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LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

GROUP FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Revenue	**461,763**	378,151
Operating profit	**11,332**	13,268
Profit attributable to owners of the Company	**6,556**	9,038
Profit margin (ratio of profit attributable to owners of the Company to revenue)	**1.4%**	2.4%
Basic earnings per share *(US cents)*	**0.63**	0.87

The board of directors (the "Board") of Luen Thai Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the six months ended 30 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months period ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Note	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Revenue	4	**461,763**	378,151
Cost of sales		**(395,959)**	(325,200)
Gross profit		**65,804**	52,951
Other gains — net		**722**	2,499
Selling and distribution expenses		**(2,411)**	(1,278)
General and administrative expenses		**(52,783)**	(40,904)
Operating profit	5	**11,332**	13,268
Finance income		**342**	220
Finance costs		**(3,437)**	(1,446)
Finance costs — net	6	**(3,095)**	(1,226)
Share of losses of joint ventures		**(54)**	(1,409)
Profit before income tax		**8,183**	10,633
Income tax expense	7	**(1,627)**	(1,595)
Profit for the period		**6,556**	9,038
Profit attributable to owners of the Company		**6,556**	9,038
Earnings per share attributable to owners of the Company *(expressed in US cents per share)*			
Basic and diluted	8	**0.63**	0.87

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months period ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**6,556**	9,038
Other comprehensive loss		
Item that may be reclassified to profit or loss:		
Currency translation differences	**(323)**	(1,731)
Total comprehensive income for the period, net of income tax	**6,233**	7,307
Total comprehensive income attributable to owners of the Company	**6,233**	7,307

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Note	**As at 30 June 2019** **US$'000** **(Unaudited)**	As at 31 December 2018 US$'000 (Audited)
ASSETS			
Non-current assets			
Land use rights		**—**	5,628
Investment properties		**6,197**	6,510
Property, plant and equipment		**112,509**	109,297
Right-of-use assets		**20,873**	—
Intangible assets		**46,663**	47,066
Interests in joint ventures		**4,230**	4,551
Deferred income tax assets		**1,623**	1,599
Deposits, prepayments and other receivables	10	**5,166**	3,812
Total non-current assets		**197,261**	178,463
Current assets			
Inventories		**96,463**	87,858
Trade and other receivables	10	**189,507**	160,728
Prepaid income tax		**3,668**	9,661
Cash and bank balances		**55,947**	80,444
Restricted cash		**3,175**	3,180
Total current assets		**348,760**	341,871
Total assets		**546,021**	520,334
EQUITY			
Equity attributable to owners of the Company			
Share capital		**10,341**	10,341
Other reserves	12	**1,705**	2,028
Retained earnings		**191,920**	191,618
Total equity		**203,966**	203,987

	Note	As at 30 June 2019 US$'000 (Unaudited)	As at 31 December 2018 US$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		**22,800**	25,100
Other payables	11	**—**	688
Lease liabilities		**13,173**	—
Retirement benefit obligations		**8,789**	8,113
Deferred income tax liabilities		**3,783**	3,885
Total non-current liabilities		**48,545**	37,786
Current liabilities			
Trade and other payables	11	**152,086**	142,456
Borrowings		**132,311**	122,243
Lease liabilities		**3,364**	—
Derivative financial instruments		**26**	—
Current income tax liabilities		**5,723**	13,862
Total current liabilities		**293,510**	278,561
Total liabilities		**342,055**	316,347
Total equity and liabilities		**546,021**	520,334

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months period ended 30 June 2019

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements, except for the adoption of new and amended standards effective for the financial year ending 31 December 2019 as described below.

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

The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2019:

- Annual Improvements 2015 — 2017 Cycle,
- HKAS 19 (Amendments) Plan Amendment, Curtailment or Settlement,
- HKAS 28 (Amendments) Long-term Interests in Associates and Joint Ventures,
- HKFRS 9 (Amendments) Prepayment Features with Negative Compensation, and
- HKFRS 16 Leases

The impact of the adoption of HKFRS 16 is disclosed in Note 3 below. Other new or amended standards did not have any material impact on the Group's accounting policies.

The Group has not adopted any new or amended standards or interpretations that are not yet effective for this interim period.

3. CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 3(b) below.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening consolidated statement of financial position on 1 January 2019.

