20/20 VISION

2019 ANNUAL REPORT

Luenthai

Luen Thai Holdings Limited

聯 泰 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 311)

Contents

Luen Thai *is a global leader in apparel and accessories manufacturing and in fashion technology.*

Corporate Information

EXECUTIVE DIRECTORS
SHEN Yaoqing
TAN Siu Lin
TAN Cho Lung, Raymond
QU Zhiming
HUANG Jie (re-designated from non-executive Director to executive Director on 15 February 2020)

NON-EXECUTIVE DIRECTOR
MOK Siu Wan, Anne (re-designated from executive Director to non-executive Director on 1 February 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS
CHAN Henry
SEING Nea Yie
WANG Ching (appointed on 8 April 2019)
CHEUNG Siu Kee (retired on 15 April 2019)

CHIEF FINANCIAL OFFICER
KORNBLUM Joerg

COMPANY SECRETARY
CHIU Chi Cheung

REGISTERED OFFICE
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS
Rooms 1001–1005, 10/F,
Nanyang Plaza,
57 Hung To Road,
Kwun Tong, Kowloon
Hong Kong

WEBSITE
http://www.luenthai.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
Citibank, N.A.
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

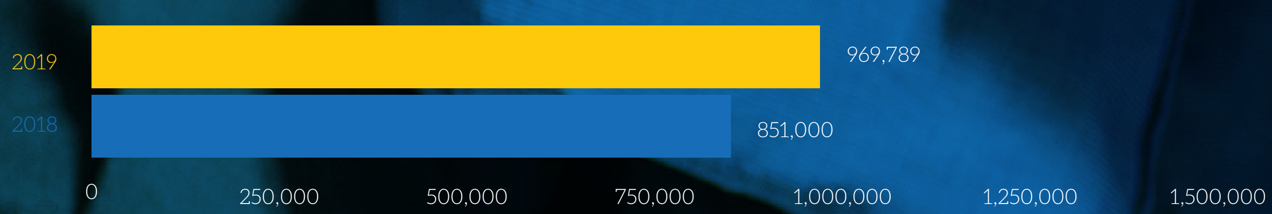
AUDITORS
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

LEGAL ADVISORS
Deacons
5th Floor, Alexandra House
18 Chater Road
Central, Hong Kong

Key Financial Highlights

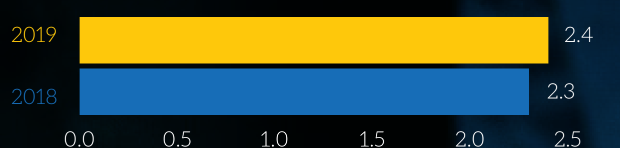
	2019	2018
	US$'000	US$'000
Revenue	**969,789**	851,000
Gross Profit	**142,174**	127,425
Operating profit	**34,976**	40,004
Profit Attributable to Owners of the Company	**25,165**	23,303
As a percentage of revenue	**2.6%**	2.7%
Basic Earnings Per Share	**US2.4 cents**	US2.3 cents
Dividend Per Share		
— Final	**—**	US0.414 cent
— Interim	**US0.190 cent**	US0.262 cent
Capital and Reserves		
Attributable to owners of the Company	**218,693**	203,987

REVENUE (US$'000)



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

EARNINGS PER SHARE US CENT



CHAIRMAN'S STATEMENT

OVERVIEW

On behalf of the board (the "Board") of directors (the "Directors") of Luen Thai, it is my pleasure to present to all shareholders the annual report for the year ended 31 December 2019.

Look back in 2019, the trade war between the United States of America ("US") and the People's Republic of China ("PRC") continuously posed challenges to the global economy which has also impacted the global business of the Group.

The Group has undergone a series of changes to preserve its competitive edge in its core business to mitigate the adverse impact brought by the macro-environment on the Group's operation. For the year ended 31 December 2019, the Group recorded a revenue of approximately US$969,789,000, representing an increase of approximately 14.0%. The profit attributable to owners of the Company ("Net Profit") increased from approximately US$23,303,000 to approximately US$25,165,000, representing a year-on-year increase of approximately 8.0%. Details of the results of the Company and the Group are set out in the "Management Discussion and Analysis" section of this Annual Report.

GROWTH TOGETHER WITH CUSTOMERS

Luen Thai is a company with ample growth potential. Since the Company listed on The Stock Exchange of Hong Kong Limited in 2004, the Group has evolved as one of the largest manufacturers of apparel and accessories in the world with growing market penetration and geographical presence.

For the business development of the Group, we are not merely putting effort on getting new customers. The Group also focused on attempting to increase the business of our existing customers, as "growth together with the customers" is one of the key missions of the Group. Customer-oriented approach has been adopted and emphasized in our operation at all levels of the Group. I believe that our ability on continuous improvement of product's quality would enhance the customer satisfaction and in turn increase our business together.

CHAIRMAN'S STATEMENT

TRANSITION AND CONSOLIDATION OF OUR BUSINESS

I would characterize 2019 as a year of business transition and consolidation of the Group in a tough business environment.

The manufacturing industry, like all other industries, is encountering more disruption than ever. Hence, customer's expectations on speediness, quality and pricing are raising. To keep pace with such dramatic change, a wide range of intelligent automated equipment and machine has been installed at our production sites to streamline the production process. With the Big Data analysis and regular upgrade of production equipment, the overall production efficiency has been continuously improved. In recent years, the Group has also endeavored to develop its capabilities on technical innovation, coupled with consistent improvement of research and development centers and installation of advanced production tools, such as seamless adhesion and process control system, among others, at its main production facilities.

