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## **LUEN THAI HOLDINGS LIMITED**

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

**(Stock Code: 311)**

### **FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022**

#### **GROUP FINANCIAL HIGHLIGHTS**

	<b>For the year ended 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>US\$'000</i></b>	<b><i>US\$'000</i></b>
Revenue	<b>858,861</b>	795,659
Operating profit	<b>22,293</b>	21,874
Profit attributable to owners of the Company	<b>13,138</b>	11,195
Basic earnings per share ( <i>US cents</i> )	<b>1.3</b>	1.1

The board of directors (the “Board”) of Luen Thai Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “Group” or “Luen Thai”) for the year ended 31 December 2022.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	2022 US\$'000	2021 US\$'000
Revenue	3	858,861	795,659
Cost of sales		<u>(730,528)</u>	<u>(672,015)</u>
<b>Gross profit</b>		<b>128,333</b>	123,644
Other income and other gains — net (Provision for)/reversal of provision for impairment of trade receivables	4	1,747 (233)	1,321 271
Selling and distribution expenses		(1,637)	(2,084)
General and administrative expenses		<u>(105,917)</u>	<u>(101,278)</u>
<b>Operating profit</b>	5	<u>22,293</u>	<u>21,874</u>
Finance income	6	825	551
Finance costs	6	<u>(8,977)</u>	<u>(5,732)</u>
Finance costs — net	6	<u>(8,152)</u>	<u>(5,181)</u>
Share of losses of joint ventures and associates — net		<u>(601)</u>	<u>(2,014)</u>
<b>Profit before income tax</b>		<b>13,540</b>	14,679
Income tax expense	7	<u>(1,183)</u>	<u>(3,505)</u>
<b>Profit for the year</b>		<u>12,357</u>	<u>11,174</u>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		13,138	11,195
Non-controlling interests		<u>(781)</u>	<u>(21)</u>
		<u>12,357</u>	<u>11,174</u>
<b>Earnings per share attributable to owners of the Company for the year</b> (expressed in US cents per share)			
Basic and diluted	8	<u>1.3</u>	<u>1.1</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

### 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.

### 2. 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.

#### **Changes in accounting policies and disclosures**

##### **(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

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 or 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.

		<b>Effective for annual reporting periods beginning on or after</b>
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.

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.

### **3. SEGMENT INFORMATION**

The Group is principally engaged in the manufacturing and trading of apparel and accessories. Revenue mainly consists of sales revenue from apparel 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 segment presentation has been changed to align with the updated internal management and reporting structure. The segment information of the comparative year has been restated to conform with the current year categorization and presentation.



The segment information provided to the executive directors for the reportable segments for the years ended 31 December 2022 and 2021 is as follows:

	<b>Apparel</b> <i>US\$'000</i>	<b>Accessories</b> <i>US\$'000</i>	<b>Total</b> <i>US\$'000</i>
<b>For the year ended 31 December 2022</b>			
<b>Revenue (from external customers)</b>	<b>520,119</b>	<b>338,742</b>	<b>858,861</b>
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
	<b>520,119</b>	<b>338,742</b>	<b>858,861</b>
<b>Segment profit for the year</b>	<b>636</b>	<b>28,273</b>	<b>28,909</b>
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)

	Apparel <i>US\$'000</i> (Restated)	Accessories <i>US\$'000</i>	Total <i>US\$'000</i> (Restated)
<b>For the year ended 31 December 2021</b>			
<b>Revenue (from external customers)</b>	<u>475,623</u>	<u>320,036</u>	<u>795,659</u>
Revenue recognized under HKFRS 15			
— At a point in time	475,402	319,710	795,112
Rental income recognized under HKFRS 16	<u>221</u>	<u>326</u>	<u>547</u>
	<u>475,623</u>	<u>320,036</u>	<u>795,659</u>
<b>Segment profit for the year</b>	<u>12,570</u>	<u>13,951</u>	<u>26,521</u>
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	<u>(3,366)</u>	<u>(139)</u>	<u>(3,505)</u>

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.

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

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

*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.

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

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.

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

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:

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

#### 4. OTHER INCOME AND OTHER GAINS — NET

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

#### 5. OPERATING PROFIT

	<b>2022</b> <i>US\$'000</i>	2021 <i>US\$'000</i>
Employee benefit expenses	<b>216,720</b>	198,308
Losses on disposals of property, plant and equipment — net	<b>31</b>	829
Depreciation of property, plant and equipment	<b>17,544</b>	18,014
Depreciation of right-of-use assets	<b>6,232</b>	6,065
Amortization of intangible assets	<b>668</b>	668
Provision for obsolete inventories	<b>1,579</b>	1,439
	<u><b>1,579</b></u>	<u>1,439</u>

## 6. FINANCE COSTS — NET

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

## 7. 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 <i>US\$'000</i>	2021 <i>US\$'000</i>
Current income tax	1,826	3,827
Over-provision in prior years	(161)	(52)
Deferred income tax	<u>(482)</u>	<u>(270)</u>
Income tax expense	<u>1,183</u>	<u>3,505</u>

*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.

