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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 2021

GROUP FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2021	2020
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	334,206	331,687
Operating profit/(loss)	5,423	(15,105)
Profit/(loss) attributable to owners of the Company	958	(18,687)
Profit/(loss) margin (ratio of profit/(loss) attributable to owners of the Company to revenue)	0.3%	(5.6)%
Earnings/(loss) per share (<i>US cents</i>)	0.09	(1.81)

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 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Note	US\$'000	US\$'000
		(Unaudited)	(Unaudited)
Revenue	3	334,206	331,687
Cost of sales		<u>(284,795)</u>	<u>(294,213)</u>
Gross profit		49,411	37,474
Other losses — net		(579)	(610)
Selling and distribution expenses		(871)	(746)
General and administrative expenses		(42,779)	(48,574)
Reversal of provision for/(provision for) impairment of receivables		<u>241</u>	<u>(2,649)</u>
Operating profit/(loss)	4	<u>5,423</u>	<u>(15,105)</u>
Finance income	5	299	209
Finance costs	5	<u>(2,675)</u>	<u>(3,055)</u>
Finance costs — net	5	<u>(2,376)</u>	<u>(2,846)</u>
Share of losses of joint ventures		<u>(646)</u>	<u>(523)</u>
Profit/(loss) before income tax		2,401	(18,474)
Income tax expense	6	<u>(1,454)</u>	<u>(591)</u>
Profit/(loss) for the period		<u>947</u>	<u>(19,065)</u>
Profit/(loss) attributable to			
Owners of the Company		958	(18,687)
Non-controlling interests		<u>(11)</u>	<u>(378)</u>
		<u>947</u>	<u>(19,065)</u>
Earnings/(loss) per share attributable to owners of the Company (expressed in US cents per share)			
Basic and diluted	7	<u>0.09</u>	<u>(1.81)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	947	(19,065)
Other comprehensive income		
<i>Item that may be reclassified to profit or loss:</i>		
Currency translation differences	<u>1,525</u>	<u>94</u>
Total comprehensive income/(loss) for the period, net of income tax	<u>2,472</u>	<u>(18,971)</u>
Total comprehensive income/(loss) attributable to:		
Owners of the Company	2,483	(18,593)
Non-controlling interests	<u>(11)</u>	<u>(378)</u>
	<u>2,472</u>	<u>(18,971)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		As at 30 June 2021 <i>US\$'000</i> (Unaudited)	As at 31 December 2020 <i>US\$'000</i> (Audited)
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		132,786	137,080
Right-of-use assets		35,075	30,178
Intangible assets		45,894	46,235
Interests in joint ventures		3,003	3,649
Deferred income tax assets		2,959	2,994
Deposits, prepayments and other receivables	9	3,292	3,287
Total non-current assets		223,009	223,423
Current assets			
Inventories		102,423	71,456
Trade and other receivables	9	162,183	171,999
Prepaid income tax		5,676	5,525
Derivative financial instruments		35	—
Cash and bank balances		72,857	66,198
Restricted cash		15	15
Total current assets		343,189	315,193
Total assets		566,198	538,616
EQUITY			
Equity attributable to owners of the Company			
Share capital		10,341	10,341
Other reserves	11	(1,030)	(2,555)
Retained earnings		179,276	178,318
		188,587	186,104
Non-controlling interests		2,479	2,490
Total equity		191,066	188,594

		As at 30 June 2021 <i>US\$'000</i> (Unaudited)	As at 31 December 2020 <i>US\$'000</i> (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		15,711	25,600
Lease liabilities		27,343	22,412
Retirement benefit obligations		13,845	13,061
Deferred income tax liabilities		3,573	3,757
		<u>60,472</u>	<u>64,830</u>
Total non-current liabilities			
Current liabilities			
Trade and other payables	10	163,593	139,173
Borrowings		138,661	134,990
Lease liabilities		4,329	3,775
Derivative financial instruments		—	129
Current income tax liabilities		8,077	7,125
		<u>314,660</u>	<u>285,192</u>
Total current liabilities			
Total liabilities			
		<u>375,132</u>	<u>350,022</u>
Total equity and liabilities			
		<u>566,198</u>	<u>538,616</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2021 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 2020 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 2020, as described in those annual financial statements, except for the adoption of amended standards effective for the financial year ending 31 December 2021 as described below.