In order for the Group to consolidate its leading and competitive position within the accessories manufacturing industry, a subsidiary of the Company has entered into an agreement for the acquisition of a target company in the Myanmar ("Target") in October 2019. The Target is the legal and beneficial owner of a parcel of land in the Myanmar with a factory located thereon. Rather than constructing new production facilities, the acquisition of the Target allows the Group to increase its production capacity in a shorter period of time, which will be better utilized to meet the orders from our customers. The acquisition of the Target is in line with the Group's strategy to increase its production capacity in Southeast Asia.

For the development of apparel business, the Group has strategically entered into a joint venture agreement ("JV investment") with certain independent Indian parties ("Indian Parties") in November 2019. The JV investment is part of the Group's strategy to optimize the geographic production footprint to drive capital and cost efficiency, and further broaden its income stream of the apparel division.

In addition, the Group has also improved its financial position as a result of proceeds received from the disposal of a parcel of land and buildings situated at Tangxia, Dongguan, Guangdong Province of the PRC. Hence, the Group can better focus its existing resources to develop new production capabilities in diversified geographical locations and exploring other investment opportunities.

DIVIDEND

The Board of Directors do not recommend a final dividend for the year ended 31 December 2019.

OUR PEOPLE AND THE COMMUNITY

I believe that the past success and future performance of the Group heavily depend upon the continuing support and services of our employee, in particular our key management personnel. For the sake of replication of our past success, the Group must continue to attract, motivate and retain an adequate number of qualified management and operating staff to work together and implement our growth strategy. With emphasis on quality training and continuing education, the Group offers training programmes which are designed for development of employee's skills to meet customers' requirements and the goals of the Company.

The Group cares for the need of each and every employee and endeavours to foster a pleasant workplace and work life balance for them. The Group offers attractive remuneration packages to its employees. The Group also implemented a fair and transparent promotion system under which priority would be granted to existing qualified employees for internal vacancies, further ensuring that employees can share the success of the Group. It is vital for the Group to uphold the core value that employees are one of the essential ingredients to the success of our future.

In addition, the sustainable development of the community also relies on the participation of the government, corporations and people. The Group has been active in participating in caring for the poverty stricken, charitable donations and supporting environmental protection activities, which is in line with our commitment to be a responsible corporate citizen. The Group also encouraged our employees and business partners to partake in the aforementioned activities to meet the needs of society and to enhance staff understanding in conservation of the environment.

CORPORATE GOVERNANCE

The Group acknowledges the need and importance of corporate governance as one of the essential elements in enhancing shareholder value. The Group is devoted to improving its corporate governance policies in compliance with regulatory requirements and in accordance with international recommended practices. As at the date of this report, the Company has formed the Audit Committee, Remuneration Committee, Nomination Committee and Financing and Banking Committee ("Committees") all at the Board of Directors' (the "Board") level, to provide assistance, advice and recommendations on the relevant matters that aim to ensure protection of the Group and the interest of the Company's shareholders as a whole.

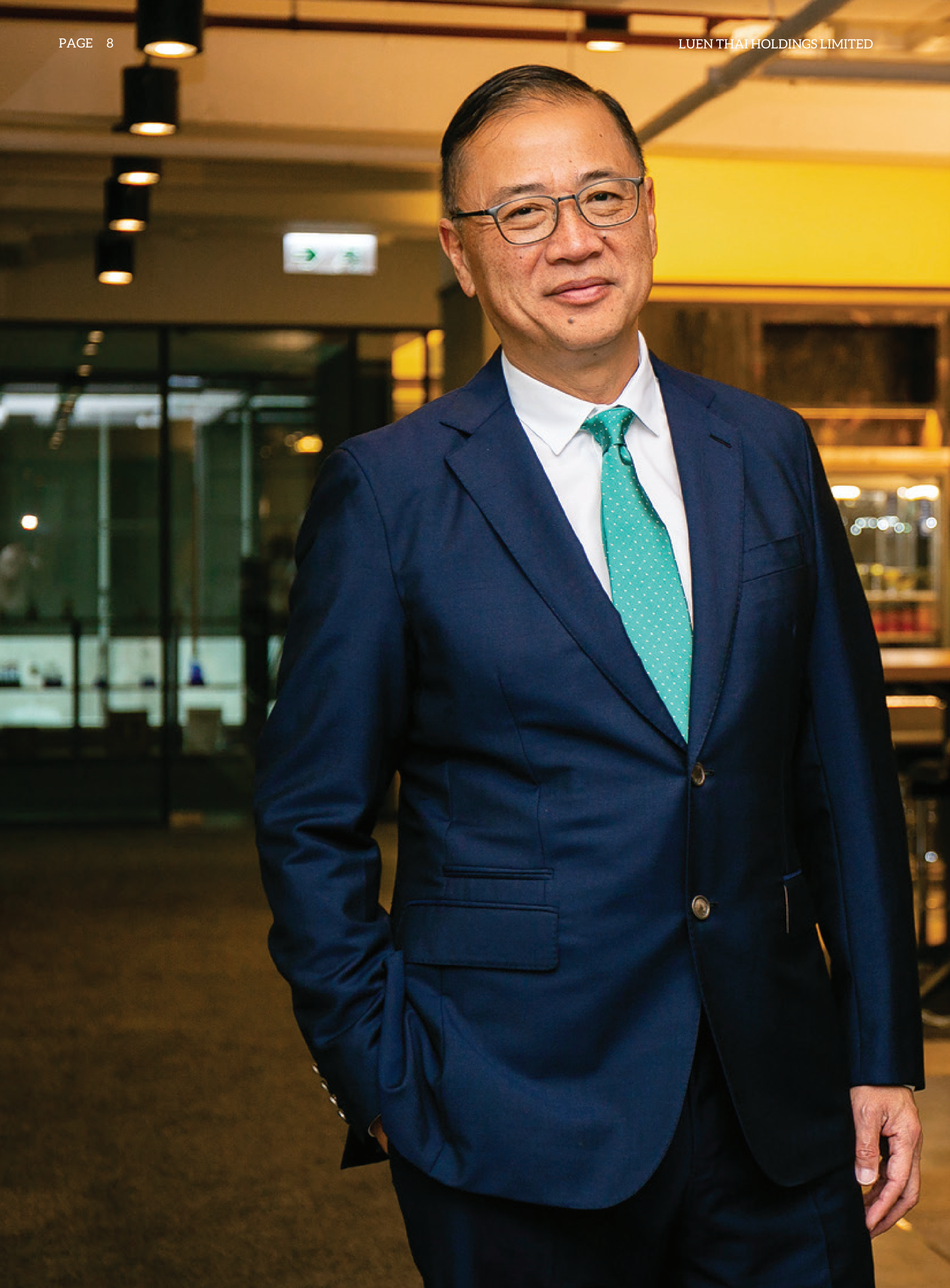
During the year under review, the Company continued to provide the Committees with adequate and appropriate resources to perform their duties and responsibilities. The Board also maintained effective communication and collaborated closely with each of the Committees, thus accomplishing impressive results on various projects of the Company. The Company has been in pursuit of excellent corporate governance and a just and fair decision-making process so as to provide for a transparent administration as well as an open channel for communication with all shareholders and investors.

