectability considerations are included in the fair value measure and a separate valuation allowance is not necessary.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and the acquisition-date fair value of any previous equity interest in the acquired entity, over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the consolidated statement of profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in the consolidated statement of profit or loss. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquired entity is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in the consolidated statement of profit or loss.

(c) *Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

(c) Changes in ownership interests (Continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in the consolidated statement of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.3.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment losses. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill (Note 2.10).

2.4 Joint arrangements and associates

(a) Joint Arrangements

Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method. See Note 2.4(c) for details.

(b) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounting for using the equity method, after initially being recognized at cost. See Note 2.4(c) for details.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Joint arrangements and associates (Continued)

(c) Equity Method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amounts of equity-accounted investments are tested for impairment (Note 2.10).

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in consolidated statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in consolidated statement of profit or loss.

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within "other income and other gains — net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in the consolidated statement of profit or loss as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the reporting period in which they are incurred.

Freehold land is not depreciated. For other PPE, depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Buildings	20 years
Leasehold improvements	5-20 years or the remaining lease term, whichever is shorter
Plant and machinery	4-10 years
Furniture, fixtures and equipment	3-7 years
Motor vehicles	3-5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognized within "general and administrative expenses" in the consolidated statement of profit or loss.

2.8 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.7.

2.9 Intangible assets

(a) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (Continued)

(a) Goodwill (Continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over the expected life of the customer relationship of 8 to 14 years.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss); and

- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss or OCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investments and other financial assets (Continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instrument

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in "other income and other gains — net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other income and other gains — net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income and other gains — net and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within "other income and other gains — net" in the period in which it arises.

  As at 31 December 2022 and 2021, the Group only has financial assets measured at amortized cost and FVPL.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investments and other financial assets (Continued)

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amount, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of each reporting period. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated statement of profit or loss within 'other income and other gains — net'. The Group does not have any derivative that is designated as a hedging instrument.

2.14 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises design costs, direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.15 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade and other payables

Trade payables represent liabilities for goods or services provided to the Group prior to the end of reporting period which are unpaid. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 Financial guarantee contracts

The Company provides financial guarantees to financial institutions on behalf of subsidiaries to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2.20 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Borrowings (Continued)

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss as other income or finance costs.

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

2.21 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

2.22 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognized in the consolidated statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in subsidiaries and joint arrangements where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.23 Employee benefits

(a) Pension obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (Continued)

(a) Pension obligations (Continued)

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognized in the consolidated statement of profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognized immediately in the consolidated statement of profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. They are included in employment benefits reserve in the statement of changes in equity and in the consolidated statement of financial position.

(b) Long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at the end of reporting period on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (Continued)

(b) *Long service payments (Continued)*

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at the end of reporting period on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

(c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Profit-sharing and bonus plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) *Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the consolidated statement of financial position.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(f) *Other short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Share-based payments — equity-settled share-based payment transactions

The Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specific period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2.25 Provisions

Provisions for legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognized as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

However, the Group shall recognize as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, the Group as an acquirer recognizes a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

2.27 Revenue recognition

The Group manufactures and trades a range of apparels and accessories. Sales are recognized when control of the products has transferred, being when the products are shipped to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made with a short credit term, which is consistent with market practice. The Group's obligation to replace faulty products or refund customers under the standard warranty terms is recognized as a provision, see Note 2.25.

A receivable is recognized when the products are shipped as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract liability is recognized when payments are received from customers in advance but the relevant performance obligation has not been performed.

Other than sales of apparels and accessories, the Group does not have other material revenue stream. Certain ancillary income, such as scrap sales, follows the same recognition policy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share taking into account:

- The after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.29 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

For leases of properties for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Leases (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received, and

- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of properties and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipment.

Rental income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statement of financial position based on their nature.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Leases (Continued)

In prior year, the Group has early adopted Amendment to HKFRS 16 — Covid-19-Related Rent Concessions beyond 30 June 2021, which extended the practical expedient to lease payments that were due on or before 30 June 2022. The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.31 Interest income

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in the statement of profit or loss as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

3 FINANCIAL RISK MANAGEMENT

3.1 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board of Directors provides guidance for overall risk management and specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar ("HK$"), the Euro ("Euro"), the Philippine Peso ("Peso"), the Chinese Renminbi ("RMB") and Burmese Kyat ("Kyat"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group enters into foreign exchange forward contracts with external financial institutions to partially hedge against such foreign exchange risk. The Group also mitigates this risk by maintaining HK$, Euro, Peso and RMB bank accounts which are used by the Group to pay for the transactions denominated in these currencies.

The HK$ is pegged to the US$ and thus foreign currency exposure is considered as minimal and is not hedged. At 31 December 2022, if the US$ had weakened/strengthened by 5% (2021: 5%) against the Euro with all other variables held constant, the post-tax profit for the year would have been US$81,000 (2021: US$70,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade and other receivables, trade payables and cash and bank balances.

At 31 December 2022, if the US$ had weakened/strengthened by 5% (2021: 5%) against the RMB with all other variables held constant, the post-tax profit for the year would have been US$57,000 lower/higher (2021: US$368,000 higher/lower), mainly as a result of foreign exchange losses/gains on translation of RMB-denominated trade and other receivables, trade payables and cash and bank balances.

At 31 December 2022, if the US$ had weakened/strengthened by 5% (2021: 5%) against the Peso with all other variables held constant, the post-tax profit for the year would have been US$64,000 (2021: US$87,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Peso-denominated other receivables, trade and other payables and cash and bank balances.

(ii) Cash flow interest rate risk

The Group's interest rate risk arises from bank borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. During the year, the Group's borrowings at variable rate were denominated in the US$ and HK$. Borrowings obtained at various rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at various rates.

The Group analyses its interest rate exposure on a dynamic basis by running simulations that include scenarios of refinancing, renewal of existing positions and alternative financing. Based on the scenarios, the Group calculates the impact of a defined interest rate shift on consolidated statement of profit or loss. For each simulation, the same interest rate shift is used for all currencies. The simulations will be run only for liabilities that represent major interest-bearing positions.

At 31 December 2022, if interest rates on borrowings had been 50 basis points (2021: 50 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been US$865,000 (2021: US$794,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk of the Group mainly arises from deposits with banks and financial institutions, as well as credit exposures to customers such as trade and other receivables and amounts due from related companies. The carrying amounts of these balances in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

(i) Risk Management

Majority of the Group's bank deposits are placed in those banks and financial institutions which are independently rated with a high credit rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

Debtors of the Group may be affected by the unfavorable economic conditions, the lower liquidity situation, and deteriorating operating conditions, which have an impact on management's cash flow forecasts and assessment of the impairment of receivables. Management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The compliance with credit limits by customers is regularly monitored by management.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- Trade receivables;

- Other financial assets at amortized cost included in other receivables

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

For customers who are experiencing unexpected economic difficulties, impairment is provided on an individual basis on the entire amounts of the related trade receivables. For the year ended 31 December 2022, the balance of such customers is US$4,101,000 (2021:US$4,101,000) and the corresponding loss allowance in this regard is US$4,101,000 (2021:US$4,101,000).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

Expected credit losses are also estimated by grouping the remaining receivables from third parties based on shared credit risk characteristics and the days past due and assessed for the likelihood of loss allowance, individually or collectively taking into account the nature of the customer and its ageing category, the insurance coverage on the balances, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

The expected credit loss rates are based on corresponding historical credit losses experienced up to 1 year and are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group uses two categories for those trade receivables which reflect their credit risk and how the loss allowance is determined for each of those categories.

Measurement of expected credit losses on an individual basis

For trade receivables relating to corporate customers, which are listed entities with satisfactory credit history and insurance coverage on the balances, expected credit losses are assessed individually for impairment allowance. As at 31 December 2022, the balances of such individually assessed trade receivables is US$54,330,000 (2021: US$81,760,000) and the corresponding loss allowance is US$307,000 (2021: US$89,000).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

Measurement of expected credit loss on collective basis

Other than those trade receivables which were assessed on an individual basis, trade receivables have been grouped based on shared similar credit risk characteristics and the days past due.

