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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 2020

GROUP FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | |
|--|---------------------------------|-----------------------------------|
| | 2020 | 2019 |
| | US\$'000 | US\$'000 |
| | (Unaudited) | (Unaudited) (Restated) |
| Revenue | 331,687 | 461,763 |
| Operating (loss)/profit | (15,105) | 11,127 |
| (Loss)/profit attributable to owners of the Company | (18,687) | 6,572 |
| (Loss)/profit margin (ratio of (loss)/profit attributable to owners of the Company to revenue) | (5.6)% | 1.4% |
| (Loss)/earnings per share (<i>US cents</i>) | (1.81) | 0.64 |

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 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

| | | Six months ended 30 June | |
|--|------|--------------------------|---------------------------|
| | | 2020 | 2019 |
| | Note | US\$'000 | US\$'000 |
| | | (Unaudited) | (Unaudited) (Restated) |
| Revenue | 3 | 331,687 | 461,763 |
| Cost of sales | | <u>(294,213)</u> | <u>(395,959)</u> |
| Gross profit | | 37,474 | 65,804 |
| Other (losses)/gains — net | | (610) | 722 |
| Selling and distribution expenses | | (746) | (2,411) |
| General and administrative expenses | | (48,574) | (52,824) |
| Provision for impairment of receivables | | <u>(2,649)</u> | <u>(164)</u> |
| Operating (loss)/profit | 4 | <u>(15,105)</u> | <u>11,127</u> |
| Finance income | | 209 | 342 |
| Finance costs | | <u>(3,055)</u> | <u>(3,216)</u> |
| Finance costs — net | 5 | <u>(2,846)</u> | <u>(2,874)</u> |
| Share of losses of joint ventures | | <u>(523)</u> | <u>(54)</u> |
| (Loss)/profit before income tax | | (18,474) | 8,199 |
| Income tax expense | 6 | <u>(591)</u> | <u>(1,627)</u> |
| (Loss)/profit for the period | | <u>(19,065)</u> | <u>6,572</u> |
| (Loss)/profit attributable to:- | | | |
| Owners of the Company | | (18,687) | 6,572 |
| Non-controlling interests | | <u>(378)</u> | <u>—</u> |
| | | <u>(19,065)</u> | <u>6,572</u> |
| (Loss)/earnings per share attributable to owners of the Company (expressed in US cents per share) | | | |
| Basic and diluted | 7 | <u>(1.81)</u> | <u>0.64</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

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

| | | As at 30 June 2020 <i>US\$'000</i> (Unaudited) | As at 31 December 2019 <i>US\$'000</i> (Audited) |
|--------------------------------------|----|--|--|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | | 25,933 | 20,200 |
| Lease liabilities | | 28,340 | 27,714 |
| Retirement benefit obligations | | 12,460 | 12,239 |
| Deferred income tax liabilities | | 3,851 | 3,465 |
| | | <u>70,584</u> | <u>63,618</u> |
| Total non-current liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | 121,948 | 120,919 |
| Borrowings | | 122,823 | 146,927 |
| Lease liabilities | | 4,446 | 4,653 |
| Derivative financial instruments | | — | 19 |
| Current income tax liabilities | | 6,627 | 8,300 |
| | | <u>255,844</u> | <u>280,818</u> |
| Total current liabilities | | | |
| Total liabilities | | | |
| | | <u>326,428</u> | <u>344,436</u> |
| Total equity and liabilities | | | |
| | | <u>529,053</u> | <u>563,129</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by Luen Thai Holdings Limited during the interim reporting period.

2. ACCOUNTING POLICIES

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

New and amended standards relevant to and adopted by the Group

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

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

These standards have no material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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

3. SEGMENT INFORMATION

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

The executive directors have been identified as the Group's chief operating decision-maker. The executive directors have determined the operating segments based on the information reviewed by them that are used to make strategic decisions. The executive directors exclude certain one-off items that might not occur regularly and which introduce volatility into the results of the segment. Certain comparative figures in segment information have been restated to conform to current period presentation.

