LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020

GROUP FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2020	2019
	US$'000	*US$'000*
Revenue	**697,329**	969,789
Operating (loss)/profit	**(21,436)**	34,976
(Loss)/profit attributable to equity holders of the Company	**(28,028)**	25,165
Basic (loss)/earnings per share *(US cents)*	**(2.7)**	2.4

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 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	**2020** ***US$'000***	2019 *US$'000*
Revenue	4	**697,329**	969,789
Cost of sales		**(614,231)**	(827,615)
Gross profit		**83,098**	142,174
Other gains — net	5	**1,265**	13,933
Loss allowances of trade and bill receivables		**(4,156)**	(341)
Selling and distribution expenses		**(1,714)**	(3,265)
General and administrative expenses		**(99,929)**	(117,525)
Operating (loss)/profit		**(21,436)**	34,976
Finance income	7	**386**	607
Finance costs	7	**(5,716)**	(7,212)
Finance costs — net	7	**(5,330)**	(6,605)
Share of losses of joint ventures		**(836)**	(44)
(Loss)/profit before income tax		**(27,602)**	28,327
Income tax expense	8	**(910)**	(3,162)
(Loss)/profit for the year		**(28,512)**	25,165
(Loss)/profit attributable to:			
Equity holders of the Company		**(28,028)**	25,165
Non-controlling interests		**(484)**	—
		(28,512)	25,165
(Loss)/earnings per share attributable to equity holders of the Company for the year (expressed in US cents per share)			
Basic and diluted	9	**(2.7)**	2.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	2020 *US$'000*	2019 *US$'000*
(Loss)/profit for the year	**(28,512)**	25,165
Other comprehensive (loss)/income:		
Item that will not be reclassified subsequently to profit or loss:		
Actuarial loss on retirement benefit obligations	**(2,033)**	(2,470)
Item that may be reclassified to profit or loss:		
Currency translation differences	**(2,528)**	1,485
Exchange reserve released upon disposal of subsidiaries	**—**	(708)
Total comprehensive (loss)/income for the year, net of income tax	**(33,073)**	23,472
Attributable to:		
Equity holders of the Company	**(32,589)**	23,472
Non-controlling interests	**(484)**	—
	(33,073)	23,472

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

		As at 31 December	
		2020	2019
	Note	***US$'000***	*US$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**137,080**	121,848
Right-of-use assets		**30,178**	34,915
Intangible assets		**46,235**	46,350
Interests in joint ventures		**3,649**	4,240
Deferred income tax assets		**2,994**	1,995
Deposits, prepayments and other receivables	11	**3,287**	7,831
Total non-current assets		**223,423**	217,179
Current assets			
Inventories		**71,456**	99,975
Trade and other receivables	11	**171,999**	158,207
Prepaid income tax		**5,525**	4,795
Cash and bank balances		**66,198**	82,959
Restricted cash		**15**	14
Total current assets		**315,193**	345,950
Total assets		**538,616**	563,129
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**10,341**	10,341
Other reserves	13	**(2,555)**	2,006
Retained earnings		**178,318**	206,346
		186,104	218,693
Non-controlling interests		**2,490**	—
Total equity		**188,594**	218,693

	Note	As at 31 December 2020 US$'000	2019 US$'000
LIABILITIES			
Non-current liabilities			
Borrowings		**25,600**	20,200
Lease liabilities		**22,412**	27,714
Retirement benefit obligations		**13,061**	12,239
Deferred income tax liabilities		**3,757**	3,465
Total non-current liabilities		**64,830**	63,618
Current liabilities			
Trade and other payables	12	**139,173**	120,919
Borrowings		**134,990**	146,927
Lease liabilities		**3,775**	4,653
Derivative financial instruments		**129**	19
Current income tax liabilities		**7,125**	8,300
Total current liabilities		**285,192**	280,818
Total liabilities		**350,022**	344,436
Total equity and liabilities		**538,616**	563,129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets (including plan assets under defined benefit plans) and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried 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) New and amended standards adopted by the Group

The Group has applied the following amended standards for the first time for their annual reporting period commencing 1 January 2020:

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting
Amendments to HFKRS 16	Covid-19-related rent concessions

The Group has elected to early adopt the amendments to HKFRS 16 Leases on COVID-19 Related Rent Concessions on 1 January 2020. The amendments to HKFRS 16 allow the Group as a lessee not to account for COVID-19 directly related rent concessions as lease modifications when certain criteria are met. These amendments are effective for annual reporting periods beginning on or after 1 June 2020.