- (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 and the capital gain from the transaction was subject to PRC 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 can be excluded from PRC 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 PRC WIT exposure is 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 amounts 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 Cambodian 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.

## 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 year.

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

### (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.

## 9. 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	<u>2,275</u>	<u>—</u>

### (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 was not 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	<u>2,771</u>	<u>3,361</u>

## 10. TRADE AND OTHER RECEIVABLES

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

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 <i>US\$'000</i>	2021 <i>US\$'000</i>
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	<u>5,318</u>	<u>4,288</u>
	<u><b>69,252</b></u>	<u><b>94,577</b></u>



## 11. TRADE AND OTHER PAYABLES

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

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

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
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
	<u>50,434</u>	<u>81,134</u>

## 12. OTHER RESERVES

	Capital reserve <i>US\$'000</i>	Other capital reserves <i>US\$'000</i>	Employment benefits reserve <i>US\$'000</i>	Exchange reserve <i>US\$'000</i>	Total <i>US\$'000</i>
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	<u>7,891</u>	<u>(2,795)</u>	<u>3,394</u>	<u>(6,880)</u>	<u>1,610</u>
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	<u>7,891</u>	<u>(2,795)</u>	<u>5,840</u>	<u>(11,819)</u>	<u>(883)</u>

## MANAGEMENT DISCUSSION & 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.

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.

## **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.

### **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'état 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 USA, 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 USA, 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.

## **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 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.

### **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.

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.

### **Human Resources and Corporate Social Responsibility**

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

With approximately 36,000 employees around the world, Luen Thai continuously strives to foster open communications with employees through various channels. Under its employee care initiatives, Luen Thai has provided safe and enjoyable work and living environments, equitable compensation and benefit schemes, and opportunities for career growth through a variety of formal and informal learning and development programmes; and a strong corporate culture where 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.

## **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.

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.

## **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 year ended 31 December 2022.



## **CORPORATE GOVERNANCE**

The Group 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 takes care to identify practices designed to achieve effective oversight, transparency and ethical behavior. The Company periodically reviews its corporate governance practices to ensure its continuous compliance. Full details on the subject of corporate governance are set out in the Company's 2022 annual report.

Throughout the year ended 31 December 2022, the Company has complied with all applicable code provisions of the Corporate Governance Code as set out in the Appendix 14 of the Listing Rules.

## **AUDIT COMMITTEE**

The audit committee of the Company ("Audit Committee") was established with written terms of reference that set out the authorities and duties of the Audit Committee adopted by the Board. The principal duties of the Audit Committee include review and supervision of the financial process. It also reviews the effectiveness of internal audit, risk evaluation, internal controls and the interim and annual result of the Group.

The final results of the Company for the year ended 31 December 2022 have been reviewed by the Audit Committee.

## **SCOPE OF WORK OF THE EXTERNAL AUDITOR**

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.



## **FINAL DIVIDEND**

The Board has resolved to recommend the payment of final dividend of US0.268 cent per share (or equivalent to HK2.10 cents) to the shareholders on the register of members on 9 June 2023 totaling to approximately US\$2,771,000. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held 25 May 2023 (the “AGM”), the proposed final dividend will be paid on or about 14 July 2023 to shareholders of the Company whose names appear on the register of members of the Company on 9 June 2023.

## **CLOSURE OF REGISTER OF MEMBERS**

### ***(a) Entitlement to attend and vote at the AGM***

The Register of Members of the Company will be closed from 23 May 2023 to 25 May 2023 (both days inclusive), during which period no transfers of shares will be registered. To determine the entitlement to attend and vote at the AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company’s Branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 22 May 2023.

### ***(b) Entitlement to the proposed final dividend***

The Register of Members of the Company will also be closed from 7 June 2023 to 9 June 2023 (both days inclusive), during which period no transfer of shares will be registered. In order to ascertain shareholders’ entitlement to the proposed final dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company’s Branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 6 June 2023.

## **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 date of this announcement as required under the Listing Rules.

## **PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

The Company's annual results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.luenthai.com](http://www.luenthai.com).

The annual report of the Company for the year ended 31 December 2022 containing the information required by the Listing Rules will be dispatched to the shareholders in due course.

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

Hong Kong, 28 March 2023

As at the date of this announcement, the Board comprises the following directors:

*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