(a) Adoption recognized on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.25%.

	2019 *US$'000*
Operating lease commitments disclosed as at 31 December 2018	23,041
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(7,640)
Less: short-term and low-value leases recognized on a straight-line basis as expense	(2,054)
Lease liabilities recognized as at 1 January 2019	13,347
Current lease liabilities	2,944
Non-current lease liabilities	10,403
	13,347

The right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relate to the following types of assets:

	30 June 2019	1 January 2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Properties and land	**14,858**	11,639
Land use rights	**6,007**	5,628
Motor vehicles	**8**	12
	20,873	17,279

The change in accounting policy mainly affected the following items in the condensed consolidated statement of financial position on 1 January 2019:

- Right-of-use assets — increase by US$17,279,000
- Land use rights — decrease by US$5,628,000
- Lease liabilities — increase by US$13,347,000
- Current other payables — decrease by US$13,000
- Non-current other payables — decrease by US$688,000
- Current prepayment — decrease by US$63,000
- Non-current prepayment — decrease by US$915,000

The net impact on retained earnings on 1 January 2019 was a decrease of US$1,973,000. The impact on disclosure of segment and earnings per share are not significant.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 *Determining whether an Arrangement contains a Lease*.

(b) The Group's leasing activities and how these are accounted for

The Group leases various properties and land, land use rights and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 50 years but may have extension options as described below. 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, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of properties and land and motor vehicles were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, 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. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to 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. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, 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.

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
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases 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.

Extension and termination options are included in a number of properties and land leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. No lease payments made in 2019 were optional.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of US$9,014,000 have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, no significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

4. SEGMENT INFORMATION

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

The executive directors have been identified as the Group's chief operating decision-maker. The executive directors have determined the operating segments based on the information reviewed by them that are used to make strategic decisions.

The executive directors assess the performance of each segment based on a measure of segment profit primarily. Assets and liabilities of the Group are regularly reviewed on a consolidated basis. The segment information provided to the executive directors for the reportable segments for the six months ended 30 June 2019 and 2018 is as follows:

	Apparel *US$'000* (Unaudited)	Accessories *US$'000* (Unaudited)	Total Group *US$'000* (Unaudited)
Six months ended 30 June 2019			
Total segment revenue	**238,074**	**223,689**	**461,763**
Inter-segment revenue	**—**	**—**	**—**
Revenue (from external customers)	**238,074**	**223,689**	**461,763**
Timing of revenue recognition			
At a point in time	**238,074**	**222,718**	**460,792**
Over time	**—**	**971**	**971**
	238,074	**223,689**	**461,763**
Segment profit for the period	**8,169**	**4,096**	**12,265**
Profit for the period includes:			
Depreciation and amortization	**(5,198)**	**(4,950)**	**(10,148)**
Share of losses of joint ventures	**(54)**	**—**	**(54)**
Income tax expense	**(1,359)**	**(268)**	**(1,627)**

	Apparel	Accessories	Total Group
	US$'000	*US$'000*	*US$'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Six months ended 30 June 2018			
Total segment revenue	238,350	139,801	378,151
Inter-segment revenue	—	—	—
Revenue (from external customers)	238,350	139,801	378,151
Timing of revenue recognition			
At a point in time	238,350	139,799	378,149
Over time	—	2	2
	238,350	139,801	378,151
Segment profit for the period	7,610	6,918	14,528
Profit for the period includes:			
Depreciation and amortization	(4,038)	(1,844)	(5,882)
Share of losses of joint ventures	(1,409)	—	(1,409)
Income tax expense	(1,314)	(281)	(1,595)

Revenues between segments are carried out in accordance with the terms mutually agreed between the respective parties and are equivalent to those that prevail in arm's length transactions. The revenue from external parties is derived from numerous external customers and the revenue reported to management is measured in a manner consistent with that in the condensed consolidated statement of profit or loss. Management assesses the performance of the operating segments based on a measure of profit before corporate expenses for the period.

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

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Segment profit for the period	**12,265**	14,528
Corporate expenses *(Note)*	**(5,709)**	(5,490)
Profit for the period	**6,556**	9,038

Note: Corporate expenses represent general corporate expenses such as executive salaries and other unallocated general and administrative expenses.