APPRECIATION

On behalf of the Board, I would like to express my deepest gratitude to all our customers, suppliers and shareholders for their dedicated support and great confidence for Luen Thai amidst an extremely challenging business environment. I would also like to take this opportunity to express my warmest thanks to all our management and staff members for their invaluable service, efforts and dedication throughout last year.

SHEN Yaoqing
Chairman

Hong Kong, 27 March 2020



Message from the CEO

"Unify our knowledge and actions wholeheartedly."

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"Let's see things clearly with a perfect vision, near and far…"

At Luen Thai, we believe the key to success is staying true to our vision of "Sustainable Shared Success Through Reinvention". To maintain our global leadership position in apparel and accessories manufacturing industry, delivering long term value and growth to our shareholders is as important as achieving shared success with our employees, clients, suppliers, and partners.

Reflecting on 2019

2019 has been a challenging year, yet a good year for Luen Thai. US-China trade war tensions, Brexit, and Hong Kong social unrest brought industry wide concerns to business growth. With production capacities and sourcing capabilities in nine countries (Bangladesh, China, Cambodia, India, Indonesia, Myanmar, Philippines, Thailand, and Vietnam), as well as having global brands and leading industry players as our long-term clients and partners, we are well-positioned to tackle the geopolitical risks. Despite these challenges, our businesses continue to grow, ending 2019 on a high note especially for achieving our financial targets and expectations.

Shrinking margins is a key challenge for our industry. At Luen Thai, we continue to meet our goals through reinvention focusing on improving quality, speed, cost, flexibility, and sustainability. Better product mix, digital transformation, and disruptive technology will remain as our core strategy to improve production efficiency and profitability.

We continue to expand our production capability to meet client demands and gain greater market share. Following the acquisition of Universal Group in 2018, we have successfully integrated Universal Group into Luen Thai, which has doubled our accessory business and transformed Luen Thai into the only accessories Original Equipment Manufacturer (OEM) company in the world with production in four countries eligible for duty-free treatment under the GSP program of the United States of America. We have also implemented a strategy to rebalance our business for near even distribution between the apparel and accessories business. With this, we anticipate higher future revenues and greater shareholder value in the near term.

We partnered with a leading textile printing technology provider to supply eco-friendly fabric to our customers in Cambodia and Vietnam. We intend to further expand the partnership to other countries in the future to cover existing and new customers in different geographic locations. The implementation of disruptive fashion technology will not only lower production costs, shorten lead time and provide flexibility and scalability for our customers, but also bring sustainability to the industry and help our clients meet the increasing demand of delivering environmentally friendly products to the market. We see a long-term value both financially and environmentally in this strategic move.

We are also pleased with our e-commerce efforts that successfully launched in 2019. The direct-to-consumer, build-to-order business is still in its early days, but continues to gain traction through a unique influencer partnership business model. As this business grows, we are able to leverage our manufacturing prowess to achieve greater economies of scale.

Our 20/20 Vision — "Let's see things clearly with a perfect vision, near and far"

Our journey over the last 50 years gives us unparalleled depth and understanding in an ever-changing marketplace. This expertise has culminated in a new "20/20 Vision" framework. Four pillars are fundamental to our long-term sustainability and act as our guiding principles: people and community, sustainability, digital transformation, and disruptive technology. I believe this will keep us as a leader in the field for the next 50 years. In the short-term we have a specific three-year focus to optimize our accessories business for maximum growth, expand sports activewear business, strengthen our position in fashionwear, and increase market share in the Chinese retail market.

4 PILLARS — PEOPLE AND COMMUNITY, SUSTAINABILITY, DIGITAL TRANSFORMATION, DISRUPTIVE TECHNOLOGY

PEOPLE AND COMMUNITY

We continue to invest in empowering people and giving back to our communities.

As a people-intensive business with over 52,000 employees today, we have always put our team first and support equality and diversity in the workplace. Over the years, we implemented programs to improve employees' happiness and job satisfaction, as well as talent and skills development. We continue to monitor and improve these programs for healthy work-life balance and to foster healthy habits in and out of the workplace. We believe developing good habits to improve effectiveness can help Luen Thai build a stronger foundation for our people to stand on, as well as help our people to face and overcome challenges.