The following tables present the balances of gross carrying amounts and loss allowance in respect of the collectively assessed trade receivables as at 31 December 2022:

31 December 2022	Not yet past due US$'000	Past due 1 to 30 days US$'000	31 to 60 days US$'000	61 to 90 days US$'000	91 to 120 days US$'000	121 days to 150 days US$'000	151 days to 365 days US$'000	Over 365 days US$'000	Total US$'000
Trade receivables	8,947	1,716	119	24	2	3	–	10	10,821
Expected loss rate	0.01%	0.02%	7.56%	25.00%	50.00%	66.67%	–	40.00%	0.23%
Loss allowance	1	3	9	6	1	2	–	4	26

31 December 2021	Not yet past due US$'000	Past due 1 to 30 days US$'000	31 to 60 days US$'000	61 to 90 days US$'000	91 to 120 days US$'000	121 days to 150 days US$'000	151 days to 365 days US$'000	Over 365 days US$'000	Total US$'000
Trade receivables	8,281	377	53	5	–	–	–	–	8,716
Expected loss rate	0.06%	0.27%	7.55%	20.00%	–	–	–	–	0.13%
Loss allowance	5	1	4	1	–	–	–	–	11

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

Measurement of expected credit loss on collective basis (Continued)

On that basis, the closing loss allowances for trade receivables as at 31 December 2022 and 2021 reconcile to the opening loss allowances as follows:

	2022 US$'000	2021 US$'000
At 1 January	4,201	4,478
Increase in loss allowances recognized in profit or loss during the year	233	22
Receivables written off during the year as uncollectible	–	(6)
Unused amount reversed	–	(293)
At 31 December	4,434	4,201

As at 31 December 2022, the Group had a concentration of credit risk given that the top 5 customers account for 69% (2021: 72%) of the Group's total year end trade receivables balance. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortized cost include certain deposits and other receivables and amounts due from related parties. These financial assets are considered to be of low credit risk primarily because they had no history of default and the counterparties had a strong capacity to meet their contractual cash flow obligations in the near term. The Group has assessed that the expected credit losses for these receivables are immaterial under 12 months expected losses method. Thus, the loss allowance provision recognized for these balances is close to zero.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. The directors aim to maintain flexibility in funding by keeping credit lines available.

Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 18) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Surplus cash held by Group entities over and above balances required for working capital management is invested in interest-bearing bank accounts and bank deposits with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

The following tables analyze the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the date of the consolidated statement of financial position) and the earliest date the Group can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings and finance lease liabilities is prepared based on the scheduled repayment dates.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	On demand	Within 3 months	More than 3 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash outflows	Carrying Amount
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Group								
At 31 December 2022								
Bank borrowings	133,405	10,701	1,720	2,401	619	–	148,846	148,501
Trade and other payables	–	65,217	1,268	–	–	–	66,485	66,485
Lease liabilities	–	1,683	4,882	4,757	5,921	26,458	43,701	28,192
	133,405	77,601	7,870	7,158	6,540	26,458	259,032	243,178
At 31 December 2021								
Bank borrowings	125,947	7,072	11,901	2,274	2,894	–	150,088	149,769
Trade and other payables	–	101,656	1,487	–	–	–	103,143	103,143
Lease liabilities	–	1,837	5,080	6,128	8,338	28,475	49,858	31,414
	125,947	110,565	18,468	8,402	11,232	28,475	303,089	284,326

The table below summarizes the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity analysis -Bank borrowings subject to a repayment on demand clause based on scheduled repayments			
	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total outflows
	US$'000	US$'000	US$'000	US$'000
At 31 December 2022	131,956	4,882	1,186	138,024
At 31 December 2021	114,711	7,331	6,009	128,051

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital by maintaining a net cash position throughout the year.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value, by valuation method. The different levels have been 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)

The following table presents the Group's financial instruments that were measured at fair value.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
At 31 December 2022				
Liabilities				
– Derivative financial instruments (Note i)	–	106	–	106
At 31 December 2021				
Assets				
– Derivative financial instruments (Note i)	–	1	–	1

Notes:

(i) The fair values of financial instruments, that are not traded in an active market, which primarily represented the forward foreign exchange contracts, is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs required for fair value of an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ii) There were no transfers among level 1, level 2 and level 3 during the year.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2022 (2021: same).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Please refer to Note 26 for details.

(b) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives, related depreciation and amortization charges for its property, plant and equipment and intangible assets (other than goodwill). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortization charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortization lives and therefore depreciation and amortization expense in future periods.

(c) Impairment of property, plant and equipment, right-of-use assets and intangible assets (other than goodwill)

Property, plant and equipment, right-of-use assets and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable such as declines in asset's market value and significant increase in interest rates that may affect the discount rate used in calculating the asset's recoverable amount. The recoverable amounts have been determined based on the higher of fair value less costs of disposal calculations or value in use calculations. These calculations require the use of judgements and estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on the higher of fair value less costs of disposal or value in use calculations. The recoverable amount calculations primarily use cash flow forecast based on financial budgets and forecasts covering a period of 5 years approved by management and estimated terminal value at the end of the budget period.

There are a number of assumptions and estimates involved in the preparation of cash flow forecast for the period covered by the approved budgets. Key assumptions include growth rates and discount rates to reflect the risks involved. Management prepares the financial budgets and forecasts reflecting actual and prior year performance and market development expectations. Judgment is required to determine the key assumptions adopted in the cash flow forecasts and the changes to the key assumptions and hence the result of the impairment reviews.

No impairment has been recognized in the year ended 31 December 2022 (2021: Same) (Note 8).

(e) Defined benefit plans

The present values of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 19.

(f) Impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables on a forward-looking basis and the expected lifetime losses are recognised from initial recognition of the assets. The provision matrix is determined based on the Group's historically observed default rates over the expected lives of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers, actual or expected significant adverse changes in business and customers' financial position. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

5 SEGMENT INFORMATION

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

The executive directors have been identified as the chief operating decision-maker. The executive directors have determined the operating segments based on the reports 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. The executive directors determined the operating segments to be apparel and accessories.

Since 1 July 2022, the executive directors assessed the results of the below function and investments separately from the performance of the Apparel Segment and included them in the corporate function. This is different from the composition of the Apparel Segment in the prior year.

Software development business unit

In the past, the software development business unit was intended to develop supply chain management software and operation solutions for companies under the Apparel Segment. With the ongoing developments of the functionalities of its operation solutions, this business unit is expected to be able to support operations of the Accessories Segment as well. As any revenue of this business unit would only be incidental to its activities, the executive directors excluded it from the Apparel Segment during the current year and included in the corporate function.

Investments in a joint venture and an associate

Investments in a joint venture and an associate were included in the Apparel Segment in the past as the principal activities of these investments were originally intended to act as a supporting function of the Apparel Segment. The executive directors revisited the business strategies of these investments and were of the view that their operations were not directly related to the Apparel Segment. Accordingly, they have been excluded from the Apparel Segment and are now separately reviewed by the executive director as corporate investments during the year ended 31 December 2022.

The comparative figures of segment information have been restated to conform with the current year categorization and presentation.

5 SEGMENT INFORMATION (CONTINUED)

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 years ended 31 December 2022 and 2021 is as follows:

	Apparel US$'000	Accessories US$'000	Total US$'000
For the year ended 31 December 2022			
Revenue (from external customers)	520,119	338,742	858,861
Revenue recognized under HKFRS 15			
— At a point in time	519,567	338,178	857,745
Rental income recognized under HKFRS 16	552	564	1,116
	520,119	338,742	858,861
Segment profit for the year	636	28,273	28,909
Profit for the year includes:			
Depreciation and amortization	(12,350)	(10,221)	(22,571)
Provision for loss allowances of trade receivables	(233)	—	(233)
Provision for obsolete inventories	(152)	(1,427)	(1,579)
Share of profits of joint ventures and associates, net	1,547	—	1,547
Finance income	128	697	825
Finance costs	(6,079)	(2,898)	(8,977)
Income tax expense	(382)	(801)	(1,183)

5 SEGMENT INFORMATION (CONTINUED)

	Apparel US$'000 (Restated)	Accessories US$'000	Total US$'000 (Restated)
For the year ended 31 December 2021			
Revenue (from external customers)	475,623	320,036	795,659
Revenue recognized under HKFRS 15			
— At a point in time	475,402	319,710	795,112
Rental income recognized under HKFRS 16	221	326	547
	475,623	320,036	795,659
Segment profit for the year	12,570	13,951	26,521
Profit for the year includes:			
Depreciation and amortization	(10,941)	(12,035)	(22,976)
Reversal of provision for loss allowances of trade receivables	241	30	271
Provision for obsolete inventories	(76)	(858)	(934)
Share of profits of joint ventures and associates, net	94	—	94
Finance income	258	293	551
Finance costs	(2,530)	(3,202)	(5,732)
Income tax expense	(3,366)	(139)	(3,505)

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 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 year.

5 SEGMENT INFORMATION (CONTINUED)

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

	2022 US$'000	2021 US$'000 (Restated)
Segment profit for the year	28,909	26,521
Corporate expenses (Note i)	(16,552)	(14,553)
One-off items (Note ii)	–	(794)
Profit for the year	12,357	11,174

Notes:

(i) Corporate expenses represent general corporate expenses such as executive salaries and other unallocated general and administrative expenses and losses incurred by corporate investments.

(ii) For the year ended 31 December 2021, one-off items represent provision for obsolete inventories and provision for impairment on property, plant and equipment in one of the Group's factories in the Philippines due to the destruction caused by a typhoon incident.

	2022 US$'000	2021 US$'000
Analysis of revenue by category		
Sales of garment, textile products and accessories	847,651	787,365
Others	11,210	8,294
Total revenue	858,861	795,659

The Group's revenue is mainly derived from customers located in the United States of America (the "United States"), the PRC, Europe, Canada and Japan, while the Group's business activities are conducted predominantly in Hong Kong, the PRC, the Philippines, Cambodia, the United States and Myanmar.