5. OPERATING PROFIT

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

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Amortization of land use rights	**—**	85
Amortization of intangible assets	**403**	130
Depreciation of property, plant and equipment	**7,688**	5,667
Depreciation of right-of-use assets	**1,707**	—
Depreciation and amortization of investment properties	**350**	—
Losses/(gains) on disposals of property, plant and equipment	**158**	(143)
Provision for impairment of receivables	**164**	76
Provision for inventory obsolescence	**145**	248
Reversal of provision for material claims	**(1,863)**	(938)
Redundancy expenses	**2,923**	—

6. FINANCE COSTS — NET

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	**(450)**	—
Interest expense on bank loans and overdrafts	**(2,987)**	(1,446)
Finance costs	**(3,437)**	(1,446)
Interest income from bank deposits	**224**	152
Effective interest income from amount due from a joint venture	**118**	68
Finance income	**342**	220
Finance costs — net	**(3,095)**	(1,226)

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Current income tax	**1,755**	1,630
Deferred income tax	**(128)**	(35)
	1,627	1,595

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. A Macao incorporated subsidiary also reached a case settlement with the IRD during this interim period.

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 2012/13 on the basis of no 50:50 apportionment for 2000/01 to 2011/12 and no 100% offshore profit for 2012/13 with the amount of US$3,812,000. The subsidiary has lodged objection against the above assessments by the statutory deadlines and, pending settlement of the objections, it has paid a total sum of US$3,663,000 in the form of tax reserve certificates in respect of the tax in dispute up to and including the year of assessment 2012/13.

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.

In respect of the Macao incorporated subsidiary, in December 2018, it has submitted a settlement proposal to the IRD to offer the trading profits for the years of assessment 2005/06 to 2009/10 as taxable. Meanwhile the trading profits thereafter up to and including the year of assessment 2017/18 will not be subject to profits tax in Hong Kong. Accordingly, a provision of income tax liabilities in relation to the proposal of US$7,587,000 has been made in respect of the years of assessment 2005/06 to 2009/10 as at 31 December 2018. The proposal was prepared on a without prejudice basis solely to expedite the progress and achieve full settlement. It shall not be construed as an admission of liability or wrongdoing of the Macao incorporated subsidiary or any other subsidiaries of the Company. The settlement proposal was accepted by IRD in April 2019 with a final tax and interest payable of US$7,578,000. It has fully settled the tax liabilities.

(ii) In prior years and during the period, an overseas tax authority performed tax assessments on overseas incorporated subsidiaries' tax position for the years ended 31 December 2016, 2017 and 2018 and certain periods during the years ended 31 December 2016, 2017, 2018 and 2019, and issued tax assessments/revised tax assessments to demand additional tax payment of US$319,000. The subsidiaries have lodged objection letters to this overseas tax authority. With respect to these tax assessments, management believes that they have grounds to defend their tax position since there are various interpretations of tax rules in that country and a clear calculation basis for the additional tax payment was not provided. Management considers the provision as at 30 June 2019 is adequate.

Moreover, pursuant to the deeds of undertaking dated 11 March 2013 in connection with the acquisition of these subsidiaries in 2013 (the "Acquisition"), any additional taxation resulting from the subsidiary in relation to periods prior to the Acquisition has been/will be indemnified and reimbursed entirely by its former shareholders.

8. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company	**6,556**	9,038
Weighted average number of ordinary shares in issue *(thousands)*	**1,034,113**	1,034,113
Basic earnings per share *(US cents per share)*	**0.63**	0.87

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2019 and 2018 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

9. DIVIDENDS

(a) Dividends recognized during the reporting period

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Final dividend of US0.414 cent or equivalent to HK3.24 cents (2017: US0.747 cent) per ordinary share for the year ended 31 December 2018	**4,281**	7,724

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

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Interim dividend — US0.190 cent or equivalent to HK1.49 cents (2018: US0.262 cent) per ordinary share	**1,965**	2,709

The interim dividend of US0.190 cent per share (2018: US0.262 cent per share) was declared by the Board of Directors on 29 August 2019. This condensed consolidated interim financial information does not reflect this dividend payable.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019	As at 31 December 2018
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Current portion		
Trade and bills receivables — net	**156,812**	126,689
Deposits, prepayments and other receivables	**25,134**	28,575
Amounts due from related parties	**7,561**	5,464
	189,507	160,728
Non-current portion		
Prepayments for purchases of property, plant and equipment	**2,451**	365
Deposits	**1,839**	1,647
Others	**876**	1,800
	5,166	3,812