Most of the other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current of future periods.

(b) New and amended standards and interpretation not yet adopted by the Group

Certain new and amended accounting standards and interpretation have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to Annual Improvements Project	Annual improvements to HKFRSs 2018–2020	1 January 2022
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments	1 January 2022
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combination	1 January 2022
HKFRS 17	Insurance contracts and the related amendments	1 January 2023
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
HK(IFRIC) — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. CHANGE OF ACCOUNTING POLICIES

The Group has early adopted Amendment to HKFRS 16 — Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and (c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling US$550,000 have been accounted for as negative variable lease payments and US$101,000 and US$449,000 were recognised in cost of sales and administrative expenses respectively in the statement of profit or loss for the year ended 31 December 2020. There is no impact on the opening balance of equity at 1 January 2020.

4. SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of apparels and accessories. Revenue mainly consists of sales revenue from apparels 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. Certain comparative figures in segment information have been restated to conform to current year 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 years ended 31 December 2020 and 2019 is as follows:

	Apparel *US$'000*	Accessories *US$'000*	Total *US$'000*
For the year ended 31 December 2020			
Revenue (from external customers)	**407,899**	**289,430**	**697,329**
Timing of revenue recognition			
At a point in time	**407,899**	**289,394**	**697,293**
Over time	**—**	**36**	**36**
	407,899	**289,430**	**697,329**
Segment loss for the year	**(832)**	**(6,274)**	**(7,106)**
Loss for the year includes:			
Depreciation and amortisation	**(9,375)**	**(12,305)**	**(21,680)**
Provision for loss allowances of trade receivables	**(153)**	**(503)**	**(656)**
Reversal of provision/(provision) for obsolete inventories	**1,560**	**(2,433)**	**(873)**
Share of losses of joint ventures	**(836)**	**—**	**(836)**
Finance income	**296**	**90**	**386**
Finance costs	**(1,435)**	**(4,281)**	**(5,716)**
Income tax (expense)/credit	**(1,350)**	**440**	**(910)**

	Apparel *US$'000*	Accessories *US$'000*	Total *US$'000*
For the year ended 31 December 2019			
Revenue (from external customers)	513,156	456,633	969,789
Timing of revenue recognition			
At a point in time	513,156	454,495	967,651
Over time	—	2,138	2,138
	513,156	456,633	969,789
Segment profit for the year	15,172	10,553	25,725
Profit for the year includes:			
Depreciation and amortisation	(9,517)	(12,823)	(22,340)
Provision for loss allowances of trade and bill receivables	(332)	(9)	(341)
Provision for obsolete inventories	(1,207)	(540)	(1,747)
Share of losses of joint ventures	(44)	—	(44)
Finance income	554	53	607
Finance costs	(3,943)	(3,269)	(7,212)
Income tax expense	(670)	(2,492)	(3,162)

Revenue between segments are carried out in accordance with the terms mutually agreed between the respective parties. 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 (loss)/profit before corporate expenses for the year.

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

	2020 ***US$'000***	2019 *US$'000*
Segment (loss)/profit for the year	**(7,106)**	25,725
Corporate expenses *(Note i)*	**(8,667)**	(10,191)
One-off items *(Note ii)*	**(12,255)**	9,631
(Loss)/profit attributable to equity holders of the Company	**(28,028)**	25,165

Notes:

(i) Corporate expenses represent general corporate expenses such as executive salaries and other unallocated general and administrative expenses.

(ii) For the year ended 31 December 2020, one-off items represent gain on the derecognition of leases due to downsizing, bad debt provision and write-off of accounts receivables and termination expenses (2019: gain on disposal of subsidiaries and termination expenses).

	2020	2019
	US$'000	*US$'000*
Analysis of revenue by category		
Sales of garment, textile products and accessories	**688,575**	962,219
Others	**8,754**	7,570
Total revenue	**697,329**	969,789

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, Macao, the PRC, the Philippines, Cambodia, the United States and Myanmar.

	2020	2019
	US$'000	*US$'000*
Analysis of revenue by geographical location		
United States	**337,735**	582,099
Europe	**128,242**	144,564
PRC (including Hong Kong and Macao)	**122,799**	104,731
Japan	**35,236**	25,770
Canada	**18,163**	35,764
Others	**55,154**	76,861
	697,329	969,789

Revenue is allocated based on the countries where the Group's customers are located.