5 SEGMENT INFORMATION (CONTINUED)

	2022 US$'000	2021 US$'000
Analysis of revenue by geographical location		
United States	420,725	402,054
PRC (including Hong Kong and Macao)	120,036	148,109
Europe	151,908	139,198
Japan	46,430	33,253
Canada	29,422	21,324
South America	24,398	8,186
Others	65,942	43,535
	858,861	795,659

Revenue is allocated based on the countries where the Group's customers are located.

For the year ended 31 December 2022, revenue of approximately US$186,608,000 (2021: US$149,803,000), US$166,660,000 (2021: US$147,697,000) and US$102,427,000 (2021: US$82,135,000) are derived from three (2021: same) single external customers whose sales account for more than 10% of the total revenue. These revenues are attributable to the segments of apparel and accessories.

As a practical expedient, no disclosure was made for the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at 31 December 2022 (2021: same), because such performance obligations are part of contracts having an original expected duration of one year or less.

An analysis of the Group's non-current assets other than deferred income tax assets and deposits by geographical location in which the assets are located is as follows:

	2022 US$'000	2021 US$'000
Analysis of non-current assets by geographical location		
PRC (including Hong Kong and Macao)	76,240	75,463
Cambodia	63,286	66,675
Philippines	35,925	35,020
Myanmar	19,876	23,378
Vietnam	2,174	2,405
Others	4,540	6,332
	202,041	209,273

6 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
Year ended 31 December 2022							
Opening net book amount	73,393	9,297	37,532	3,930	782	1,223	126,157
Additions	36	1,154	2,011	1,562	110	6,577	11,450
Disposals/write-off	–	(154)	(378)	(7)	(8)	–	(547)
Reversal of impairment (Note 23)	–	–	244	–	–	–	244
Transfer	352	745	3,809	610	160	(5,676)	–
Depreciation (Note 23)	(4,679)	(1,123)	(9,103)	(2,237)	(402)	–	(17,544)
Exchange differences	(328)	(460)	(1,120)	(119)	(7)	–	(2,034)
Closing net book amount	68,774	9,459	32,995	3,739	635	2,124	117,726
At 31 December 2022							
Cost	106,206	28,000	133,535	23,661	3,140	2,124	296,666
Accumulated depreciation and impairment	(37,432)	(18,541)	(100,540)	(19,922)	(2,505)	–	(178,940)
Net book amount	68,774	9,459	32,995	3,739	635	2,124	117,726

	Land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
Year ended 31 December 2021							
Opening net book amount	63,729	9,718	43,532	3,467	1,197	15,437	137,080
Additions	2,142	516	2,616	1,111	50	2,649	9,084
Disposals/write-off	(33)	(333)	(1,516)	(101)	(14)	–	(1,997)
Impairment (Note 23)	–	–	(256)	(33)	–	–	(289)
Transfer	11,747	495	2,989	1,630	40	(16,901)	–
Depreciation (Note 23)	(4,481)	(1,194)	(9,626)	(2,153)	(560)	–	(18,014)
Exchange differences	289	95	(207)	9	69	38	293
Closing net book amount	73,393	9,297	37,532	3,930	782	1,223	126,157
At 31 December 2021							
Cost	107,404	28,305	144,035	23,312	3,246	1,223	307,525
Accumulated depreciation and impairment	(34,011)	(19,008)	(106,503)	(19,382)	(2,464)	–	(181,368)
Net book amount	73,393	9,297	37,532	3,930	782	1,223	126,157

Notes:

(i) Depreciation expense of US$12,339,000 (2021: US$12,053,000) had been charged to the cost of sales and US$5,205,000 (2021: US$5,961,000) has been charged to general and administrative expenses. Reversal of impairment of US$244,000 (2021: impairment of US$289,000) had been credited to (2021: charged to) the cost of sales with regards to the reassessment on the damage (2021: Damage) to property, plant and equipment caused by Typhoon incident.

(ii) As at 31 December 2022, the Group has not yet obtained the building certificate for a building located in the PRC with a carrying amount of US$1,239,000 (2021: US$1,960,000). Please refer to Note 7 for details.

7 LEASES

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

	Land and properties US$'000	Land use rights US$'000	Total US$'000
Right-of-use assets			
As at 1 January 2022	28,782	5,515	34,297
Additions	3,594	–	3,594
Disposals	(462)	–	(462)
Depreciation (Note 23)	(5,979)	(253)	(6,232)
Exchange differences	(729)	(24)	(753)
As at 31 December 2022	25,206	5,238	30,444
As at 1 January 2021	24,417	5,761	30,178
Additions	10,347	–	10,347
Disposals	(39)	–	(39)
Depreciation (Note 23)	(5,825)	(240)	(6,065)
Exchange differences	(118)	(6)	(124)
As at 31 December 2021	28,782	5,515	34,297

As at 31 December 2022 and 2021, the Group was in the process of obtaining the land use rights certificate in respect of a piece of land located in the PRC with a carrying amount of US$696,000 (2021: US$739,000). Based on the Group's experience and after seeking legal consultation, the directors are of the view that such problem is unlikely to have a material effect on the carrying amounts of the land use rights and the property located on this land.

(i) Amounts recognized in the consolidated statement of financial position

	2022 US$'000	2021 US$'000
Lease liabilities		
Current	5,370	4,833
Non-current	22,822	26,581
	28,192	31,414

(ii) Amounts recognized in the consolidated statement of profit or loss

	2022 US$'000	2021 US$'000
Interest expense (included in finance costs) (Note 25)	1,712	2,018
Expense relating to short-term leases (included in cost of sales and general administrative expenses) (Note 23)	864	890
Depreciation expenses of right-of-use assets (Note 23)	6,232	6,065

The total cash outflow for leases for the year ended 31 December 2022 was US$8,131,000 (2021: US$7,806,000).

8 INTANGIBLE ASSETS

	Goodwill US$'000	Customer Relationships US$'000	Total US$'000
Year ended 31 December 2022			
Opening net book amount	42,320	3,247	45,567
Amortization (Note 23)	–	(668)	(668)
Closing net book amount	42,320	2,579	44,899
At 31 December 2022			
Cost	63,498	53,192	116,690
Accumulated amortization, write-off and provision for impairment loss	(21,178)	(50,613)	(71,791)
Net book value	42,320	2,579	44,899
Year ended 31 December 2021			
Opening net book amount	42,320	3,915	46,235
Amortization (Note 23)	–	(668)	(668)
Closing net book amount	42,320	3,247	45,567
At 31 December 2021			
Cost	63,498	53,192	116,690
Accumulated amortization, write-off and provision for impairment loss	(21,178)	(49,945)	(71,123)
Net book value	42,320	3,247	45,567

For the year ended 31 December 2022, amortization of customer relationships of US$668,000 (2021: US$668,000) is included in general and administrative expenses.

8 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

Goodwill is monitored by management at the level of the two operating segments identified in Note 5. The following is a summary of goodwill allocation for each operating segment.

	US$'000
At 31 December 2022 and 2021	
Apparel	33,952
Accessories	8,368
	42,320

In accordance with HKAS 36 "Impairment of Assets", the recoverable amount of a CGU is determined based on the higher of fair value less costs of disposal or value in use calculations. The Group has made reference to the valuation reports issued by an independent valuer for the calculation of the recoverable amounts of the CGUs. These calculations use pre-tax cash flow forecast covering a five-year period. Cash flows beyond the five-year period are extrapolated using the terminal growth rate stated below.

Inherent in the development of the present value of future cash flow forecast are assumptions and estimates derived from a review of the expected revenue growth rates, gross profit margins, business plans, cost of capital and, if applicable, tax rates. Certain assumptions are made about future market conditions, market prices and interest rates. Changes in assumptions or estimates could materially affect the determination of the recoverable amount of a CGU, and therefore could eliminate the excess of recoverable amount over carrying value of a CGU entirely and, in some cases, could result in impairment.

The key assumptions and parameters used for value in use calculations are as follows.

	2022		2021	
	Accessories	**Apparel**	Accessories	Apparel
Average revenue growth (Note i)	**6.2%**	**6.6%**	7.6%	9.8%
Average gross profit margin	**19.8%**	**15.1%**	17.4%	15.6%
Terminal growth rate (Note ii)	**2.0%**	**2.0%**	3.0%	3.0%
Discount rate (Note iii)	**16.0%**	**17.0%**	15.0%	16.0%

Notes:

(i) Average revenue growth rate covers the five-year forecast period. It is based on the past performance and management's expectations on market development.

(ii) The terminal growth rates do not exceed the long-term average growth rate of the business in which the CGUs operate.

(iii) Pre-tax discount rate applied to the pre-tax cash flow forecast.

8 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill (Continued)

These assumptions and parameters have been used for the analysis of each CGU within the operating segment. Management determined the financial forecast based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

In the Apparel CGU, the recoverable amount calculated based on value in use exceeded the carrying amount by US$10,931,000 (2021: US$9,678,000). A fall in annual revenue growth rate to 4.3% (2021: 7.9%), a gross profit margin to 15.0% (2021: 15.5%), a fall in long-term growth rate to 0.0% (2021: 1.6%) or a rise in discount rate to 18.0% (2021: 16.7%), all changes taken in isolation, would remove the remaining headroom. In the Accessories CGU, the recoverable amount calculated based on value in use exceeded the carrying amount by US$10,775,000 (2021: US$19,013,000). A fall in annual revenue growth rate to 3.1% (2021: 2.8%), a gross margin to 19.5% (2021: 17.0%), a fall in long-term growth rate to -0.6% (2021: 0.8%) or a rise in discount rate to 17.1% (2021: 16.6%), all changes taken in isolation, would remove the remaining headroom.