	As at 30 June 2019 US$'000 (Unaudited)	As at 31 December 2018 US$'000 (Audited)
Trade and bills receivables	**157,089**	126,802
Less: loss allowances	**(277)**	(113)
Trade and bills receivables — net	**156,812**	126,689

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

	As at 30 June 2019 US$'000 (Unaudited)	As at 31 December 2018 US$'000 (Audited)
0 to 30 days	**88,683**	75,015
31 to 60 days	**46,702**	30,786
61 to 90 days	**10,845**	10,581
91 to 120 days	**3,735**	4,158
Over 120 days	**7,124**	6,262
	157,089	126,802

11. TRADE AND OTHER PAYABLES

	As at 30 June 2019 US$'000 (Unaudited)	As at 31 December 2018 US$'000 (Audited)
Trade and bills payables	**77,394**	75,730
Contract liability	**300**	400
Other payables and accruals	**68,175**	63,546
Amounts due to related parties	**6,217**	3,468
	152,086	143,144
Less: non-current	**—**	(688)
Trade and other payables, current	**152,086**	142,456

As at 30 June 2019 and 31 December 2018, the ageing analysis of the trade and bills payables based on invoice date is as follows:

	As at 30 June 2019 ***US$'000*** **(Unaudited)**	As at 31 December 2018 *US$'000* (Audited)
0 to 30 days	**66,434**	63,284
31 to 60 days	**7,495**	7,694
61 to 90 days	**902**	2,441
Over 90 days	**2,563**	2,311
	77,394	75,730

12. OTHER RESERVES

	Capital reserve *US$'000* (Unaudited)	**Other capital reserves** *US$'000* (Unaudited)	**Employment benefit reserve** *US$'000* (Unaudited)	**Exchange reserve** *US$'000* (Unaudited)	**Total** *US$'000* (Unaudited)
As at 1 January 2019	**7,891**	**(4,466)**	**4,793**	**(6,190)**	**2,028**
Currency translation differences	**—**	**—**	**19**	**(342)**	**(323)**
As at 30 June 2019	**7,891**	**(4,466)**	**4,812**	**(6,532)**	**1,705**
As at 1 January 2018	7,891	(4,466)	1,144	(3,341)	1,228
Currency translation differences	—	—	(32)	(1,699)	(1,731)
As at 30 June 2018	7,891	(4,466)	1,112	(5,040)	(503)

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations and Overview

After robust growth in 2017 and early 2018, the global economic activity slowed down notably in the second half of 2018 due to various external factors including the rise of economic protectionism, the fear of Hard Brexit and the sluggish economic growth of certain economic giants such as China and Germany. In addition, customer's expectation on speediness, quality and pricing of products and services has been raised to a greater extent due to the increasing popularity of online shopping, which also posed challenge to our OEM business.

Despite such difficult business environment and volatile global economic situation, the Group recorded revenue of approximately US$461,763,000 for the period under review, representing a considerable increase of 22.1% or US$83,612,000 as compared to revenue of approximately US$378,151,000 for the same period in last year. Such significant increase in revenue was attributable to the expansion in production capacity of the accessories products following the completion of the acquisition of Universal Elite Holdings Limited and its subsidiaries (collectively, "Universal Group") in October 2018. In line with the increase in revenue, gross profit for the period increased substantially by 24.3% to US$65,804,000.

Profit attributable to owners of the Company ("Net Profit") amounted to approximately US$6,556,000 for the period ended 30 June 2019, representing a significant decrease of US$2,482,000 or 27.5% compared to corresponding period in last year. Such decrease was mainly attributable to the one-off costs incurred for the downsizing of a factory in Dongguan, Guangdong province of the People's Republic of China (the "PRC"), including redundancy expenses and other related expenses, which amounted to approximately US$2,923,000. Excluding such non-recurring expenses, the Net Profit would have been increased by 4.9% to US$9,479,000 and the net profit margin rose from approximately 1.4% to 2.1%.