Amended standards relevant to and adopted by the Group

The following amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2021:

- HKFRS 16 (Amendments) Covid-19-Related Rent Concessions, and
- HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments) Interest Rate Benchmark Reform — Phase 2

These amended 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.

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 2021 and 2020 is as follows:

	Apparel <i>US\$'000</i> (Unaudited)	Accessories <i>US\$'000</i> (Unaudited)	Group Total <i>US\$'000</i> (Unaudited)
Six months ended 30 June 2021			
Revenue (from external customers)	<u>202,745</u>	<u>131,461</u>	<u>334,206</u>
Timing of revenue recognition			
At a point in time	<u>202,734</u>	<u>131,428</u>	<u>334,162</u>
Over time	<u>11</u>	<u>33</u>	<u>44</u>
Segment profit for the period	<u>3,293</u>	<u>2,612</u>	<u>5,905</u>
Profit for the period includes:			
Depreciation and amortization	<u>(5,326)</u>	<u>(6,169)</u>	<u>(11,495)</u>
Share of losses of joint ventures	<u>(646)</u>	<u>—</u>	<u>(646)</u>
Income tax (expense)/credit	<u>(1,508)</u>	<u>54</u>	<u>(1,454)</u>
	<i>Apparel</i> <i>US\$'000</i> <i>(Unaudited)</i>	<i>Accessories</i> <i>US\$'000</i> <i>(Unaudited)</i>	<i>Group Total</i> <i>US\$'000</i> <i>(Unaudited)</i>
Six months ended 30 June 2020			
Revenue (from external customers)	<u>187,700</u>	<u>143,987</u>	<u>331,687</u>
Timing of revenue recognition			
At a point in time	<u>187,700</u>	<u>143,987</u>	<u>331,687</u>
Segment loss for the period	<u>(5,382)</u>	<u>(5,100)</u>	<u>(10,482)</u>
Loss for the period includes:			
Depreciation and amortization	<u>(6,339)</u>	<u>(5,232)</u>	<u>(11,571)</u>
Share of losses of joint ventures	<u>(523)</u>	<u>—</u>	<u>(523)</u>
Income tax (expense)/credit	<u>(748)</u>	<u>157</u>	<u>(591)</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 condensed consolidated statement of profit or loss. Management assesses the performance of the operating segments based on a measure of profit/(loss) before corporate expenses for the period.

A reconciliation of total segment profit/(loss) to the profit/(loss) for the period is provided as follows:

	Six months ended 30 June	
	2021	2020
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Segment profit/(loss) for the period	5,905	(10,482)
Corporate expenses (<i>Note i</i>)	(4,958)	(5,402)
One-off item (<i>Note ii</i>)	—	(3,181)
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Profit/(loss) for the period	947	(19,065)
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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.

4. OPERATING PROFIT/(LOSS)

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

	Six months ended 30 June	
	2021	2020
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Amortization of intangible assets	341	326
Depreciation of property, plant and equipment	9,136	8,377
Depreciation of right-of-use assets	2,908	2,868
(Gains)/losses on disposals of property, plant and equipment	(41)	116
(Reversal of provision for)/provision for impairment of receivables	(241)	2,649
(Reversal of provision for)/provision for inventory obsolescence	(468)	637
Provision for material claims	124	447
Termination expenses	2,155	4,634
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5. FINANCE COSTS — NET

	Six months ended 30 June	
	2021	2020
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	(933)	(954)
Interest expense on bank loans and overdrafts	(1,742)	(2,101)
Finance costs	(2,675)	(3,055)
Interest income from bank deposits	220	179
Other interest income	79	30
Finance income	299	209
Finance costs — net	(2,376)	(2,846)

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 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	
	2021	2020
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Current income tax	1,492	929
Deferred income tax	(38)	(338)
	1,454	591

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 30 June 2021 for the years of assessment 2000/01 to

2020/21 were approximately US\$811,000 (equivalent to HK\$6,325,000). Pending settlement of the objections, it has paid a total sum of US\$3,695,000 (equivalent to HK\$28,823,000) in the form of tax reserve certificates in respect of the tax in dispute up to the year of assessment 2014/15.