9 SUBSIDIARIES

The directors are of the opinion that a complete list of the particulars of all the subsidiaries will be of excessive length and therefore the following list contains only the particulars of the subsidiaries which materially affect the results or assets of the Group.

Particulars of the principal subsidiaries as at 31 December 2022 and 2021 are shown as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital/registered capital	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)	
				2022	2021	**2022**	2021
Bright Sky Pte Ltd	Cambodia	Contractor manufacturing of garments in Cambodia	1,000 ordinary shares of US$1,000 each	–	–	**100%**	100%
D'Luxe Group Limited	Hong Kong	Sourcing, manufacturing and trading of textile and garment products in Cambodia	1 ordinary share of HK$1 each	–	–	**100%**	100%
Dluxe International Co., Ltd.	Cambodia	Manufacturing of bags in Cambodia	100 ordinary shares of US$10,000 each	–	–	**100%**	100%
DLX Bags Philippines, Inc.	Philippines	Manufacturing of bags in the Philippines	210,000 ordinary share of Peso 100 each	–	–	**100%**	100%
Dluxe Bags Philippines, Inc.	Philippines	Provision of subcontracting services in the Philippines	50,000,000 ordinary share of Peso 100 each	–	–	**100%**	100%
Dongguan Huan Yi Industrial Ltd	PRC	Provision of technical services in PRC	Registered and total paid-in capital of HK$10,000,000	–	–	**100%**	100%
東莞天河針織有限公司+	PRC	Garment manufacturing in the PRC	Registered and total paid-in capital of HK$26,771,800	–	–	**100%**	100%
東莞通威服裝有限公司+	PRC	Trading and manufacturing of garment products in the PRC	Registered and total paid-in capital of US$2,500,000	–	–	**100%**	100%
東莞星駿手袋有限公司+	PRC	Manufacturing of bags in the PRC	Registered capital of HK$10,014,600 and total paid-in capital of HK$9,930,000	–	–	**100%**	100%
Elite Enterprises Corporation Ltd	Hong Kong	Trading of handbags in Hong Kong	10,000 ordinary shares of HK$1 each	–	–	**100%**	100%
EMC Manufacturing Ltd	Myanmar	Manufacturing of handbags in Myanmar	1,000 ordinary shares of US$1 each	–	–	**100%**	100%
Golden Dragon Apparel, Inc.	Philippines	Garment manufacturing in the Philippines	62,000 ordinary shares of Peso 100 each	–	–	**100%**	100%
廣州市捷進製衣廠有限公司+	PRC	Garment manufacturing in the PRC	Registered and total paid-in capital of US$7,200,000	–	–	**100%**	100%
L & T International Group Phils., Inc.	Philippines	Garment manufacturing in the Philippines	20,000 ordinary shares of Peso 100 each	–	–	**100%**	100%
Luen Thai International Group Limited	Hong Kong	Sourcing, manufacturing and trading of textile and garment products in Hong Kong	2 ordinary shares of HK$1 each	–	–	**100%**	100%

9 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital/registered capital	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)	
				2022	2021	**2022**	2021
Luen Thai Overseas Limited	Bahamas	Investment holding in Hong Kong	16,685,806 ordinary shares of US$1 each	**100%**	100%	**100%**	100%
Ocean Sky Global Singapore (S) Pte Ltd	Singapore	Garment trading and sourcing overseas in Singapore	Registered and total paid-in capital of US$21,223,245	**–**	–	**100%**	100%
Suntex Pte Ltd	Cambodia	Contract manufacturing of garments in Cambodia	1,200,000 ordinary shares of US$1 each	**–**	–	**100%**	100%
TellaS Ltd.	United States	Import and distribution of garments in the United States	100 ordinary shares with total paid-in capital of US$100,000	**–**	–	**100%**	100%
Tien-Hu Knitting Factory (Hong Kong) Limited	Hong Kong	Subcontracting service of manufacturing garment products	1,000,000 ordinary shares of HK$1 each	**–**	–	**100%**	100%
Tien-Hu Trading (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	**–**	–	**100%**	100%
TMS Fashion (H.K.) Limited	Hong Kong	Garment trading and investment holding in Hong Kong	3,000,000 shares of HK$1 each	**–**	–	**100%**	100%
TMS International Limited	Hong Kong	Garment trading in Hong Kong	2,000 ordinary shares of HK$500 each	**–**	–	**100%**	100%
Unison Development (Asia) Ltd	Hong Kong	Trading of money pieces in Hong Kong	10,000 ordinary shares of HK$1 each	**–**	–	**100%**	100%
Universal Handicraft Manufacturers Ltd	Hong Kong	Provision of technical and management services in Hong Kong	1,000 ordinary shares of HK$100 each and 100 non-voting deferred shares of HK$1,000 each	**–**	–	**100%**	100%
Verte HK Limited	Hong Kong	Sourcing and trading company in Hong Kong	1 ordinary share of HK$1 each	**–**	–	**100%**	100%
Yuen Thai Philippines, Inc	Philippines	Garment manufacturing in the Philippines	1,000,000 shares of Peso 1 each	**–**	–	**100%**	100%
Yuen Thai Industrial Company Limited	Hong Kong	Sourcing and trading company in Hong Kong	10,000 ordinary shares of HK$1 each	**–**	–	**100%**	100%

\+ The subsidiaries are established as wholly foreign-owned enterprises in the PRC.

(a) Non-controlling interests

The total non-controlling interest as at 31 December 2022 is US$1,177,000 (2021: US$2,407,000), mainly comprised the Group's investments in Unit 15 Apparel LLP, Sew Sew You Limited and Dandong Yuen Thai Garment Limited. The management is of the opinion that the non-controlling interests in respect of these subsidiaries are not material to the Group.

10 INTERESTS IN JOINT VENTURES AND ASSOCIATES

	2022 US$'000	2021 US$'000
Interests in joint ventures (Note (a))	**6,231**	1,975
Interests in associates (Note (b))	**–**	160
	6,231	2,135

(a) The movement of interests in joint ventures is provided as follows:

	2022 US$'000	2021 US$'000
Beginning of the year	**1,975**	3,649
Transfer from amounts due from joint ventures (Note 31(b))	**4,577**	–
Share of post-tax losses	**(321)**	(1,674)
End of the year	**6,231**	1,975

(b) The movement of the interest in associates is provided as follows:

	2022 US$'000	2021 US$'000
Beginning of the year	**160**	–
Addition	**120**	500
Share of post-tax losses	**(393)**	–
Realization of previously eliminated profit/(elimination of unrealized profit) from trademark licensing income to an associate	**113**	(340)
End of the year	**–**	160

Notes:

(i) As at 31 December 2022 and 2021, none of the joint ventures or associates are material to the Group.

(ii) There are no contingent liabilities relating to the Group's investments in joint ventures or associates and these entities also had no material contingent liabilities.

11 DEFERRED INCOME TAX

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax liabilities	Accelerated tax depreciation US$'000	Intangible assets US$'000	Others US$'000	Total US$'000
At 1 January 2021	2,654	639	464	3,757
Credited to consolidated statement of profit or loss	(670)	(108)	(84)	(862)
Charged to consolidated statement of comprehensive income (Note 26)	–	–	216	216
At 31 December 2021	1,984	531	596	3,111
Credited/(charged) to consolidated statement of profit or loss	(989)	(133)	100	(1,022)
Charged to consolidated statement of comprehensive income (Note 26)	–	–	330	330
At 31 December 2022	**995**	**398**	**1,026**	**2,419**

Deferred income tax assets	Tax losses US$'000	Provisions US$'000	Others US$'000	Total US$'000
At 1 January 2021	(1,466)	(1,227)	(301)	(2,994)
Charged/(credited) to consolidated statement of profit or loss	783	(177)	(14)	592
Charged/(credited) to consolidated statement of comprehensive income	–	–	(35)	(35)
At 31 December 2021	(683)	(1,404)	(350)	(2,437)
Charged/(credited) to consolidated statement of profit or loss	316	286	(62)	540
At 31 December 2022	**(367)**	**(1,118)**	**(412)**	**(1,897)**

Deferred income tax assets are recognized for tax loss carried forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of US$3,238,000 (2021: US$5,072,000) in respect of losses amounting to US$25,302,000 (2021: US$28,420,000) that can be carried forward against future taxable income. Among the tax losses, US$11,871,000 (2021: US$9,245,000) have expiry dates from 2023 to 2028 (2021: 2022 to 2027). The remaining tax losses have no expiry date.

11 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax liabilities of US$6,348,000 (2021: US$6,173,000) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled US$30,335,000 (2021: US$29,390,000) at 31 December 2022.

12 INVENTORIES

	2022 US$'000	2021 US$'000
Raw materials	**47,671**	35,840
Work in progress	**18,695**	31,245
Finished goods	**11,140**	5,611
	77,506	72,696

The cost of inventories recognized as expense and included in cost of sales amounted to US$536,470,000 (2021: US$491,422,000), which included provision for obsolete inventories of US$1,579,000 (2021: US$1,439,000).