The executive directors assess the performance of each segment based on a measure of segment profit primarily. Assets and liabilities of the Group are regularly reviewed on a consolidated basis. The segment information provided to the executive directors for the reportable segments for the six months ended 30 June 2020 and 2019 is as follows:

| | Apparel <i>US\$'000</i> (Unaudited) | Accessories <i>US\$'000</i> (Unaudited) | Total Group <i>US\$'000</i> (Unaudited) |
|---|---|---|---|
| Six months ended 30 June 2020 | | | |
| Revenue (from external customers) | 187,700 | 143,987 | 331,687 |
| Timing of revenue recognition At a point in time | 187,700 | 143,987 | 331,687 |
| Segment loss for the period | (5,382) | (5,100) | (10,482) |
| Loss for the period includes: | | | |
| Depreciation and amortization | (6,339) | (5,232) | (11,571) |
| Share of losses of joint ventures | (523) | — | (523) |
| Income tax (expense)/credit | (748) | 157 | (591) |

| | Apparel US\$'000 (Unaudited) (Restated) | Accessories US\$'000 (Unaudited) (Restated) | Total Group US\$'000 (Unaudited) (Restated) |
|--------------------------------------|--|--|--|
| Six months ended 30 June 2019 | | | |
| Revenue (from external customers) | <u>238,074</u> | <u>223,689</u> | <u>461,763</u> |
| Timing of revenue recognition | | | |
| At a point in time | 238,074 | 222,718 | 460,792 |
| Over time | <u>—</u> | <u>971</u> | <u>971</u> |
| | <u>238,074</u> | <u>223,689</u> | <u>461,763</u> |
| Segment profit for the period | <u>8,185</u> | <u>7,019</u> | <u>15,204</u> |
| Profit for the period includes: | | | |
| Depreciation and amortization | (5,398) | (4,955) | (10,353) |
| Share of losses of joint ventures | (54) | — | (54) |
| Income tax expense | <u>(1,359)</u> | <u>(268)</u> | <u>(1,627)</u> |

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 (loss)/profit to the (loss)/profit for the period is provided as follows:

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

Notes:

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

4. OPERATING (LOSS)/PROFIT

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

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

5. FINANCE COSTS — NET

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

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

| | Six months ended 30 June | |
|---------------------|---------------------------------|---------------------------------|
| | 2020 US\$'000 (Unaudited) | 2019 US\$'000 (Unaudited) |
| Current income tax | 929 | 1,755 |
| Deferred income tax | (338) | (128) |
| | <u>591</u> | <u>1,627</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 2013/14 on the basis of no 50:50 apportionment for 2000/01 to 2011/12 and no 100% offshore profit for 2012/13 and 2013/14 with the amount of US\$3,810,000 (equivalent to approximately HK\$29,718,000). The subsidiary has lodged objections against the above assessments for 2000/01 to 2013/14 by the statutory deadlines. Pending settlement of the objections, it has paid a total sum of US\$3,685,000 (equivalent to approximately HK\$28,743,000) in the form of tax reserve certificates in respect of the tax in dispute up to and including the year of assessment 2013/14.

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

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

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

7. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

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

(b) Diluted

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

8. DIVIDENDS

(a) Dividends recognized during the reporting period

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2020 | 2019 |
| | <i>US\$'000</i> | <i>US\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Final dividend of US\$Nil (2018: US\$0.414 cent) per ordinary share for the year ended 31 December 2019 | <u>—</u> | <u>4,281</u> |

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

| | Six months ended 30 June | |
|--|---------------------------------|-----------------|
| | 2020 | 2019 |
| | <i>US\$'000</i> | <i>US\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Interim dividend — US\$Nil (2019: US\$0.190 cent) per ordinary share | — | 1,965 |