We also encourage our people to contribute to their local community. Our XO KIDS and Donate-an-Hour programs promote the importance of taking responsibility to meet the needs of society aside from our own. We also continue to lead the organization and set a good example for our employees by partnering with like-minded individuals and institutions such as Tuloy Foundation in the Philippines.

SUSTAINABILITY

Environmental sustainability has long been one of our focuses and key business values. We strive to build sustainability in everything we do and believe that embedding sustainability into the core of our business is an important component for us to stay competitive, as well as to maintain our leadership position in the industry. With increasing industry emphasis on sustainability from work environment to production methods, we start to see our efforts of implementing multifaceted environmental support programs being translated into financial returns. We are proud to be one of the few companies that meets our client's increasing demands and requirements in delivering sustainable products to customers worldwide. We do this through continuous improvement and optimization of our facilities, such as implementing new design and operation monitoring to optimize energy consumption, introducing and integrating sustainable technologies into new fabric production methods, developing our "Smart Factory" technology which enabled the world's first paperless factory for apparel in multiple locations, and launching our "No Plastic Bottle" initiatives throughout the organization.

DIGITAL TRANSFORMATION

We are one of the earliest players in the industry to lead digital transformation efforts. Recognized by our customers as one of the leaders in information technology in the OEM space, we are now in a position to monetize our years of effort in digital transformation. We will continue to upgrade our smart technologies by adding new capabilities such as artificial intelligence supported cloud-based Smart Factory, while extending the technology beyond production processes to our entire enterprise. Long-term, this will allow us to develop new revenue streams, increase margins, and create values to our stakeholders.

DISRUPTIVE TECHNOLOGY

It is clear to us that we need to seize the opportunities brought about by disruptive technology as they spell the difference between survival and extinction in the Information Age. We have begun the process of creating a formal structure for innovation development, focusing on the search, acquisition, adaption, and deployment of new manufacturing and production technology. Our partnership and deployment of a leading textile printing technology to supply eco-friendly fabric is one example of putting this concept and initiative in action. We will continue to search for disruptive technology that is sustainable and able to streamline our processes, improve quality, speed, cost and flexibility. We believe our efforts in integrating the technology into our systems and production methods will enable us to be at the forefront of the new technology adoption in the apparel and accessories business.

3-Year Focus to Facilitate Revenue Growth and Margin Expansion

As we expand our production facilities to meet increasing client demand, we believe we are well-equipped to accelerate revenue growth and increase profit margins. Our aim is to increase our client base in accessories and sports activewear, develop longer term relationships in fashionwear, and increase market share in the highly competitive and rapidly evolving Chinese retail market.

To this end, we have significantly increased our accessories business in 2019. Moving forward, we will continue to drive further growth with increased production capacity and capability, focusing on increasing orders from our existing customers, and adding new strategic partners and clients.

We will expand our sports activewear business in Cambodia, China, and Philippines. The sports activewear market has demonstrated robust growth. We value our long-term partnership with global leading brands and will expand to other leading players in the industry to gain market share and drive revenues.

We will also strengthen our position in fashionwear, showcasing our capability to develop and produce in China, while leveraging our facilities in Cambodia, Vietnam, India, and the Philippines for production.

To grow our share in the highly competitive and rapidly evolving Chinese retail market, we will leverage our partnerships with global brands to increase our manufacturing footprint in the country. We will also develop new partnerships with industry leaders to facilitate their Design to Store ("D2S") and Chase, Replenishment, and Quick Response ("CRQ") programs in China.

Underlying our efforts for this three-year strategic focus is our capability to provide our core customers with innovative fabric technology and dedicated development center for product development, as well as to meet client demands while remaining competitive in costs.

In Closing

Over the last 50 years, we have been practicing the unchanged principle of honesty and hard work, unifying our knowledge and actions. We stay committed in delivering value to all our stakeholders, and it is my strong belief that adhering to our principles with a clear vision and mission will lead to another wave of growth and profitability for Luen Thai.

TAN Cho Lung, Raymond
Chief Executive Officer and Executive Director

Hong Kong, 27 March 2020

SUSTAINABLE SHARED SUCCESS THROUGH REINVENTION

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT REVIEW

Looking back at 2019, the global economy recorded the lowest annual growth rate since 2009 recession. Uncertainties arising from trade friction between the United States of America ("USA") and the People's Republic of China ("PRC"), political instability such as Brexit and social unrest in France have brought negative impact on the global consumption value chain. Apart from the mentioned uncertainties, the manufacturing cost pressure continued to increase due to escalating raw materials prices and ongoing rise in workers' minimum wage and benefits.

For the year ended 31 December 2019, revenue of the Group amounted to approximately US$969,789,000, representing an increase of approximately 14.0%. The increase was mainly attributable to revenue brought in from the newly acquired bags and small leather goods manufacturing business, the Universal Group. The Group's gross profit increased to approximately US$142,174,000, representing an increase of approximately 11.6% which is in line with the increase in revenue. Notwithstanding the growth in revenue for the year under review, the gross margin of the Group dropped slightly from 15.0% to 14.7%.

The Net Profit increased from approximately US$23,303,000 to approximately US$25,165,000, representing a year-on-year increase of approximately 8.0%. However, excluding a non-recurring gain on the disposal of all equity interest in Desk Top Bags (Mfg) Ltd ("Desktop") of approximately US$13,402,000, the Net Profit decreased by approximately 49.5% to approximately US$11,763,000. The decrease in Net Profit was mainly due to the increase in general and administrative expenses and the finance costs. Such increase in general and administrative expenses and finance costs is mainly due to the consolidation of the full year expenses of the Universal Group. 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 52.9% and 47.1% respectively of the Group's total revenue for the year under review.