13 FINANCIAL INSTRUMENTS BY CATEGORY

	Assets at fair value through profit or loss US$'000	**Assets at amortized cost** US$'000	**Total** US$'000
31 December 2022			
Financial assets as per consolidated statement of financial position			
Trade and other receivables excluding non-financial assets	**–**	**111,532**	**111,532**
Cash and bank balances	**–**	**93,952**	**93,952**
Restricted cash	**–**	**29**	**29**
Derivative financial instruments	**–**	**–**	**–**
Total	**–**	**205,513**	**205,513**
31 December 2021			
Financial assets as per consolidated statement of financial position			
Trade and other receivables excluding non-financial assets	–	144,748	144,748
Cash and bank balances	–	99,149	99,149
Restricted cash	–	16	16
Derivative financial instruments	1	–	1
Total	1	243,913	243,914

13 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Liabilities at fair value through profit or loss US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
31 December 2022			
Financial liabilities as per consolidated statement of financial position			
Borrowings	–	148,501	148,501
Trade and other payables excluding non-financial liabilities	–	66,485	66,485
Lease liabilities	–	28,192	28,192
Derivative financial instruments	106	–	106
Total	106	243,178	243,284
31 December 2021			
Financial liabilities as per consolidated statement of financial position			
Borrowings	–	149,769	149,769
Trade and other payables excluding non-financial liabilities	–	103,143	103,143
Lease liabilities	–	31,414	31,414
Derivative financial instruments	–	–	–
Total	–	284,326	284,326

14 TRADE AND OTHER RECEIVABLES

	2022 US$'000	2021 US$'000
Current portion		
Trade receivables	69,252	94,577
Less: loss allowances	(4,434)	(4,201)
Trade receivables — net	64,818	90,376
Deposits, prepayments and other receivables	42,143	41,009
Indemnified assets (Note 20(i))	16,723	16,965
Amounts due from related parties (Note 31 (b))	17,305	23,621
	140,989	171,971
Non-current portion		
Deposits	2,252	2,213
Others	2,741	1,117
	4,993	3,330

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:

	2022 US$'000	2021 US$'000
0 to 30 days	38,754	60,055
31 to 60 days	15,450	18,387
61 to 90 days	8,956	10,323
91 to 120 days	774	1,524
Over 120 days	5,318	4,288
	69,252	94,577

The Group does not hold any collateral as security.

14 TRADE AND OTHER RECEIVABLES (CONTINUED)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2022 US$'000	2021 US$'000
US$	**64,153**	86,664
RMB	**244**	1,961
Euro	**413**	1,201
Other currencies	**8**	550
	64,818	90,376

(i) Transferred receivables

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement. Under this arrangement, the Group has transferred the relevant receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. However, the Group has retained late payment and credit risk. The Group therefore continues to recognize the transferred assets in their entirety in its consolidated statement of financial position. The amount repayable under the factoring agreement is presented as secured borrowing. The Group considers the held to collect business model to remain appropriate for these receivables and hence continues measuring them at amortized cost.

The relevant carrying amounts are as follows:

	2022 US$'000	2021 US$'000
Transferred receivables	**7,937**	2,809
Associated secured factoring loan	**5,794**	2,247

(ii) Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(iii) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

Information about the impairment of trade and other receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

15 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	2022 US$'000	2021 US$'000
Cash at bank and on hand	**59,952**	88,828
Short-term bank deposits	**34,000**	10,320
Bank deposits with a maturity period of over 3 months	**–**	1
Cash and bank balances	**93,952**	99,149
Less: bank deposits with a maturity period of over 3 months	**–**	(1)
Cash and cash equivalents in the consolidated statement of cash flows	**93,952**	99,148

The effective interest rate on short-term bank deposits was 4.30% (2021: 1.89%) per annum. These deposits have an average maturity period of 22 days (2021: 7 days).

Significant restrictions

At 31 December 2022, the Group's cash and cash equivalents and short-term bank deposits included balances of US$17,584,365 (2021: US$29,657,000), which were deposited with banks in the PRC and Vietnam. The remittance of such balances out of the PRC and Vietnam is subject to the rules and regulations of foreign exchanges control promulgated by corresponding governments.

(b) Restricted cash

At 31 December 2022, US$29,000 (2021: US$16,000) are restricted deposits held at bank as reserves for settling custom duties (2021: Same).

The Group's cash and bank balances and restricted cash are denominated in the following currencies:

	2022 US$'000	2021 US$'000
US$	**69,800**	61,805
RMB	**17,752**	29,637
Peso	**1,843**	1,673
Euro	**1,683**	683
HK$	**883**	3,044
Other currencies	**2,020**	2,323
	93,981	99,165

16 SHARE CAPITAL

	Number of Shares	Nominal value US$'000
Authorized — ordinary shares of US$0.01 each		
At 31 December 2021 and 2022	1,500,000,000	15,000
Issued and fully paid — ordinary shares of US$0.01 each		
At 1 January 2021, 31 December 2021 and 31 December 2022	1,034,112,666	10,341

Share option

On 26 May 2014, a share option scheme (the "Option Scheme") of the Company was approved and adopted pursuant to an ordinary resolution. The terms of the Option Scheme is effective for a period of 10 years and will expire on 25 May 2024.

Under the Option Scheme, the Company may grant options to selected full-time employees and directors of the Company and subsidiaries to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of the listing of the shares without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the date of such grant, without prior approval from the Company's shareholders.

Options may be exercised at any time within the relevant exercise period. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The exercise price is determined by the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

As at 31 December 2022 and 2021, there is no outstanding share option under the Option Schemes. No share options have been granted or vested during the year ended 31 December 2022 (2021: Nil).

17 OTHER RESERVES

	Capital reserve (Note i) US$'000	Other capital reserves (Note ii) US$'000	Employment benefits reserve US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2021	7,891	(2,795)	1,451	(9,102)	(2,555)
Currency translation differences	–	–	(467)	2,222	1,755
Actuarial gains on retirement benefit obligations	–	–	2,410	–	2,410
At 31 December 2021	7,891	(2,795)	3,394	(6,880)	1,610
At 1 January 2022	**7,891**	**(2,795)**	**3,394**	**(6,880)**	**1,610**
Currency translation differences	**–**	**–**	**(189)**	**(4,939)**	**(5,128)**
Actuarial gains on retirement benefit obligations	**–**	**–**	**2,635**	**–**	**2,635**
At 31 December 2022	**7,891**	**(2,795)**	**5,840**	**(11,819)**	**(883)**

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 Offering reorganization and the nominal value of the Company's shares issued in exchange thereof.

(ii) Other capital reserves primarily represent (a) 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 (b) the difference between the amount by which the non-controlling interests are acquired and the fair value of the consideration paid.

18 BORROWINGS

	2022 US$'000	2021 US$'000
Non-current		
Bank borrowings		
— Term loans	2,778	5,000
	2,778	5,000
Current		
Bank borrowings		
— Term loans	111,365	120,445
— Trade finances	34,358	24,324
	145,723	144,769
Total borrowings	148,501	149,769
Non-current borrowings		
— Unsecured	2,778	5,000
Current borrowings		
— Secured	8,683	4,228
— Unsecured	137,040	140,541
	148,501	149,769

The interest-bearing bank borrowings, including those repayable on demand, are carried at amortized cost. The carrying amounts of the borrowings are approximately equal to their fair values.

18 BORROWINGS (CONTINUED)

As at 31 December 2022 and 2021, the Group's borrowings, based on the scheduled repayment terms set out in the loan agreements and ignoring effect of any repayment on demand clause, were repayable as follows:

	Trade finance		Term loans		Total	
	2022	2021	**2022**	2021	**2022**	2021
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Within 1 year	**34,358**	24,324	**105,532**	107,390	**139,890**	131,714
Bank borrowings due for repayment after 1 year:						
After 1 year but within 2 years	**–**	–	**6,944**	9,444	**6,944**	9,444
After 2 years but within 5 years	**–**	–	**1,667**	8,611	**1,667**	8,611
	–	–	**8,611**	18,055	**8,611**	18,055
	34,358	24,324	**114,143**	125,445	**148,501**	149,769
Representing:						
Maturity within 5 years	**34,358**	24,324	**114,143**	125,445	**148,501**	149,769

As at 31 December 2022 and 2021, the carrying amounts of the borrowings are denominated in the following currencies:

	2022	2021
	US$'000	US$'000
US$	**137,920**	149,769
HK$	**10,581**	–
	148,501	149,769

18 BORROWINGS (CONTINUED)

The effective interest rates at the date of the consolidated statement of financial position are as follows:

	2022	2021
Term loans	3.03%	1.51%
Trade finances	3.38%	1.19%

As at 31 December 2022, the Group had aggregate banking facilities of approximately US$428,195,000 (2021: US$373,496,000) for overdrafts, loans, trade financing and bank guarantees. Unused facilities as at the same date amounted to approximately US$276,694,000 (2021: US$190,772,000).