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

- (ii) In prior years, an overseas tax authority (“Tax Authority”) performed an assessment on the tax position of an overseas incorporated subsidiary for the year ended 31 December 2016 and issued a revised assessment to demand additional tax payment of US\$830,000. The Tax Authority has also performed an assessment on the tax position of another overseas 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. Management has provided for the abovementioned amounts in full and considers the provisions as at 30 June 2021 are 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\$21,283,000 as at 30 June 2021 (31 December 2020: US\$21,283,000).

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 30 June 2021, the amounts of the contingent liability and the indemnified asset in relation to the acquisition of Universal remained unchanged.

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 30 June 2021, the amounts of the contingent liability and the indemnified asset in relation to the acquisition of Sachio remained unchanged.

For the remaining contingent liabilities of approximately US\$4,318,000 (31 December 2020: US\$4,318,000), 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.

7. EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit/(loss) attributable to owners of the Company (US\$'000)	<u>958</u>	<u>(18,687)</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,034,113</u>	<u>1,034,113</u>
Basic earnings/(loss) per share (US\$ cents per share)	<u>0.09</u>	<u>(1.81)</u>

(b) Diluted

Diluted earnings/(loss) per share for the six months ended 30 June 2021 and 2020 is the same as the basic earnings/(loss) per share as there were no potential dilutive ordinary shares outstanding during the periods.

8. DIVIDENDS

No dividends have been paid or declared by the Company for the six months ended 30 June 2021 and 2020.

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2021 US\$'000 (Unaudited)	As at 31 December 2020 US\$'000 (Audited)
Current portion		
Trade and bills receivables — net	68,354	97,125
Deposits, prepayments and other receivables	53,820	43,651
Contract assets	9,386	6,191
Amounts due from related parties	<u>30,623</u>	<u>25,032</u>
	<u>162,183</u>	<u>171,999</u>
Non-current portion		
Deposits	2,495	2,468
Others	<u>797</u>	<u>819</u>
	<u>3,292</u>	<u>3,287</u>

	As at 30 June 2021 <i>US\$'000</i> (Unaudited)	As at 31 December 2020 <i>US\$'000</i> (Audited)
Trade and bills receivables	72,591	101,603
Less: Loss allowances	<u>(4,237)</u>	<u>(4,478)</u>
Trade and bills receivables — net	<u>68,354</u>	<u>97,125</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 2021 <i>US\$'000</i> (Unaudited)	As at 31 December 2020 <i>US\$'000</i> (Audited)
0 to 30 days	51,620	60,920
31 to 60 days	11,387	24,396
61 to 90 days	1,734	7,979
91 to 120 days	3,852	2,470
Over 120 days	<u>3,998</u>	<u>5,838</u>
	<u>72,591</u>	<u>101,603</u>

10. TRADE AND OTHER PAYABLES

	As at 30 June 2021 <i>US\$'000</i> (Unaudited)	As at 31 December 2020 <i>US\$'000</i> (Audited)
Trade and bills payables	90,932	72,313
Contract liabilities	1,227	598
Other payables and accruals	70,041	65,077
Amounts due to related parties	<u>1,393</u>	<u>1,185</u>
Trade and other payables	<u>163,593</u>	<u>139,173</u>

As at 30 June 2021 and 31 December 2020, the ageing analysis of the trade and bills payables based on invoice date is as follows:

	As at 30 June 2021 <i>US\$'000</i> (Unaudited)	As at 31 December 2020 <i>US\$'000</i> (Audited)
0 to 30 days	80,415	55,366
31 to 60 days	8,066	9,543
61 to 90 days	1,420	5,727
Over 90 days	1,031	1,677
	<u>90,932</u>	<u>72,313</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 2021	7,891	(2,795)	1,451	(9,102)	(2,555)
<i>Currency translation differences</i>	<u>—</u>	<u>—</u>	<u>(729)</u>	<u>2,254</u>	<u>1,525</u>
As at 30 June 2021	<u>7,891</u>	<u>(2,795)</u>	<u>722</u>	<u>(6,848)</u>	<u>(1,030)</u>
As at 1 January 2020	7,891	(2,795)	2,640	(5,730)	2,006
<i>Currency translation differences</i>	<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>

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations and Overview

The first half of 2021 continued to be marked by the health crisis and the hope of a gradual return to normal life due to the persistent threat of COVID-19. In terms of penetration, duration and infectiousness, COVID-19 has been the most threatening pandemic in human history. As at 30 June 2021, more than 180 million confirmed COVID-19 cases and about 4 million related deaths were reported to World Health Organization. A series of containment measures have been carried out by nearly all countries in the world, including social distancing policies, restrictions of gatherings, travel restrictions and lockdowns. As a result, economic activities came to nearly a standstill in both developed and developing economies and unemployment rate soared. In order to minimize the economic downturn associated with COVID-19, quantitative easing measures were aggressively implemented by all major economies. Even several countries are showing signs of recovery recently, others are still suffering from the impact of COVID-19 and the economic growth was static.

Despite the drastic changes in the markets, the management prudently and calmly encountered those challenges by swiftly modifying the operation strategies of the Group. Consequently, the gross profit increased substantially by about 31.9% to approximately US\$49,411,000, notwithstanding the revenue merely increased by approximately 0.8% to approximately US\$334,206,000. In line with the considerable improvement in gross profit, the Group recorded a net profit attributable to owners of the Company of approximately US\$958,000 (“Net Profit”), as compared to a net loss attributable to owners of the Company (“Net Loss”) amounting to approximately US\$18,687,000 for the corresponding period last year.

The turnaround from Net Loss to Net Profit was mainly attributable to (i) the gradual resumption of the Group’s manufacturing processes due to the relaxation of COVID-19 related government measures in various production countries which previously had negative impacts on the production schedules and order allocations of the Group’s production facilities; and (ii) the implementation of certain stringent cost control measures and restructuring initiatives which successfully reduced the base costs of the Group’s operations.

As there is still no definite end to the COVID-19, the management of the Group will continue to take prudent and responsible measures to preserve a healthy financial position to sustain the Group’s operations. As a result, the Board does not recommend payment of an interim dividend.

Segmental Review

Apparel and Accessories businesses accounted for approximately 60.7% and 39.3% respectively of the Group’s total revenue for the period under review.

Apparel

Segment revenue of the Apparel Division increased by approximately US\$15,045,000 or 8.0%, from approximately US\$187,700,000 for the six months ended 30 June 2020 to approximately US\$202,745,000 for the six months ended 30 June 2021. The mild increase in segment revenue of the Apparel Division due to the increased market penetration in the People's Republic of China (the "PRC") through cooperation and collaboration with a connected party, which was partially offset by the weaker sales performance in other regions. Despite the mild increase in revenue, the Apparel Division made a segment profit of approximately US\$3,293,000, when compared to a segment loss of approximately US\$5,382,000 for the corresponding period in 2020.

Accessories

Segment revenue of the Accessories Division dropped by approximately 8.7% period-to-period to approximately US\$131,461,000 for the period ended 30 June 2021. Despite the decrease in segment revenue of the Accessories Division, the Accessories Division recorded a segment profit of approximately US\$2,612,000, as compared with a segment loss of approximately US\$5,100,000 for the same period last year. The notable improvement in the segment result of the Accessories Division was mainly due to certain effective cost saving initiatives and elimination of non-profitable orders.

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 67.2% of the Group's total revenue in the first half of 2021.

The Group's revenue from the Asia market (mainly the PRC and Japan) was approximately US\$77,534,000, which accounted for approximately 23.2% of the Group's total revenue in the first half of 2021.