Apparel

For the year of 2019, revenue generated from the Apparel Division was approximately US$513,156,000. As compared to 2018, the revenue of the Apparel Division decreased slightly by approximately US$17,802,000 or 3.4%. The slight drop in revenue was mainly due to the negative impact of the trade war between the USA and China and the change of sourcing strategies of certain customers.

The segment profit of the Apparel Division amounted to approximately US$15,172,000, representing an increase of approximately US$3,735,000 as compared to the previous year. However, excluding the one-off provision of tax settlement which amounted to approximately US$7,587,000 in 2018, the segment profit showed a decrease of US$3,852,000. Such decrease in profit was due not only to the decrease in segment revenue but also the strategic change in the Group's product mix. While such change has an impact in our segment profit in the short term, we believe it will provide a solid foundation for the Group to sustain its apparel business in the long run.

Accessories

The revenue of the Accessories Division contributed to the Group during the year increased substantially by approximately 42.7% which amounted to approximately US$456,633,000. The remarkable growth in the segment revenue was mainly attributable to consolidation of the full-year revenue of the Universal Group whereas only two months revenue was consolidated in last year. Notwithstanding substantial growth in the segment revenue, the Accessories Division recorded a decrease in segment profit by approximately 44.9% which amounted to approximately US$10,553,000, this was mainly due to (i) one-off expenses relating to closure of a factory in Guangdong Province of the PRC owned by Desktop which has been disposed of by the Group in December 2019 as mentioned under the section "Acquisition, Joint Venture and Disposal" below; (ii) the increase in finance cost for higher level of utilization in trade finance facilities; and (iii) higher depreciation charge as a result of more investment in production related facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKETS

Consistent with the Group's geographical market distribution for the year ended 31 December 2018, the USA, Europe and Asia (mainly the PRC, Singapore 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 60.0%, 14.9% and 16.4% respectively of the total revenue of the Group for the year ended 31 December 2019.

ACQUISITION, JOINT VENTURE AND DISPOSAL

It has been one of the Group's strategies to strengthen its core business by way of selective value- enhancing acquisitions and joint ventures. During the year under review, the Group has completed the following transactions:

The Board believes that the demand for the Group's accessories products in the future will remain strong, and hence it is essential for the Group to increase its production capacity. On 3 October 2019, Eastern City Industries Limited, a wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement ("SPA") with certain independent third parties to acquire the entire interest of JCK (Myanmar) International Company Limited ("Acquisition") which is the beneficial owner of a parcel of land located in Myanmar together with a factory erected thereon. Upon completion of the Acquisition in January 2020, JCK (Myanmar) International Company Limited became an indirect wholly-owned subsidiary of the Company.

The Group considers the Acquisition beneficial to the Group, instead of construction of new production facilities, the Group can increase its production capacity in a shorter period of time through the Acquisition. Details of the SPA and the Acquisition contemplated thereunder have been disclosed in the announcement of the Company dated 3 October 2019.

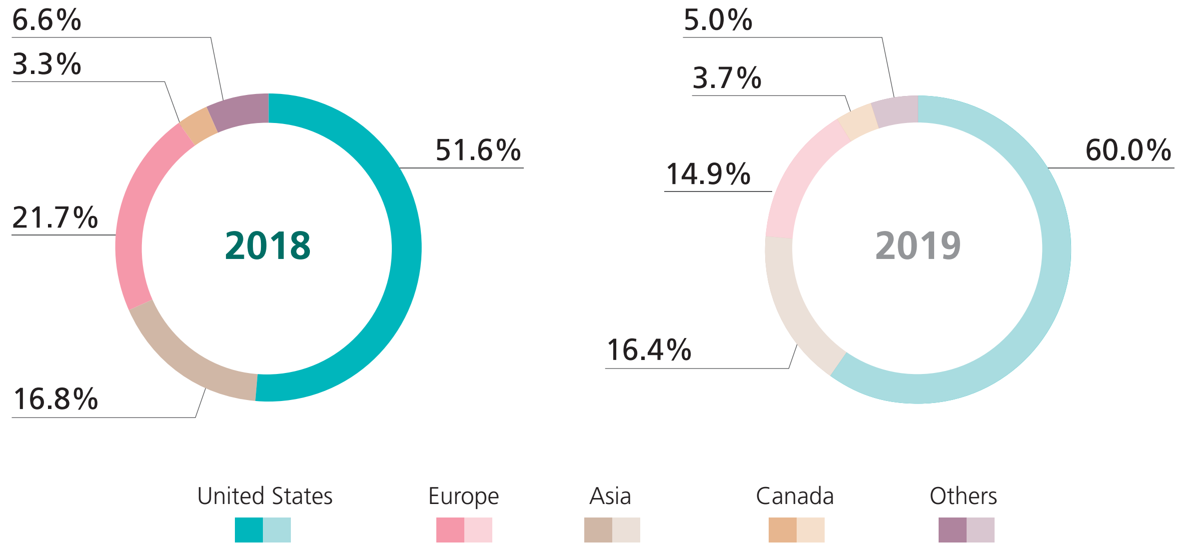
MANAGEMENT DISCUSSION AND ANALYSIS

On 6 November 2019, On Time International Limited (a wholly-owned subsidiary of the Company) ("On Time"), four individual Indians ("Indian Parties"), Texport Industries Private Limited ("Texport") and Unit 15 Apparels LLP ("JV Company") entered into a joint venture agreement ("JV Agreement") in relation to the investment in the JV Company. Pursuant to the JV Agreement, On Time will invest INR 193,800,000 (equivalent to approximately HK$21,486,000) into the JV Company and the Indian Parties will invest in aggregate INR 186,200,000 (equivalent to approximately HK$20,643,000) into the JV Company. Upon completion of investment in the JV Company, the JV Company will be held as to 51% of partnership interest by On Time and 49% partnership interest by the Indian Parties in aggregate respectively. The JV Company became a non-wholly owned subsidiary of the Company as at 1 February 2020.