Of the trade finances, US$5,794,000 (2021: US$2,247,000) relate to transferred receivables (Note 14). The remaining facilities are either secured by inventories or guaranteed by a corporate guarantee provided by the Company (Note 31):

(i) Floating charges over the Group's inventories amounting to US$2,889,000 (2021: US$1,981,000) held under trust receipt bank loans arrangements.

19 RETIREMENT BENEFIT OBLIGATIONS

	2022 US$'000	2021 US$'000
Consolidated statement of financial position obligations for:		
Defined benefit plans (Note b)	7,807	10,389
Provision for long service payments (Note c)	395	786
	8,202	11,175

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2022 US$'000	2021 US$'000
Included in consolidated statement of profit or loss were charges/ (gains) included in operating profit for (Note 24(a)):		
— Defined contribution plans (Note a)	**4,056**	3,860
— Defined benefit plans (Note b)	**1,314**	1,770
— Provision for long service payment (Note c)	**(267)**	224
	5,103	5,854
Included in consolidated statement of comprehensive income:		
Defined benefit plans (Note b)	**(2,964)**	(2,505)
Provision for long service payments (Note c)	**(1)**	(86)
	(2,965)	(2,591)

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

(a) Defined contribution plans

During the year, the Group maintained various defined contribution retirement schemes for its employees, which are managed by independent trustees. Employees' and employer's contributions are based on various percentages of employees' gross salaries and length of service. The total contributions to the defined contribution retirement schemes were approximately US$4,056,000 (2021: US$3,860,000) for the year ended 31 December 2022 (Note 24(a)).

(b) Defined benefit plans

The assets of the defined benefit plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by Actuarial Exponents, Inc. and Key Actuarial Intelligence, Inc., qualified actuaries, annually using the projected unit credit method. The amounts recognized in the consolidated statement of financial position are determined as follows:

	2022 US$'000	2021 US$'000
Present value of unfunded obligations	**3,649**	4,853
Present value of funded obligations	**4,425**	5,797
Fair value of plan assets	**(267)**	(261)
Liabilities in the consolidated statement of financial position	**7,807**	10,389

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Defined benefit plans (Continued)

The movement in the present values of defined benefit obligations over the year is as follows.

	2022 US$'000	2021 US$'000
At 1 January	**10,650**	12,676
Current service cost	**827**	1,326
Interest cost	**498**	444
Total — included in employee benefit expenses in the year	**1,325**	1,770
Remeasurements:		
— Gain from change in financial assumptions	**(3,198)**	(2,305)
— Experience loss/(gain)	**233**	(201)
	(2,965)	(2,506)
Contributions paid	**(53)**	(477)
Exchange differences	**(883)**	(813)
At 31 December	**8,074**	10,650

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Defined benefit plans (Continued)

The movement in the fair values of plan assets over the year is as follows.

	2022 US$'000	2021 US$'000
At 1 January	(261)	(268)
Interest income – included in employee benefit expenses	(11)	(10)
Remeasurements:		
– Loss on plan assets, excluding amounts included in interest income	1	1
Exchange differences	4	16
At 31 December	(267)	(261)

The principal actuarial assumptions used are as follows:

	2022 US$'000	2021 US$'000
Discount rate	4.91%–7.50%	0.90%–5.30%
Future salary increase rate	3.00%–4.00%	3.00%–4.00%

The sensitivity of the defined benefit plans to changes in the weighted principal assumptions is:

	Impact on defined benefit plan					
	2022			2021		
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	Decrease by US$616,000	Increase by US$842,000	1.0%	Decrease by US$1,466,000	Increase by US$1,802,000
Future salary increase rate	1.0%	Increase by US$1,228,000	Decrease by US$1,031,000	1.0%	Increase by US$1,816,000	Decrease by US$1,500,000

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liabilities recognized within the consolidated statement of financial position.

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Long service payments

Provision for long service payments represents the Group's obligations for long service payments to its employees in Hong Kong on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The Group's long service payment obligations are valued by Real Actuarial Consulting Limited, an independent qualified actuary valuer.

The amounts recognized in the consolidated statement of financial position are as follows:

	2022 **US$'000**	2021 US$'000
Present value of unfunded obligations	**395**	786

As at 31 December 2022 and 2021, there are no funded obligations and plan assets.

The movement in the long service payments over the year is as follows.

	2022 **US$'000**	2021 US$'000
At 1 January	**786**	653
Current service cost	**1**	224
Curtailment/Settlement loss	**(268)**	—
Total — included in employee benefit expenses (Note 24(a))	**(267)**	224
Re-measurements:		
— Gain from change in financial assumptions	**(1)**	(86)
Mandatory Provident Fund payment	**(123)**	(5)
At 31 December	**395**	786

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Long service payments (Continued)

The principal actuarial assumptions used are as follows:

	2022	2021
Discount rate	3.75%	0.90%
Future salary increase rate	3.50%	2.50%

The sensitivity of the long service payments to changes in the weighted principal assumptions is:

	Impact on long service payments					
	2022			2021		
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	Decrease by US$2,000	Increase by US$2,000	1.0%	Decrease by US$2,000	Increase by US$2,000
Future salary increase rate	1.0%	Increase by US$1,000	Decrease by US$1,000	1.0%	Increase by US$2,000	Decrease by US$2.000

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liabilities recognized within the consolidated statement of financial position.

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(d) Risks for defined benefit plans and long service payments

Through its defined benefit plans and long service payments, the Group is exposed to a number of risks, the most significant of which are detailed below:

(i) ***Changes in discount rate***

A decrease in discount rate will increase plan liabilities.

(ii) ***Inflation risk***

The Group's pension obligations are linked to future salary increase rate. Higher inflation will lead to higher future salary increase rate and hence increase plan liabilities.

Expected contributions to defined benefit plans and provision for long service payments for the year ending 31 December 2023 are US$2,221,000.

The weighted average duration of the defined benefit obligations is 18.75 years (2021: 20.32 years).

An expected maturity analysis of undiscounted pension is as follows:

	2022 US$'000	2021 US$'000
Retirement benefits		
— No later than 1 year	278	183
— Later than 1 year and no later than 5 years	2,184	1,217
— Later than 5 years	91,669	93,957
	94,131	95,357

20 TRADE AND OTHER PAYABLES

	2022 US$'000	2021 US$'000
Trade payables (Note a)	50,434	81,134
Contract liabilities (Note b)	478	45
Other tax payables	11,340	10,345
Accrued wages and salaries	25,943	23,889
Contingent liabilities (Note i)	16,723	16,965
Others	14,315	20,350
Amounts due to related parties (Note 31(b))	1,736	1,659
	120,969	154,387

20 TRADE AND OTHER PAYABLES (CONTINUED)

(a) Trade payables

As at 31 December 2022 and 2021, the ageing analysis of the trade payables based on invoice date is as follows:

	2022 US$'000	2021 US$'000
0 to 30 days	39,848	66,577
31 to 60 days	4,249	3,376
61 to 90 days	3,041	6,326
Over 90 days	3,296	4,855
	50,434	81,134

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2022 US$'000	2021 US$'000
US$	33,142	59,198
HK$	4,980	8,374
RMB	10,319	11,900
Peso	1,595	1,238
Other currencies	398	424
	50,434	81,134

The carrying amounts of trade payables approximate their fair values.

(b) Contract liability

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liability.

	2022 US$'000	2021 US$'000
Revenue recognized that was included in the contract liability balance at the beginning of the year	45	598

The contract liability represents prepayment placed by customers.

20 TRADE AND OTHER PAYABLES (CONTINUED)

(b) Contract liability (Continued)

Note:

(i) 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 31 December 2022 (31 December 2021: US$21,354,000).

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 as 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.

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.

21 DERIVATIVE FINANCIAL INSTRUMENTS

	2022 US$'000	2021 US$'000
Assets:		
Forward foreign exchange contracts (Note i)	**–**	1
Liabilities:		
Forward foreign exchange contracts (Note i)	**106**	–

Note:

(i) The notional principal amounts of the outstanding forward foreign exchange contracts as at 31 December 2022 were approximately US$6,184,000 (2021: US$1,133,000).