For the year ended 31 December 2020, revenue of approximately US$138,023,000, US$134,734,000 and US$73,179,000 are derived from three single external customers whose sales account for more than 10% of the total revenue. For the year ended 31 December 2019, revenue of approximately US$204,009,000, US$145,011,000, US$126,188,000 and US$122,000,000 are derived from four 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.

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:

	2020	2019
	US$'000	*US$'000*
Analysis of non-current assets by geographical location		
PRC (including Hong Kong and Macao)	**77,786**	84,642
Cambodia	**67,352**	49,937
Philippines	**34,930**	40,394
Myanmar	**27,133**	25,575
Vietnam	**2,636**	3,545
Thailand	**1,336**	3,215
Others	**6,788**	5,471
	217,961	212,779

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 2020 (2019: same), because such performance obligations are part of contracts having an original expected duration of one year or less.

5. OTHER GAINS — NET

	2020	2019
	US$'000	*US$'000*
Fair value losses on derivative financial instruments		
— net losses on forward foreign exchange contracts	**(129)**	(19)
Net gains on settlement of forward foreign exchange contracts	**19**	133
Net foreign exchange gains	**1,375**	917
Gain on disposal of subsidiaries	**—**	13,402
Loss from fair value remeasurement of contingent consideration of acquisition of subsidiaries	**—**	(500)
	1,265	13,933

6. OPERATING (LOSS)/PROFIT

	2020	2019
	US$'000	*US$'000*
Employee benefit expenses	**202,296**	263,974
Losses on disposals of property, plant and equipment — net	**1,554**	416
Depreciation of property, plant and equipment	**16,682**	16,291
Depreciation of investment properties	**—**	438
Depreciation of right-of-use assets	**5,541**	4,895
Amortization of intangible assets	**657**	716
Provision for obsolete inventories	**873**	1,747

7. FINANCE COSTS — NET

	2020	2019
	US$'000	*US$'000*
Interest expense on lease liabilities	**(1,997)**	(1,539)
Interest expense on bank borrowings	**(3,719)**	(5,619)
Interest expense on consideration payable	**—**	(54)
Finance costs	**(5,716)**	(7,212)
Interest income from bank deposits	**301**	441
Other interest income	**85**	166
Finance income	**386**	607
Finance costs — net	**(5,330)**	(6,605)

8. 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 year. 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.

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. 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 2020 and 2019, only one subsidiary of the Group is entitled to this tax benefit. The profits of other Group entities incorporated in Hong Kong not qualifying for the two-tiered profit tax regime are continued to be taxed at the flat rate of 16.5%.

	2020	2019
	US$'000	*US$'000*
Current income tax	**2,140**	3,883
Over-provision in prior years	**(100)**	(13)
Deferred income tax	**(1,130)**	(708)
Income tax expense	**910**	3,162

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 and 2013/14 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 2013/14 by the statutory deadlines. The IRD has just issued an notice of assessment for the year of assessment 2014/15 to the subsidiary on 12 March 2021, demanding a tax payment of approximately US$10,000 (equivalent to HK$80,000). The subsidiary will also lodge an objection against the 2014/15 notice of assessment and purchase tax reserve certificate of the same amount by statutory due date. 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) During the years ended 31 December 2020 and 2019, an overseas tax authority performed tax assessments on overseas incorporated subsidiaries' tax position for the years ended 31 December 2017, 2018 and 2019 and certain periods during the years ended 31 December 2017, 2018, 2019 and 2020, and issued tax assessments/revised tax assessments to demand additional tax payment of US$319,000 (2019: US$545,000). 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 31 December 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$21,283,000 (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. As at 31 December 2020, the contingent liability regarding potential exposure to overseas import duties, taxes and penalties is approximately US$5,930,000 (2019: US$5,930,000) and the additional contingent liability of US$426,000 (2019: US$426,000) has not been recognized by the Group.

Also, US$11,461,000 (2019: Nil) was recognized upon business combination of Sachio Investment Limited and its subsidiary. Pursuant to the agreement for sale and purchase of the shares in M&V International Manufacturing Limited (the "Agreement"), such taxation claim in relation to periods prior to April 2020 will be indemnified entirely by the sellers of the Agreement. Accordingly, the Group has also recognized an indemnification asset US$11,461,000 (2019: Nil).

9. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2020	2019
(Loss)/profit attributable to equity holders of the Company *(US$'000)*	**(28,028)**	25,165
Weighted average number of ordinary shares in issue *(thousands)*	**1,034,113**	1,034,113
Basic (loss)/earnings per share *(US cents per share)*	**(2.7)**	2.4

(b) Diluted

Diluted (loss)/earnings per share for the years ended 31 December 2020 and 2019 is the same as the basic (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding during the years.

10. DIVIDENDS

(a) Dividend recognized as distribution during the reporting period

	2020	2019
	US$'000	*US$'000*
Interim dividend paid of Nil cent (2019: US0.190 cent or equivalent to HK1.49 cents) per ordinary share	—	1,965
Final dividend of Nil cent (2018: US0.414 cent or equivalent to HK3.24 cents) per ordinary share for the year ended 31 December 2019	—	4,281
	—	6,246

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

At a meeting held on 29 March 2021, the Board of Directors does not recommend a final dividend (2019: Nil).

11. TRADE AND OTHER RECEIVABLES

	2020	2019
	US$'000	*US$'000*
Current portion		
Trade and bill receivables	**101,603**	129,049
Less: loss allowances	**(4,478)**	(398)
Trade and bill receivables — net	**97,125**	128,651
Deposits, prepayments and other receivables	**43,651**	24,366
Contract assets	**6,191**	—
Amounts due from related parties	**25,032**	5,190
	171,999	158,207
Non-current portion		
Prepayments for purchases of property, plant and equipment	—	4,650
Deposits	**2,468**	2,405
Others	**819**	776
	3,287	7,831

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

	2020	2019
	US$'000	*US$'000*
0 to 30 days	**60,920**	102,414
31 to 60 days	**24,396**	18,226
61 to 90 days	**7,979**	6,213
91 to 120 days	**2,470**	1,202
Over 120 days	**5,838**	994
	101,603	129,049

12. TRADE AND OTHER PAYABLES

	2020	2019
	US$'000	*US$'000*
Trade and bills payables	**72,313**	60,769
Contract liabilities	**598**	99
Other payables and accruals	**65,077**	58,331
Amounts due to related parties	**1,185**	1,720
	139,173	120,919

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

	2020	2019
	US$'000	*US$'000*
0 to 30 days	**55,366**	48,991
31 to 60 days	**9,543**	7,210
61 to 90 days	**5,727**	2,983
Over 90 days	**1,677**	1,585
	72,313	60,769

13. OTHER RESERVES

	Capital reserve US$'000	Other capital reserves US$'000	Employment benefits reserve US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2019	7,891	(4,466)	4,793	(6,190)	2,028
Currency translation differences	—	—	317	1,168	1,485
Actuarial losses on retirement benefit obligations	—	—	(2,470)	—	(2,470)
Disposal of subsidiaries	—	1,671	—	—	1,671
Exchange reserve released upon disposal of subsidiaries	—	—	—	(708)	(708)
At 31 December 2019	7,891	(2,795)	2,640	(5,730)	2,006
At 1 January 2020	**7,891**	**(2,795)**	**2,640**	**(5,730)**	**2,006**
Currency translation differences	**—**	**—**	**844**	**(3,372)**	**(2,528)**
Actuarial losses on retirement benefit obligations	**—**	**—**	**(2,033)**	**—**	**(2,033)**
At 31 December 2020	**7,891**	**(2,795)**	**1,451**	**(9,102)**	**(2,555)**

14. EVENTS AFTER THE REPORTING PERIOD

On 1 February 2021, the Myanmar government declared a State of Emergency for one year. The Group is planning to temporarily suspend its operation in Myanmar. As at 31 December 2020, there is no impact to the Group's financial position and the subsidiaries in Myanmar held non-current assets amounted to US$27,133,000. Management will continue to monitor and assess the situation and also the recoverability of its assets.

MANAGEMENT DISCUSSION & ANALYSIS

Result Review

The year 2020 was unlike any other, with so many challenges and uncertainty due to the sudden and rapid widespread of the COVID-19 pandemic ("Pandemic"). Since the unprecedented emergence of the Pandemic across the globe, many retail stores and shopping malls were temporarily closed, with lockdowns and implementation of travel restrictions and social distancing as part of the precautionary measures. These situations continued to exist intermittently throughout 2020 and the global economy was shrinking at quite an alarming rate which we have never experienced before. Despite the implementation of unconventional monetary easing policies all around the world, many corporations suffered a rapid and significant downturn in revenue and consequent decline in net profit. The global supply chain was disrupted by the ongoing problems created by the continuation of the Pandemic, and the Group was not exempted from this situation.