Simultaneously to the execution of the JV Agreement, the JV Company and Texport entered into an asset transfer agreement ("Asset Transfer Agreement"). Pursuant to the Asset Transfer Agreement, the JV Company shall pay a sum of approximately INR 351,600,000 (equivalent to approximately HK$38,980,000) in cash to Texport at completion of the JV Agreement for acquisition of certain assets as stipulated in the Asset Transfer Agreement. The completion of the JV Agreement and Asset Transfer Agreement has taken place on 1 February 2020.

The Board considers that the investment into the JV Company will enable the Group to further diversify its production bases and broaden its income stream. Furthermore, by partnering with the Indian Parties, the Group can benefit from the Indian Parties' extensive experience and resources in the garment manufacturing industry in the India.

SALES BY GEOGRAPHICAL SEGMENT




CHINA
PHILIPPINES
CAMBODIA
MYANMAR

GLOBAL OPERATIONS

RICOSTRU
SHANGHAI

GJM
GUANGZHOU

tomwell
DONGGUAN

SKECHERS
DANDONG

UNIVERSAL
DONGGUAN

CHINA DESIGN & DEVELOPMENT CENTERS

VIETNAM	THAILAND	INDONESIA	INDIA	BANGLADESH

MANAGEMENT DISCUSSION AND ANALYSIS

Details of the JV Agreement and the Asset Transfer Agreement and the transactions contemplated thereunder have been disclosed in the announcement of the Company dated 6 November 2019.

On 13 December 2019, Trinew Limited (“Seller”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (“Disposal Agreement”) with SPRING EASE LIMITED (“Purchaser”). Pursuant to the Disposal Agreement, the Seller will dispose of all of equity interest in Desktop to the Purchaser at a consideration of RMB27,920,000 and the Purchaser will simultaneously repay the loan owing by Desktop and its subsidiaries to the Group of approximately RMB142,400,000 (“Disposal”).

The Disposal provides an opportunity for the Group to realize cash flow and reduce the Group’s debt ratio (defined as total liabilities over total assets) as a result of the proceeds from the Disposal. With a healthier financial position, the Group is able to focus its existing resources to develop new production capabilities in diversified geographical locations. The Disposal was completed on 18 December 2019.

Details of the Disposal Agreement and the transactions contemplated thereunder have been disclosed in the announcements of the Company dated 13 December 2019 and the circular dated 20 January 2020.

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.

FUTURE PLANS AND PROSPECT

Looking forward, though the USA and the PRC reached a phase one trade deal, and the trade relations and economic have eased to a certain extent, the global economy continues to encounter headwind and uncertainties such as geo-political tensions and escalated trade frictions etc. The emergence of the novel coronavirus COVID19 has created further volatility and uncertainties to the global economy. The aforementioned factors will likely affect the consumer demand and expenditure and a more fierce competition in the OEM industry is expected. Hence, the year ahead will be extremely difficult with the aforementioned factors pressuring on our business.

In view of such challenging business environment, the Group will closely monitor the changing and complicated business landscape and adopt a flexible strategy to cope with this situation. The Group will continue to strengthen its ability to meet the diversified requirements of the customers, and leveraging our expertise and extensive experience in the manufacturing, research and development of apparel and accessories products.

Through the adoption of the strategy of "growth together with customers", the Group has fostered a long term and strategic relationships with many existing customers. With solid support from our existing customers, we are also intensifying efforts in prospecting opportunities from more potential customers.

In addition, the Group will increase the business synergy between its controlling shareholder to gain market share from the PRC, which can enable the Group to mitigate the concentration risks and access to a wide span of market.

On the cost front, the Group will continue to invest in automated productions and streamline the manufacturing procedures further to improve the production efficiency. The Group will also continue to expand its production footprint in the Southeast Asia countries, in order to sustain the competitiveness and profitability of the Group.

INVESTOR RELATIONS AND COMMUNICATIONS

The Group acknowledges the crucial importance of communication with our shareholders. The Group has a policy of proactively promoting investor relations through meetings with analysts and investors, and participation in investors' conferences, company interviews and manufacturing plant visits. The annual general meeting will be called by giving not less than 20 clear business days' notice and our Directors will be available at the annual general meeting to answer questions on the Group's businesses.

The Group encourages dual communications with both private and institutional investors and responds to their enquiries in an informative and timely manner. The Group has established various forms of communication channels to improve its transparency, including proactive and timely issuance of press releases so as to inform investors of our latest corporate developments. The Group regularly updates its corporate information on the Company's website (www.luenthai.com) in both English and Chinese on a timely basis to all concerned parties.

CONTINGENT LIABILITIES

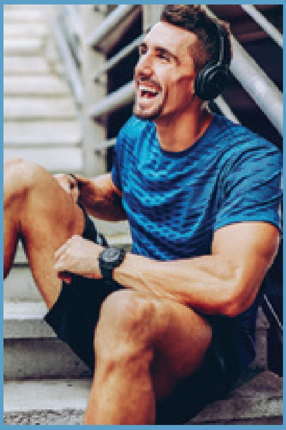
As at 31 December 2019, the Group has contingent liabilities regarding potential exposure to overseas import duties, taxes and penalties in various overseas countries with aggregated amounts of approximately US$11,141,000 (2018: US$5,504,000). Management considers it is not probable that outflows of 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the total amount of cash and bank deposits of the Group was approximately US$82,973,000, representing a decrease of approximately US$651,000 as compared to that as at 31 December 2018. The Group's total bank borrowings as at 31 December 2019 was approximately US$167,127,000, representing an increase of approximately US$19,784,000 as compared to that as at 31 December 2018.

