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## **LUEN THAI HOLDINGS LIMITED**

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

**(Stock Code: 311)**

### **CLARIFICATION ANNOUNCEMENT — FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014**

Reference is made to the announcement of Luen Thai Holdings Limited (“**Company**”) dated 27 March 2015 in relation to the final consolidated results of the Group for the year ended 31 December 2014 (“**Final Results Announcement**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Final Results Announcement.

As disclosed in the consolidated income statement in the Final Results Announcement, the Group incurred impairment loss on goodwill and write-off of customer relationships in the aggregate amount of approximately US\$20,960,000 (collectively, the “**Impairment Loss**”) for the year ended 31 December 2014. The Company would like to provide supplementary information in relation to the Impairment Loss below:

#### **Life-style Apparel Division**

During the year under review, the business performance of the Life-style Apparel Division was adversely affected by a considerable drop in orders placed by certain major customers of the Division. For one of such customers (“**Customer A**”), the monthly sales figures for this customer dropped gradually for the second half of 2014 and this customer no longer placed any order with the Group by the end of 2014. The Directors believe that such drop in orders was principally due to the fact that Customer A has changed its outsourcing strategy resulting in a shift of its outsourcing suppliers. For another customer of this Division (“**Customer B**”), the business with Customer B remained relatively stable until November 2014 when the purchase orders dropped drastically. The situation continued to worsen when this customer declared bankruptcy in early December 2014, which was not expected by the Board.

#### **Accessories Division**

The business performance of the footwear business under the Accessories Division (“**Accessories — Footwear**”) was negatively affected by a significant drop in orders from one of its major customers (“**Customer C**”). The Directors believed that due to its vendor consolidation strategy, Customer C has reduced placing purchase orders with the Group and the Accessories — Footwear business did not record any more business with Customer C starting from the second half of 2014.

## Impairment Loss

The Group has made a provision for impairment of goodwill of US\$8,576,000 and US\$1,506,000 for the Life-Style Apparel Division and the Accessories — Footwear business, respectively. In addition, the Group has written off customer relationships of US\$10,878,000 for these two divisions.

In accordance with HKAS 36 “Impairment of Assets”, the recoverable amount of a cash-generating unit (“CGU”) is determined based on fair value less costs of disposal calculations. The Group has made reference to the valuation reports issued by an independent valuer for the calculation of the recoverable amount of the CGUs. These calculations use post-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 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 fair value of a CGU, and therefore could eliminate the excess of fair value over carrying value of a CGU entirely and, in some cases, could result in impairment.

The key assumptions and parameters used for fair value less costs of disposal calculations are as follows. In addition, where there has been an impairment loss in a CGU, the recoverable amount is also disclosed below.

	2014		2013	
	Life-style Apparel	Accessories — Footwear	Life-style Apparel	Accessories — Footwear
Average revenue growth ( <i>Note i</i> )	<b>1.0%</b>	<b>1.3%</b>	4.9%	5.5%
Average gross profit margin	<b>16.7%</b>	<b>9.4%</b>	16.6%	9.7%
Terminal growth rate ( <i>Note ii</i> )	<b>3.0%</b>	<b>3.0%</b>	3.0%	3.0%
Discount rate ( <i>Note iii</i> )	<b>14.0%</b>	<b>13.0%</b>	14.0%	13.0%
Recoverable amount ( <i>US\$'000</i> )	<b>20,996</b>	<b>8,244</b>	N/A	N/A

### Notes:

- (i) Average revenue growth rates cover the five-year forecast period. It is based on the past performance and management’s expectations on market development. During the year, the Group reduced the average revenue growth rate for Life-style Apparel CGU and Accessories - Footwear CGU as a result of losing certain key customers and poor performance of these CGUs.
- (ii) The terminal growth rates do not exceed the long-term average growth rate of the business in which the CGUs operate.
- (iii) Post-tax discount rates applied to the post-tax cash flow forecast.

These assumptions and parameters have been used for the analysis of each CGU within the operating segment. There was no subsequent change in the valuation method used for changes in key assumptions and parameters used in the valuation.

The Company determined the financial forecast based on past performance and its expectations for the market development. The discount rates used are post-tax and reflect specific risks relating to the relevant segments.

The Board confirms that the above supplementary information in relation to the Impairment Loss does not affect other information contained in the Final Results Announcement.

Dated 8 April 2015

As at the date hereof, the Board of Directors of the Company comprise the following Directors:

*Executive Directors:*

Tan Siu Lin (*Chairman*)  
Tan Henry  
Tan Cho Lung, Raymond  
Mok Siu Wan, Anne

*Non-executive Directors:*

Tan Willie  
Lu Chin Chu

*Independent Non-executive Directors:*

Chan Henry  
Cheung Siu Kee  
Seing Nea Yie

By order of the Board

**Chiu Chi Cheung**

*Company Secretary*

Website: [www.luenthai.com](http://www.luenthai.com)