As disclosed in the announcements dated 27 April 2020 and 5 June 2020, our manufacturing plants in Mainland China and the Philippines were temporarily suspended during certain periods of year 2020 due to the imposition of lockdowns and other containment measures. Though the aforementioned manufacturing plants resumed normal operations gradually in the first half of 2020, the production schedule and the orders allocations of the Group's factories in China and the Philippines were adversely affected. In addition, market sentiment in the United States of America, Europe and the United Kingdom was clouded by worries about the staggering infection and death rates of the Pandemic which had led to deferral or cancellation of the orders from the Group's customers. As a consequence, the operating activities of apparel and accessories manufacturing business were hindered throughout 2020.

For the year ended 31 December 2020, the Group's revenue decreased by approximately 28.1% to approximately US$697,329,000 as compared to the year ended 31 December 2019. Gross profit was approximately US$83,098,000, represented gross profit margin of approximately 11.9% which was about 2.8 percentage point lower than last year. The considerable decline in revenue, gross profit and gross profit margin were mainly due to adverse impact of the Pandemic on sales and pricing, and the unfavorable impact of volume leverage of fixed manufacturing costs on a much lower sales base.

Faced with such extremely challenging environment, a series of critical strategic initiatives were promptly implemented by our seasoned management team. The Group continued to devote resources to strengthen its innovation capacity within short lead time to secure the existing key customers' orders and to preserve the continuity of the Group's business. The management also enhanced the operational resilience and efficiency, coupled with stricter cost control and cash flow management which enabled us to alleviate the negative impact of the Pandemic to a certain extent.

Despite the above-mentioned committed efforts of the management at all level and aspects, it was inadequate to offset all the undermining effects of the Pandemic on the Group's business. The Group incurred a net loss attributable to equity holders of the Company ("Net Loss") amounting to approximately US$28,028,000 for the year ended 31 December 2020, as compared to a net profit attributable to equity holders of the Company of approximately US$25,165,000 for last year, which was in line with the massive slump in revenue and gross profit. The significant deterioration of the financial performance of the Group was mainly due to (i) the substantial decline in revenue caused by decrease in the sales volume of apparel and accessories and postponement or cancellation of the orders from the Group's customers under such challenging business environment during the year; (ii) extra costs incurred on the re-schedule of production and delivery arrangement; (iii) the recognition of expected credit loss provision during the year caused by the increase in overdue ageing of account receivables and uncertainty on the collectability of these account receivables; (iv) a non-recurring restructuring and realignment cost and (v) absence of one-off gain on disposal of subsidiaries for the year ended 31 December 2020. 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 58.5% and 41.5% respectively of the Group's total revenue for the year under review.

Apparel

Segment revenue of the Apparel Division dropped significantly by approximately US$105,257,000 or 20.5%, from approximately US$513,156,000 for the year ended 31 December 2019 to approximately US$407,899,000 for the year ended 31 December 2020. The decrease of the segment revenue of the Apparel Division was primarily 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 customers. Even though the Apparel Division continued to achieve encouraging results on the sales of activewear, the Apparel Division incurred a segment loss of approximately US$832,000, when compared to a segment profit of approximately US$15,172,000 for last year.

Accessories

Sales revenue generated from the Accessories Division decreased substantially by approximately 36.6% year-to-year to approximately US$289,430,000 for the year ended 31 December 2020. In line with the substantial decline in segment revenue, the Accessories Division recorded a segment loss of US$6,274,000, as compared to a segment profit of US$10,553,000 for last year. Factories suspension and orders reallocation coupled with the decrease in demand from branded customers were the main reasons constituting the above results.

Markets

Consistent with the Group's geographical market distribution for the year ended 31 December 2019, 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 48.4%, 18.4% and 22.7% respectively of the total revenue of the Group for the year ended 31 December 2020.

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 2020.

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.

Future Plans and Prospect

The US presidential election has been concluded with Biden's victory in early 2021, but the Sino-US relations remain full of ambiguity. Along with the severe disruption of the global economic activities created by the ongoing Pandemic, the macroeconomic environment is expected to remain unsettled in the year 2021. Despite the commencement of vaccine inoculation, it is difficult to anticipate how long the Pandemic will last. In light of the uncertainty of the global economic growth prospects, the retail industry remains the worst hit.