As at 31 December 2019, 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$131,927,000 repayable within one year, approximately US$14,600,000 repayable in the second year and approximately US$20,600,000 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 2019, the gearing ratio of the Group was approximately 38.5%.

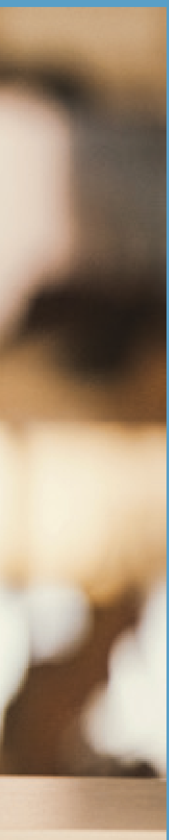


FOREIGN EXCHANGE RISK MANAGEMENT

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.

HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY

Luen Thai continues to be an employer of choice through focused and strategic human resources strategies and social responsibility programmes that are aligned with the



Company's growth and changing needs. Improved governance and strengthened partnership serve as the foundation for all these initiatives as Luen Thai maintains its position as a leader in Corporate Social Responsibility in the apparel and accessories manufacturing industry.

With over 52,000 employees around the World as at 31 December 2019, Luen Thai continuously strives to foster open communications with its 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.

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MANAGEMENT EXECUTIVES

EXECUTIVE DIRECTORS

SHEN Yaoqing, aged 62, is the Chairman of the Board and the Chairman of the Nomination Committee. Mr. Shen is a senior economist who has been conferred a DBA degree by the Macau University of Science and Technology. Between 1997 and 2006, Mr. Shen assumed various positions, including executive deputy general manager, general manager and board chairman, at Shanghai Shenda (Group) Co., Ltd. (上海申達 (集團) 有限公司), a subsidiary of Shangtex Holding Co., Ltd. (上海紡織 (集團) 有限公司). Between May 2013 to May 2016, Mr. Shen acted as the director of Shanghai Shenda Co., Ltd (上海申達股份有限公司) (a company listed on the Shanghai Stock Exchange). Since October 2006, Mr. Shen has been acting as the vice president of Shangtex Holding Co., Ltd., taking charge of the group's entire trading business as well as the group's overseas expansion and resources management. Being a knowledgeable expert in the textile manufacturing industry with over 30 years of relevant business experience, Mr. Shen also has strategic vision and foresight regarding the operations management of sizeable groups, boasting an outstanding track record based upon extensive experience.

Dr. TAN Siu Lin, aged 89, is the founder and Honorary Life Chairman of the Group. Dr. Tan is the Honorary Director of Peking University Education Foundation (北京大學教育基金會) and chairman of the board of the Peking University Luen Thai Center for Supply Chain System Research & Development (北京大學聯泰供應鏈系統研發中心), chairman of the board of Tan Siu Lin School of Business in Quanzhou Normal University (泉州師範學院陳守仁商學院). Dr. Tan is the permanent honorary director of the board of the Huaqiao University(華僑大學), the honorable president of the Hong Kong General Chamber of Textiles Limited, and the honorary consul of the Federated States of Micronesia in HKSAR. Dr. Tan was appointed as a non-executive director and chairman of S.A.I. Leisure Group Company Limited (stock code: 1832) on 5 November 2018, a company listed on the Stock Exchange of Hong Kong Limited on 16 May 2019. Dr. Tan holds a honorary Doctoral of Laws degree from the University of Guam and has been awarded honorary university fellowships by both the Hong Kong Baptist University, as well as the Honorary President of The Hong Kong Baptist University Foundation, and the Chinese University of Hong Kong.

TAN Cho Lung, Raymond, aged 58, is the Chief Executive Officer of the Company, Chairman of Financing and Banking Committee and son of Dr. Tan Siu Lin. Mr. Tan joined the Group in 1989 and has over 30 years of experience in the industry. Mr. Tan was the recipient of the Young Industrialist Award of Hong Kong and the DHL/SCMP Owner-Operator award for 2003. In August 2012, Mr. Tan was awarded "Outstanding Entrepreneurship Award" 2012, Hong Kong region. In 2013, Mr. Tan was also awarded "Capital Leader of Excellence 2012" and "Entrepreneur of the Year 2013" which were organized respectively by Capital Magazine and Capital Entrepreneur Magazine. In January 2019, Mr. Tan was the recipient of Asian Chinese Leaders Award organized by the Asian College of Knowledge Management. Mr. Tan is a co-founder and chairman of Chelsea Foundation (Hong Kong) Limited and chairman of Tuloy Foundation in the Philippines. Mr. Tan graduated with a Bachelor's degree in Business Administration from the University of Guam.