Segmental Review

Apparel and Accessories business accounted for approximately 51.6% and 48.4% respectively of the Group's total revenue for the period under review.

Apparel

For the first half of 2019, revenue generated from the Apparel Division was approximately US$238,074,000. As compared to the corresponding period in last year, it decreased slightly by approximately US$276,000 or 0.1%. The negligible decrease of the segment revenue of the Apparel Division was mainly due to the mild increase in average selling price offset weakening demand from its brand customers.

Despite the decrease in segment revenue, the segment profit of the Apparel Division increased by 7.3% to approximately US$8,169,000 as compared to the same period of 2018. Such improvement was mainly attributable to the continuing restructuring and reorganization for enhancement of overall cost-effectiveness and efficiency within the Apparel Division.

Accessories

Sales revenue from the Accessories Division amounted to approximately US$223,689,000, representing an increase of approximately 60.0% as compared to the corresponding period in last year. Such increase was a direct result of the acquisition of the Universal Group.

The Accessories Division recorded a segment profit of US$4,096,000, with a decrease of approximately 40.8% from approximately US$6,918,000 last year. The decrease in segment profit was a combined effect of (i) positive impact of completion of the acquisition of the Universal Group in late 2018; and (ii) the one-off expenses relating to the downsizing of a factory as mentioned under the heading "Results of Operations and Overview" above.

Markets

Geographically, Europe and the United States of America ("US") remained our key export markets for the period under review. The total revenue derived from customers in Europe and the US collectively accounted for approximately 75.4% of the Group's total revenue in the first half of 2019.

The Group's revenue from the Asia market (mainly the PRC and Japan) was approximately US$57,512,000, which accounted for approximately 12.5% of the Group's total revenue in the first half of 2019.

Liquidity and Financial Resource

The financial position of the Group remained healthy. As at 30 June 2019, the total cash and bank deposits of the Group amounted to approximately US$59,122,000, representing a decrease of approximately US$24,502,000 over the balance as at 31 December 2018. The Group's total bank borrowings as at 30 June 2019 was approximately US$155,111,000, representing an increase of approximately 5.3% as compared to approximately US$147,343,000 as at 31 December 2018.

Gearing ratio is defined as net debt (representing bank borrowings net of cash and bank balances) divided by shareholders' equity. As at 30 June 2019, the gearing ratio of the Group was approximately 47.1%.

As at 30 June 2019, based on the scheduled repayments set out in the relevant loan agreements with banks, the maturity profile of the Group's bank borrowings spreads over five years, with approximately US$115,811,000 repayable within one year, approximately US$9,200,000 repayable in the second year and approximately US$30,100,000 repayable in the third to fifth year.

Foreign Exchange Risk Management

The Group adopts a prudent policy to hedge against the fluctuations in exchange rates. Most of the Group's operating activities are denominated in US dollar, Euro, Hong Kong dollar, Vietnam Dong, Cambodian Riel, Chinese Yuan, Burmese Kyat, Thailand Baht and Philippine Peso. For those activities denominated in other currencies, the Group may enter into forward contracts to hedge its receivables and payables denominated in foreign currencies against the exchange rate fluctuations.

Future Plans and Prospect

On 1 August 2019, US announced that a 10% tariff will be imposed on a final US$300 billion worth of Chinese imports on 1 September 2019, prompting the PRC to halt purchases of agricultural products from US. The PRC is also accused as a currency manipulator by the US. The ceasefire of the trade war was broken due to such announcement and a trade deal was not expected to be completed in the near future. Even though the US-PRC trade war has no direct impact on our business, as the Group has been reducing our PRC production capacities. However, the indirect impact remains unpredictable, as certain customers may intend either to reduce or postpone their purchasing orders.

In addition, the possibility of Hard Brexit is growing, as the Brexit deadline is imminent (i.e. 31 October 2019). The eventual impact of Brexit remain unknown and unclear, but the turmoil of the Hard Brexit was taking its toll. Under such circumstances, it is expected that the global economy will continue to be volatile and consumer sentiment will remain fragile.

Facing these challenges, The Group will continue proactively exploring appropriate location in Southeast Asian countries for establishment of a new production base with a view to improving our competitive edge and diversifying the geographical location.