22 OTHER INCOME AND OTHER GAINS — NET

	2022 US$'000	2021 US$'000
Fair value gains/(losses) on derivative financial instruments, net	15	(47)
Net foreign exchange gains/(losses)	1,732	(960)
Trademark licensing income from an associate (Note 31)	–	1,700
Loan forgiveness income	–	593
Others	–	35
	1,747	1,321

23 EXPENSES BY NATURE

	2022 US$'000	2021 US$'000
Raw materials and consumables used	527,870	482,680
Changes in inventories of finished goods and work in progress	7,021	7,303
Employee benefit expenses (Note 24(a))	216,720	198,308
Losses on disposals of property, plant and equipment — net (Note 29(a))	31	829
Auditors' remuneration		
— Audit services	649	641
— Non-audit services	430	32
Depreciation of property, plant and equipment (Note 6)	17,544	18,014
Depreciation of right-of-use assets (Note 7)	6,232	6,065
Amortization of intangible assets (Note 8)	668	668
(Reversal of impairment)/impairment of property, plant and equipment (Note 6)	(244)	289
Provision for obsolete inventories (Note 12)	1,579	1,439
COVID-19-related rent concessions	(12)	(29)
Short-term leases		
— Office premises and warehouses	654	677
— Plant and machinery	210	213
Transportation expenses	4,580	2,772
Communication, supplies and utilities	22,525	18,576
Other expenses	31,625	36,900
	838,082	775,377

23 EXPENSES BY NATURE (CONTINUED)

	2022 US$'000	2021 US$'000
Cost of sales	**730,528**	672,015
Selling and distribution expenses	**1,637**	2,084
General and administrative expenses	**105,917**	101,278
	838,082	775,377

24 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses during the year are as follows:

	2022 US$'000	2021 US$'000
Wages, salaries and allowances	**208,311**	186,703
Termination benefits	**3,306**	5,751
Pension costs		
— Defined contribution plans (Note 19)	**4,056**	3,860
— Defined benefit plans (Note 19)	**1,314**	1,770
Long service payments (Note 19)	**(267)**	224
	216,720	198,308

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2021: three) directors whose emoluments are reflected in the analysis presented in Note 33. The emoluments payable to the remaining three (2021: two) individuals during the year are as follows:

	2022 US$'000	2021 US$'000
Basic salaries, other allowances and benefits in kind	**954**	616
Discretionary bonuses	**633**	50
Pension scheme contributions	**5**	2
Others	**273**	262
	1,865	930

24 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Five highest paid individuals (Continued)

The emoluments of the remaining three (2021: two) highest paid individuals fell within the following bands:

	Number of individuals	
	2022	2021
Emolument bands		
US$384,616 to US$448,717 (equivalent to HK$3,000,001 to HK$3,500,000)	**–**	1
US$448,718 to US$512,821 (equivalent to HK$3,500,001 to HK$4,000,000)	**–**	1
US$512,822 to US$576,923 (equivalent to HK$4,000,001 to HK$4,500,000)	**1**	–
US$576,924 to US$641,026 (equivalent to HK$4,500,001 to HK$5,000,000)	**1**	–
US$641,027 to US$705,128 (equivalent to HK$5,000,001 to HK$5,500,000)	**1**	–
US$705,129 to US$769,231 (equivalent to HK$5,500,001 to HK$6,000,000)	**–**	–
	3	2

During the year, no emoluments have been paid to any of the five highest paid individuals as an inducement to join or as compensation for loss of office.

25 FINANCE COSTS — NET

	2022 US$'000	2021 US$'000
Interest expense on lease liabilities (Note 7)	**(1,712)**	(2,018)
Interest expense on bank borrowings	**(7,265)**	(3,714)
Finance costs	**(8,977)**	(5,732)
Interest income from bank deposits	**373**	384
Interest income arise from loans to a joint venture and an associate (Note 31)	**413**	167
Other interest income	**39**	–
Finance income	**825**	551
Finance costs — net	**(8,152)**	(5,181)

26 INCOME TAX EXPENSE

For Hong Kong profits tax, under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. For the year ended 31 December 2022 and 2021, only one subsidiary of the Group is entitled to this tax benefit. The profits of other Group entities incorporated in Hong Kong not qualifying continued to be taxed at the flat rate of 16.5%.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2022 US$'000	2021 US$'000
Current income tax	**2,288**	3,827
Over-provision in prior years	**(623)**	(52)
Deferred income tax (Note 11)	**(482)**	(270)
Income tax expense	**1,183**	3,505

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2022 US$'000	2021 US$'000
Profit before income tax	**13,540**	14,679
Tax calculated at domestic tax rates applicable to profits in the respective countries	**4,014**	2,041
Income not subject to tax	**(15,103)**	(12,286)
Expenses not deductible for tax purposes	**12,099**	13,377
Utilization of previously unrecognized tax losses	**(636)**	(551)
Tax losses for which no deferred income tax asset was recognized	**1,898**	1,488
Tax effect of taxable temporary difference not recognized — net	**(364)**	(423)
Tax effect of share of results of joint ventures and associates	**(102)**	(89)
Over-provision in prior years	**(623)**	(52)
Income tax expense	**1,183**	3,505

26 INCOME TAX EXPENSE (CONTINUED)

The tax expense relating to components of other comprehensive income/(loss) is as follows:

	Actuarial (gains)/loss on retirement benefit obligations	
	2022	2021
	US$'000	US$'000
Before tax (Note 19)	**(2,965)**	(2,591)
Deferred income tax expense (Note 11)	**330**	181
After tax	**(2,635)**	(2,410)

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 approximately HK$29,797,000). The subsidiary has lodged objections against the above assessments for 2000/01 to 2014/15 by the statutory deadlines. The tax provisions made as at 31 December 2022 for the years of assessment 2000/01 to 2021/22 were approximately US$811,000 (equivalent to approximately HK$6,323,000). Pending settlement of the objections, it has paid a total sum of US$3,695,000 (equivalent to approximately HK$28,823,000) in the form of tax reserve certificates in respect of the tax in dispute up to and including the year of assessment 2014/15.

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. Management considers the tax provisions made in relation to the abovementioned case to be adequate but not excessive as at 31 December 2022.

(ii) During the year ended 31 December 2019, the Group entered into an agreement with an independent third party to dispose 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 current under review by the in-charge tax authority and there is no final assessment as 31 December 2022. 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 31 December 2022.

(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 31 December 2022 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 31 December 2022.

27 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 year.

	2022	2021
Profit attributable to owners of the Company (US$'000)	13,138	11,195
Weighted average number of ordinary shares in issue (thousands)	1,034,113	1,034,113
Basic earnings per share (US cents per share)	1.3	1.1

(b) Diluted

Diluted earnings per share for the years ended 31 December 2022 and 2021 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years.

28 DIVIDENDS

(a) Dividend recognized during the reporting period

	2022 US$'000	2021 US$'000
Interim dividend – US$0.220 cent or HK$1.72 cents (2021: Nil) per ordinary share for the period ended 30 June 2022	2,275	–

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

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 has been proposed by the Board of Directors of the Company, which is subject to approval by the shareholders in the forthcoming annual general meeting. The proposed dividend has not been recognized as a liability at year end. The details and aggregate amount of the proposed dividend are as follows.

	2022 US$'000	2021 US$'000
Final dividend of $0.268 cent or HK$2.10 cents (2021: $0.325 cent or HK$2.53 cents) per ordinary share for the year ended 31 December 2022	2,771	3,361

29 CASH FLOW INFORMATION

(a) Cash generated from operating activities

	2022 US$'000	2021 US$'000
Profit before income tax	13,540	14,679
Adjustments for:		
Share of losses of joint ventures and associates (Note 10)	714	1,674
(Realization of previously eliminated profit)/Elimination of unrealized profit from trademark licensing income to an associate (Note 10)	(113)	340
Finance costs (Note 25)	8,977	5,732
Finance income (Note 25)	(825)	(551)
Fair value losses/(gains) on derivative financial instruments	107	(1)
Amortization of intangible assets (Note 8)	668	668
Depreciation of property, plant and equipment (Note 6)	17,544	18,014
(Reversal of)/impairment of property, plant and equipment (Note 6)	(244)	289
Depreciation of right-of-use assets (Note 7)	6,232	6,065
Losses on disposals of property, plant and equipment — net (Note 23)	31	829
(Gains)/losses on disposals of leases — net	(28)	13
Provision for/(reversal of) loss allowances of trade and other receivables, net	233	(271)
Provision for obsolete inventories (Note 12)	1,579	1,439
Operating profit before working capital changes	48,415	48,919
Changes in working capital (excluding the effects of currency translation on consolidation):		
Inventories	(9,837)	(1,658)
Trade and other receivables	23,529	(194)
Trade and other payables	(30,661)	15,139
Derivative financial instruments	—	(129)
Retirement benefit obligations	871	1,287
Restricted cash	(15)	(1)
Cash generated from operations	32,302	63,363

29 CASH FLOW INFORMATION (CONTINUED)

(a) Cash generated from operating activities (Continued)

In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	2022 US$'000	2021 US$'000
Net book amount (Note 6)	547	1,997
Losses on disposals of property, plant and equipment — net (Note 23)	(31)	(829)
Proceeds from disposals of property, plant and equipment	516	1,168

(b) Reconciliation of liabilities arising from financing activities

	Borrowings US$'000	Lease liabilities US$'000	Total US$'000
At 1 January 2022	149,769	31,414	181,183
Cashflows	(8,533)	(7,267)	(15,800)
Addition	—	3,594	3,594
Interest expense	7,265	1,712	8,977
Termination of lease	—	(490)	(490)
Exchange difference	—	(771)	(771)
At 31 December 2022	148,501	28,192	176,693

	Borrowings US$'000	Lease liabilities US$'000	Total US$'000
At 1 January 2021	160,590	26,187	186,777
Cashflows	(14,535)	(6,916)	(21,451)
Addition	—	10,347	10,347
Interest expense	3,714	2,018	5,732
Termination of lease	—	(26)	(26)
Exchange difference	—	(196)	(196)
At 31 December 2021	149,769	31,414	181,183

(c) Non-cash financing activities

Non-cash investing and financing activities disclosed in other notes are related to the Acquisition of right-of-use assets (Note 7).