Liquidity and Financial Resource

The financial position of the Group remained healthy. As at 30 June 2021, the total cash and bank deposits of the Group amounted to approximately US\$72,872,000, representing an increase of approximately US\$6,659,000 over the balance as at 31 December 2020. The Group's total bank borrowings as at 30 June 2021 was approximately US\$154,372,000, representing a decrease of approximately 3.9% as compared to approximately US\$160,590,000 as at 31 December 2020.

Gearing ratio is defined as net debt (representing bank borrowings net of cash and bank balances) divided by shareholders' equity. As at 30 June 2021, the gearing ratio of the Group was approximately 43.2%.

As at 30 June 2021, 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\$121,994,000 repayable within one year, approximately US\$19,044,000 repayable in the second year and approximately US\$13,334,000 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, Cambodian Riel, Chinese Yuan, Burmese Kyat 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

The management of the Group cautiously looks forward to a continuous improvement in the consumer sentiment and global economy in the second half of 2021. However, the sales and profitability of the Group may be adversely affected by certain significant downside risks, including but not limited to the possible widespread of the new COVID delta variants, substantial increase in raw material prices and escalating geopolitical tensions.

Given the current extremely challenging business environment, the management of the Group will closely monitor the impact of the aforementioned risks on the financial conditions and business operations of the Group and timely adjustments to the Group's business strategies will be made when necessary. The Group will continue to develop the on-demand manufacturing business which caters the need for more streamlined fashion required by the varying taste of the age.

In addition, the Group will also continue to focus on partnering with NTX™, a textile technology solutions company, to integrate Cooltrans® and e-Nanofiber™ into our production and product development processes. With this technology, the Group will be able to achieve vertical integration by adding fabric coloring and printing, as well as fabric and material innovation capabilities into our fashion supply chain. The management of the Group believes that the on-demand manufacturing business and the innovative printing technology can help the Group to achieve sustainable growth and provide satisfactory returns to its shareholders in the long run.

As the resumption of normal economic and social activities are highly correlated with the COVID-19 pandemic, it is vital for the community to actively get vaccinated. The Group's management also believes that the well-being of the Group's employees is one of the essential elements to the success of the Group. The high vaccination rates will likely help to protect our employees from being infected with COVID-19 and may potentially

reduce the impact of any future measures which may be imposed by the local governments in the unfortunate event of a resurgence of COVID-19 cases in the relevant countries.

As at 18 August 2021, over 60% of the Group's employees have received at least one dose of a COVID-19 vaccine. For the Group's production facilities in the PRC and Cambodia, the vaccination rates of the Group's employees are over 90%. The Group's management will continue to take active steps to encourage employees to be vaccinated and the Group targets to achieve a vaccination rate of 75% amongst all employees of the Group by the end of 2021.

Acquisitions and Joint Ventures

There was no material acquisition or disposal of subsidiaries, associates or joint ventures during the period ended 30 June 2021.

Despite the existing difficult and challenging industry conditions, Luen Thai will continue to look for value-enhancing investments which meet our stringent requirements in order to further expand our product range, production capacity and diversify our geographical risk.

Contingent Liabilities

The Group has contingent liabilities regarding potential exposures to import duties, taxes and penalties in various overseas countries with aggregated amounts of approximately US\$21,283,000 as at 30 June 2021 (31 December 2020: US\$21,283,000).

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 30 June 2021, the amounts of the contingent liability and the indemnified asset in relation to the acquisition of Universal remained unchanged.

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 30 June 2021, the amounts of the contingent liability and the indemnified asset in relation to the acquisition of Sachio remained unchanged.

For the remaining contingent liabilities of approximately US\$4,318,000 (31 December 2020: US\$4,318,000), 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, 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's 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 2021, 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 2021 were in line with those practices set out in the Corporate Governance Report in the Company's 2020 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 2021.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has discussed with the management regarding the auditing, internal control and financial reporting matters. The Audit Committee has discussed and reviewed the unaudited interim financial information and the interim report for the six months ended 30 June 2021. At the request of the Board, the Company's external auditor, PricewaterhouseCoopers, has carried out a review of the unaudited condensed consolidated interim financial information in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2021 (2020: Nil).

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, 26 August 2021

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.