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

9. TRADE AND OTHER RECEIVABLES

| | As at 30 June 2020 <i>US\$'000</i> (Unaudited) | As at 31 December 2019 <i>US\$'000</i> (Audited) |
|--|---|---|
| Current portion | | |
| Trade and bills receivables — net | 84,208 | 128,651 |
| Deposits, prepayments and other receivables | 28,170 | 24,366 |
| Amounts due from related parties | 11,645 | 5,190 |
| | <u>124,023</u> | <u>158,207</u> |
| | | |
| | As at 30 June 2020 <i>US\$'000</i> (Unaudited) | As at 31 December 2019 <i>US\$'000</i> (Audited) |
| Non-current portion | | |
| Prepayments for purchases of property, plant and equipment | 1,589 | 285 |
| Deposits | 2,354 | 2,405 |
| Prepayment for acquisition of a subsidiary | — | 4,365 |
| Others | 794 | 776 |
| | <u>4,737</u> | <u>7,831</u> |
| | | |
| | As at 30 June 2020 <i>US\$'000</i> (Unaudited) | As at 31 December 2019 <i>US\$'000</i> (Audited) |
| Trade and bills receivable | 87,255 | 129,049 |
| Less: loss allowances | (3,047) | (398) |
| Trade and bills receivable — net | <u>84,208</u> | <u>128,651</u> |

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

| | As at 30 June 2020 <i>US\$'000</i> (Unaudited) | As at 31 December 2019 <i>US\$'000</i> (Audited) |
|----------------|---|---|
| 0 to 30 days | 47,762 | 102,414 |
| 31 to 60 days | 15,333 | 18,266 |
| 61 to 90 days | 13,405 | 6,213 |
| 91 to 120 days | 2,769 | 1,202 |
| Over 120 days | 7,986 | 994 |
| | <u>87,255</u> | <u>129,049</u> |

10. TRADE AND OTHER PAYABLES

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

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

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

11. OTHER RESERVES

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations and Overview

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

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

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

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

Segmental Review

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

Apparel

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

Accessories

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

Markets

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

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

Liquidity and Financial Resource

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

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

As at 30 June 2020, based on the scheduled repayments set out in the relevant loan agreements with banks, the maturity profile of the Group's bank borrowings spreads over five years, with approximately US\$107,823,000 repayable within one year, approximately US\$15,222,000 repayable in the second year and approximately US\$25,711,000 repayable in the third to fifth year.

Foreign Exchange Risk Management

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

Future Plans and Prospect

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

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

Furthermore, health and environmental consciousness have risen over the past decade and such trend continues regardless of the COVID-19 pandemic. In order to gain more market share from the booming activewear market, the Group has taken active steps by partnering with a leading textile printing technology provider to supply eco-friendly fabric to our customers in Cambodia and Vietnam. The implementation of such disruptive fashion technology will not merely lower the production costs, but also help our strategic customers to meet the increasing demand of environmentally friendly products. The Group believes that the partnership will increase its competitiveness by vertically integrate to the supply chain and enter a groundbreaking stage of its development in the activewear industry.

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

Acquisitions and Joint Ventures

Acquisitions and joint ventures are one of Luen Thai’s core competencies considering our strong customer bases, scale and management.

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.

Contingent Liabilities

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

Human Resources, Social Responsibilities and Corporate Citizenship

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

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

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

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 2020, 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. Ms. Mok Siu Wan, Anne and the three independent non-executive Directors of the Company, namely, Mr. Chan Henry, Dr. Wang Ching, and Mr. Seing Nea Yie as the Committee Chairman, comprise the Audit Committee. Each committee member possesses appropriate finance and/or industry expertise to advise the Board.

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

Nomination Committee: The Nomination Committee was set up in March 2012 with responsibility of making recommendation to the Board on the appointment or re-appointment of Directors. Mr. Qu Zhiming as the Committee Chairman and the three independent non-executive Directors of the Company, namely, Mr. Chan Henry, Mr. Seing Nea Yie and Dr. Wang Ching, comprise the Nomination Committee.

Financing and Banking Committee: The Financing and Banking Committee was set up in September 2018 to review and approve any banking facility of the Group, and to ensure that each facility is in the best commercial interest of the Group as a whole. The Financing and Banking Committee comprises two members, namely Mr. Tan Cho Lung, Raymond and Mr. Zhang Min, with Mr. Tan Cho Lung, Raymond as the Committee Chairman.

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

MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). After having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standards as set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 30 June 2020.

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 2020 Interim Report.

INTERIM DIVIDEND

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

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, 25 August 2020

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