30 CAPITAL COMMITMENTS

There was no significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities (2021: Nil).

31 RELATED-PARTY TRANSACTIONS

The directors regard the immediate holding company of the Company to be the 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.

(a) Transactions with related parties

During the year, the Group had the following significant transactions with related companies and joint ventures and associates. Related companies include companies which are beneficially owned or controlled by certain directors of the Company, individually, jointly or collectively, or together with their close family members, and companies which are related companies of the immediate or ultimate holding company of the Company.

(i) Provisions of goods and services

	2022 US$'000	2021 US$'000
Rental income from joint ventures	**180**	220
Service income from		
— joint ventures	**2**	1,365
— an associate	**20**	—
	22	1,365
Subcontracting income from		
— related companies	**6**	188
— joint ventures	**2,599**	—
	2,605	188
Recharge of material costs and other expenses to		
— related companies	**177**	149
— joint ventures	**—**	937
	177	1,086
Sales of apparels, textile products and accessories to		
— related companies	**55,252**	77,324
— joint ventures	**2,543**	—
	57,795	77,324
Technology support and services income from		
— related companies	**5**	3
— joint ventures	**146**	—
	151	3

31 RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (Continued)

(ii) Purchases of goods and services

	2022 US$'000	2021 US$'000
Trademark licensing income from an associate (Note 22)	–	1,700
Interest income arise from loans to (Note 25)		
– a joint venture	397	167
– an associate	16	–
	413	167
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	164	90
Right-of-use assets acquired from related companies	1,475	2,302
Interest expenses arise from lease liabilities from related companies	79	102
Professional and technological support service fees to related companies	1,975	1,981
Subcontracting expenses to joint ventures	522	3,879
Freight forwarding and logistics services charged by related companies	3,105	2,154
Recharge of material costs and other expenses by		
– related companies	1,210	1,011
– joint ventures	–	446
	1,210	1,457
Purchases of materials from joint ventures	17,347	6,982

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

31 RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

(i) Year-end balances arising from sales and purchases of goods and services or loans

	2022 US$'000	2021 US$'000
Amounts due from related parties (Note 14)		
– Joint ventures	13,814	19,843
– Related companies	2,905	3,778
– Associates	586	–
	17,305	23,621
Amounts due to related parties (Note 20)		
– Joint ventures	678	–
– Related companies	1,058	1,499
– An associate	–	160
	1,736	1,659

During the year, US$4,577,000 of the financial supports included in amounts due from joint ventures have been transferred to interests in joint ventures as management considered these amounts to be extensions of the Group's investment in a joint venture and the settlements of which are not likely to occur in the foreseeable future. As a result, as at 31 December 2022, the amounts due from joint ventures include US$8,312,000 (31 December 2021: US$11,945,000) financial supports to a joint venture in the form of shareholder loans. The amount due from an associate also includes a shareholder loan of US$480,000 (31 December 2021: Nil) financial supports to an associate. These loans are unsecured and bear an interest rate of 1.25% plus the Hong Kong Interbank Offered Rate per annum. The remaining amounts due from joint ventures, an associate and related companies arise mainly from trade transactions. They are unsecured, interest-free and repayable on demand in accordance with credit terms.

Information about the impairment of the balances can be found in Note 3.1(b)(ii).

The amounts due to joint ventures and related companies are unsecured, interest-free and repayable on demand. The amount due to an associate in prior year represent the outstanding capital contribution to a newly formed associate.

The carrying amounts of these balances approximate their fair values and are denominated in US$.

31 RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

(ii) Year-end balances arising from leases

	2022 US$'000	2021 US$'000
Lease liabilities from leases with related companies	**1,820**	1,679

(c) Key management compensation

	2022 US$'000	2021 US$'000
Basic salaries and allowance	**3,060**	3,346
Bonus	**1,485**	50
Pension scheme contributions	**18**	21
	4,563	3,417

(d) Banking facilities

As at 31 December 2022, certain banking facilities of the Group to the extent of US$428,195,000 (2021: US$373,496,000) were supported by corporate guarantees given by the Company.

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

		2022 US$'000	2021 US$'000
ASSETS			
Non-current asset			
Investments in subsidiaries		**71,564**	71,564
Current assets			
Amounts due from subsidiaries		**16,610**	23,381
Deposits, prepayments and other current assets		**26**	16
Cash and bank balances		**75**	60
Total current assets		**16,711**	23,457
Total assets		**88,275**	95,021
EQUITY			
Equity attributable to owners of the Company			
Share capital		**10,341**	10,341
Other reserves	(a)	**71,564**	71,564
Retained earnings	(a)	**2,129**	9,978
Total equity		**84,034**	91,883
LIABILITIES			
Current liabilities			
Other payables and accruals		**1,537**	1,236
Amounts due to fellow subsidiaries		**2,704**	1,902
Total liabilities		**4,241**	3,138
Total equity and liabilities		**88,275**	95,021

The statement of financial position of the Company has been approved by the Board of Directors on 28 March 2023 and has been signed on behalf.

Tan Cho Lung, Raymond
Director

Qu Zhiming
Director

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company

	Retained earnings US$'000	Other reserves US$'000	Total US$'000
At 1 January 2021	9,232	71,564	80,796
Profit for the year	746	–	746
At 31 December 2021	9,978	71,564	81,542
At 1 January 2022	**9,978**	**71,564**	**81,542**
Loss for the year	**(2,213)**	**–**	**(2,213)**
Dividend paid	**(5,636)**	**–**	**(5,636)**
At 31 December 2022	**2,129**	**71,564**	**73,693**

33 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2022 is set out below:

Name of director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (Note i) US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive directors						
Mr. Qu Zhiming *(Chairman)*	431	36	–	–	–	467
Mr. Tan Cho Lung, Raymond *(Chief Executive Officer)*	–	467	538	–	2	1,007
Mr. Huang Jie	388	32	–	–	–	420
Dr. Tan Siu Lin	103	9	–	–	–	112
Mr. Zhang Min	388	32	–	–	–	420
Non-executive directors						
Ms. Mok Siu Wan, Anne	31	–	–	–	–	31
Independent non-executive directors						
Mr. Chan Henry	31	–	–	–	–	31
Mr. Seing Nea Yie	31	–	–	–	–	31
Dr. Wang Ching	31	–	–	–	–	31
Total	1,434	576	538	–	2	2,550

33 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and senior management's emoluments (Continued)

The remuneration of every director for the year ended 31 December 2021 is set out below:

Name of director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (Note i) US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive directors						
Mr. Qu Zhiming *(Chairman)*	431	36	–	–	–	467
Mr. Tan Cho Lung, Raymond *(Chief Executive Officer)*	–	467	–	–	2	469
Mr. Huang Jie	388	32	–	–	–	420
Dr. Tan Siu Lin	104	9	–	–	–	113
Mr. Zhang Min	388	32	–	–	–	420
Non-executive directors						
Ms. Mok Siu Wan, Anne	44	–	–	–	–	44
Independent non-executive directors						
Mr. Chan Henry	31	–	–	–	–	31
Mr. Seing Nea Yie	31	–	–	–	–	31
Dr. Wang Ching	31	–	–	–	–	31
Total	1,448	576	–	–	2	2,026

	2022 US$'000	2021 US$'000
Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the company or its subsidiary undertaking	**1,434**	1,448
Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the company or its subsidiary undertaking	**1,116**	578
	2,550	2,026

33 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and senior management's emoluments (Continued)

Notes:

(i) Other benefits mainly include share options and other allowances.

During the year ended 31 December 2022, none of the directors of the Company waived any emoluments paid or payable by the Group during the year (2021: Nil) and there were no amounts paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2021: Nil).

(b) Directors' retirement benefits and termination benefits

During the year ended 31 December 2022, none of the directors received or will receive any retirement benefits or termination benefits during the financial year (2021: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2022, the Company did not pay consideration to any third parties for making available directors' services (2021: Nil).

(d) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and controlled entities with such directors

As at 31 December 2022, there are no loans, quasi-loans and other dealing arrangements in favor of directors, controlled bodies corporate by and controlled entities with such directors (2021: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the financial year (2021: Nil).

FIVE YEAR FINANCIAL SUMMARY

	2018	2019	2020	2021	**2022**
Financial highlights (US$'000)					
Total assets	520,334	563,129	538,616	561,995	**523,361**
Total liabilities	316,347	344,436	350,022	358,124	**315,711**
Bank borrowings	147,343	167,127	160,590	149,769	**148,501**
Capital and reserves attributable to owners of the Company	203,987	218,693	186,104	201,464	**206,473**
Working capital	63,310	65,132	30,001	35,815	**37,681**
Revenue	851,000	969,789	697,329	795,659	**858,861**
Profit/(loss) attributable to owners of the Company	23,303	25,165	(28,028)	11,195	**13,138**
Key ratios					
Current ratio	1.23	1.23	1.11	1.11	**1.14**
Gross profit margin	15.0%	14.7%	11.9%	15.5%	**14.9%**
Profit/(loss) margin attributable to owners of the Company	2.7%	2.6%	(4.0)%	1.4%	**1.5%**

Notes:

The financial summary of the Group is for information only and does not form part of the audited consolidated financial statements.