On the other hand, as described in the section headed "Results of Operations and Overview" above, the Net Profit for the period under review decreased by approximately 27.5%. Despite the substantial decline, the Board would like to emphasize that the downsizing costs are non-recurring and one-off in nature, these expenses do not affect the normal operations of the Group. The Group's financial position remains stable and the Group has adequate financial resources to fund its continued growth. The Board will closely review the Group's operations and strategies with a view to improving its business performance and the Company's shareholders' return in the long run.

As disclosed in the latest annual report, the strategic acquisition of Universal Group was completed last year. Such acquisition allows the Group to own production facilities in four Generalized System of Preference ("GSP") beneficiary countries (i.e. Philippines, Cambodia, Myanmar and Thailand) and enables the Group to increase its production capacity immediately to meet the growing demand of accessories products produced in those GSP countries. Hence, the Group's competitiveness in the production of bags was further enhanced.

Significant Investments, Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures, and Future Plan for Material Investments of Capital Assets

Other than as disclosed elsewhere in this management discussion and analysis or in the condensed consolidated financial information for the six months ended 30 June 2019, there were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the period.

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

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

Contingent Liabilities

As at 30 June 2019 and 31 December 2018, a group of subsidiaries acquired in prior year has a contingent liability regarding potential exposure to overseas import duties, taxes and penalties of approximately US$5,504,000. The contingent liability was recognized upon business combination during the year ended 31 December 2018. Pursuant to the agreement for sale and purchase of the shares of these subsidiaries in 2018, such taxation claim in relation to periods prior to the acquisition will be indemnified entirely by the former shareholders of the these subsidiaries. Accordingly, the Group has also recognized an indemnification asset.

Human Resources, Social Responsibilities and Corporate Citizenship

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares for the period under review.

CORPORATE GOVERNANCE PRACTICES

Throughout the six-month period ended 30 June 2019, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in the Appendix 14 of the Listing Rules. The Board Diversity Policy is published on the website of the Company for public information.

Luen Thai acknowledges the need and importance of corporate governance as one of the key elements in creating shareholders' value. It is committed to ensuring high standards of corporate governance in the interests of shareholders and taking care to identify practices designed to achieve effective oversight, transparency and ethical behavior. As at the date of this announcement, the Company has formed the following committees at the Board level:

Audit Committee: The Audit Committee has been set up to provide advice and recommendations to the Board. Mr. Huang Jie and the three independent non-executive Directors of the Company, namely, Mr. Chan Henry, Dr. Wang Ching, and Mr. Seing Nea Yie as the Committee Chairman, comprise the Audit Committee. Each committee member possesses appropriate finance and/or industry expertise to advise the Board.

Remuneration Committee: The Remuneration Committee has been set up with the responsibility of recommending to the Board the remuneration policy for all Directors and the senior management. Mr. Qu Zhiming and the three independent non-executive Directors of the Company, namely, Mr. Chan Henry, Dr. Wang Ching, and Mr. Seing Nea Yie as the Committee Chairman, comprise the Remuneration Committee.

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

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

Corporate governance practices of the Company during the six-month period ended 30 June 2019 were in line with those practices set out in the Corporate Governance Report in the Company's 2018 Annual Report.

MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). After having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standards as set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim financial information has been reviewed by the Company's audit committee. Such unaudited condensed consolidated interim financial information has also been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2019 Interim Report.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1.49 cents per share (2018: HK2.04 cents) for the six months ended 30 June 2019 to be payable to shareholders whose names appear on the Register of Members of the Company on 4 October 2019.

The interim dividend will be paid on or around 25 October 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 2 October 2019 to 4 October 2019, both days inclusive, during which period no transfer of shares will be registered. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 30 September 2019 to qualify for the interim dividend mentioned above.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

Information required to be disclosed pursuant to paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk) in due course.

By order of the Board
Tan Cho Lung, Raymond
Chief Executive Officer and Executive Director

Hong Kong, 29 August 2019

As at the date of this announcement, the Board comprises Mr. Shen Yaoqing, Dr. Tan Siu Lin, Mr. Tan Cho Lung, Raymond, Mr. Qu Zhiming and Ms. Mok Siu Wan, Anne as executive Directors; Mr. Huang Jie as non-executive Director; Mr. Chan Henry, Mr. Seing Nea Yie and Dr. Wang Ching as independent non-executive Directors.