While the Pandemic caused short-term challenges to the Group's revenue and profitability, the Board will continue to assess the adverse impact of the Pandemic on the operations and financial performance of the Group and closely monitor the Group's exposure to the uncertainties, volatility and risks in connection therewith. Immediate and appropriate measures will be taken by the Group to adapt to the challenging situations when necessary including but not limited to on-going cost control and restructuring initiatives.

Due to rising health and environmental consciousness, the activewear market is still booming regardless of the emergence of the Pandemic. To capture more market share from the activewear market, the Group will continue to take advantage of partnering with a leading textile printing technology provider to supply more eco-friendly fabric to our customers in Cambodia and Vietnam. The Group believes that the partnership will not merely lower the production costs, but also help our strategic customers to meet the increasing demand of environmentally friendly products.

As disclosed in the announcement dated 29 October 2020 and the circular dated 30 November 2020, the Group has entered into a new master agreement in relation to the provision of activewear manufacturing services ("New Master Agreement") to a connected party ("Connected Party"). The local retail market in the PRC is moving forward to gradual recovery due to the stabilization of the Pandemic situation in the PRC, consumer sentiment has rebounded. With the approval of the New Master Agreement by the independent shareholders on 18 December 2020, the collaboration between the Group and the Connected Party is able to be continued. The Directors believe that the continuing cooperation with the Connected Party is vital to the business development of the Group in the PRC market, which is a valuable chance for the Group to grasp the opportunities brought by market recovery in the PRC.

In order to broaden the revenue stream, the Group has commenced the business of manufacturing of face masks in the late 2020. In view of the demand of personal protective equipment ("PPE"), the Group will continue to explore opportunities for manufacturing of other PPE such as protective gowns. For the sake of the full utilization of the Group's production capacity, the Group may 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 organizations in need of PPE.

Looking forward, the Board remains optimistic about the prospects of our business in the long run. An extremely cautious approach will be adopted by the Group to monitor its working capital and the latest development of the apparel and accessories manufacturing industry. The Group will continue to strengthen its ability to cope with the diversified requirements of the customers and committed to leveraging our outstanding craftsmanship and extensive experience in the manufacturing, research and development of apparel and accessories products. In addition, the Group will continue to invest in automated productions and streamline the manufacturing procedures further to improve the production efficiency, in order to sustain the competitiveness and profitability of the Group.

Contingent Liabilities

As at 31 December 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$21,283,000 (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 Elite Holdings Limited and its subsidiaries. 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. As at 31 December 2020, the contingent liability regarding potential exposure to overseas import duties, taxes and penalties is approximately US$5,930,000 (2019: US$5,930,000) and the additional contingent liability of US$426,000 (2019: US$426,000) has not been recognized by the Group.

Also, US$11,461,000 (2019: Nil) was recognized upon business combination of Sachio Investment Limited and its subsidiary. Pursuant to the agreement for sale and purchase of the shares in M&V International Manufacturing Limited (the "S&P Agreement"), such taxation claim in relation to periods prior to April 2020 will be indemnified entirely by the sellers of the S&P Agreement. Accordingly, the Group has also recognized an indemnification asset US$11,461,000 (2019: Nil).

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.

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 as set out in Appendix 10 of 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 2020.

Liquidity and Financial Resources

As at 31 December 2020, the total amount of cash and bank deposits of the Group was approximately US$66,213,000, representing a decrease of approximately US$16,760,000 as compared to that as at 31 December 2019. The Group's total bank borrowings as at 31 December 2020 was approximately US$160,590,000, representing a decrease of approximately US$6,537,000 as compared to that as at 31 December 2019.

As at 31 December 2020, 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$122,490,000 repayable within one year, approximately US$20,044,000 repayable in the second year and approximately US$18,056,000 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 2020, the gearing ratio of the Group was 50.7%.

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. 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.

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 2020.

CORPORATE GOVERNANCE

The Group 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 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 2020 annual report.

Throughout the year ended 31 December 2020, the Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG 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 2020 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 2020 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 audited 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 does not recommend the payment of final dividend for the year ended 31 December 2020 (31 December 2019: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 May 2021 to 27 May 2021 (both days inclusive), during which period no transfers of shares will be registered. To determine the entitlement to attend and vote at the annual general meeting of the Company, 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 24 May 2021.

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 http://www.hkexnews.hk and the Company's website at http://luenthai.tonghaiir.com/.

The annual report of the Company for year ended 31 December 2020 containing the information required by the Listing Rules will be dispatched to the shareholders in due course.

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

Hong Kong, 29 March 2021

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