MANAGEMENT EXECUTIVES

QU Zhiming, aged 63, is an executive Director and a member of the Remuneration Committee and Financing and Banking Committee. Mr. Qu is a senior economist who has been conferred an MBA degree by the Asia International Open University (Macau). In 1997, Mr. Qu began to serve as the general manager and board chairman at sizeable import and export trading companies and home textiles companies (such positions held until 2007), by way of which he familiarized himself with the operations across the entire industry chain of the textile industry. Mr. Qu became the assistant to the president of Shangtex Holding Co., Ltd. (上海紡織 (集團) 有限公司) upon joining the group in July 2007, and acted as its deputy chief economist from February 2014 to December 2018. Currently, Mr. Qu also serves as the vice board chairman of Shangtex (Hong Kong) Limited (上海紡織 (香港) 有限公司) the vice chairman of The Hong Kong General Chamber of Textiles Limited, the General Manager of Orient International Holdings Hong Kong Co. Ltd and the board chairman of Wiseknit Factory Limited (慧聯織造廠有限公司), and is mainly responsible for the operations management of the group's foreign trade enterprises as well as the management of its overseas mergers and acquisitions projects. As an industry expert, Mr. Qu has penetrating market insight in the textile industry.

HUANG Jie, aged 54, is a non-executive director of the Company from 15 February 2017 to 14 February 2020. From 15 February 2020, he has been redesignated as an executive Director of the Company. Mr. Huang is an economist and international business expert who graduated from China Textile University with a Bachelor Degree of Engineering in the year of 1986 (upon completion of a four year full-time programme), and obtained his MBA degree in the year of 1998 by attending an 1996 EMBA programme at China Europe International Business School as an on- the-job postgraduate student. Immediately upon graduating from the university, Mr. Huang joined Shangtex Holding Co., Ltd ("Shangtex") and its subsidiaries (collectively, the "Shangtex Group") and has been serving at a number of Shangtex Group's subsidiaries, including acting as the deputy general manager of Shanghai Shenda Co., Ltd. (上海申達股份有限公司) (an A-share listed company under the Shangtex Group) between 1995 and 2000 and as the vice president and head of international business of Shanghai Dragon Corporation (上海龍頭 (集團) 股份有限公司) (another A-share listed company under the Shangtex Group) between 2001 and 2010, taking charge of import and export trading. Since March 2018, Mr. Huang has been acting as the president of international business unit of Orient International (Holding) Co., Ltd. (東方國際 (集團) 有限公司) alongside his position as the director and president of Shangtex (Hong Kong) Limited (上海紡織 (香港) 有限公司), taking charge of the transformation and upgrading of the group's foreign trade business as well as the business operations of its overseas companies. Mr. Huang also serves as the director of Wiseknit Factory Limited (慧聯織造廠有限公司) and Shangtex Investment And Trading Co., Ltd (上海紡投貿易有限公司), both are subsidiaries of Orient International (Holding) Co., Ltd. Mr. Huang has profound knowledge and understanding of the upstream and downstream operations of the textile industry, coupled with his rich experience in corporate governance and a remarkable capability of conducting domestic and foreign businesses.

NON-EXECUTIVE DIRECTOR

MOK Siu Wan, Anne, aged 67, is an executive director of the Company from 3 June 2005 to 31 January 2020. Ms. Mok had been working as the President of the Company and Chief Merchandizing Officer of Luen Thai International Group Limited before she was re-designated as a non-executive director of the Company from 1 February 2020. Ms. Mok is an accomplished industry professional with years of experience in key executive and board member positions out of which over 20 years were spent holding various management positions within the Swire Pacific Group Companies. Ms. Mok also held senior management positions with other prominent organizations including Li & Fung Limited and the Pentland Group plc, a London based international group which develops and owns some leading brands in Sports and Fashion. Ms. Mok graduated with a Bachelor of Arts degree from the University of Hong Kong. She has also been sponsored to continue with her executive education by attending various management programmes and courses organized by Harvard University, Tsinghua University and INSEAD Euro-Asia Centre. Ms. Mok was a member of the Board of Governors for the American Chamber of Commerce in Hong Kong from 1998 to 2003 and the Chairman of the Textiles Committee for the American Chamber of Commerce in Hong Kong in 1996 and 1997. Ms. Mok joined the Group in 2003 and was appointed to the Luen Thai Holdings Board as an executive director in June 2005. In 2013, Ms. Mok was awarded "Outstanding Business Woman of the Year" by Capital Entrepreneur magazine. On behalf of GJM, one of Ms. Mok's operating companies, she was also the proud recipient of the Leadership Award 2013 presented by Ann Inc, in recognition of GJM's achievements in CSR initiatives and continuous commitment to improving women's health and welfare in the workplace.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry, aged 54, is a member of the Audit Committee, Nomination Committee and the Remuneration Committee. Mr. Chan has over 32 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a director of The Stock Exchange of Hong Kong Limited and was a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, an independent non-executive director of Hengan International Group Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited which engages in the manufacture and distribution of personal hygiene products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan obtained his Master's degree in Business Administration from Asia International Open University (Macau) and his Bachelor's degree in Arts from Carleton University in Canada. He joined the Group in 2004.

SEING Nea Yie, aged 72, is the Chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. Mr. Seing is the sole proprietor of both accounting firms Messrs. Chan, Seing & Co. and Messrs. Chen Yih Kuen & Co. Certified Public Accountants (Practising). Mr. Seing has over 43 years of audit experience and is currently holding CPA (Practising) at Hong Kong Institute of Certified Public Accountants. Mr. Seing is an active contributor to the charity activities in the community. He was the director of Po Leung Kuk, an authorized charity organization in Hong Kong, from 1987 to 1990 and became the Vice Chairman in 1990 and 1991. Mr. Seing was also a member of audit committee of Po Leung Kuk from 1996 to 2000. Currently, Mr. Seing is the honorary president of The Fukienese Association Limited. He joined the Group in January 2005.

MANAGEMENT
EXECUTIVES

WANG Ching, aged 65, is a member of the Audit Committee, Nomination Committee and the Remuneration Committee. Dr. Wang has over 27 years' managerial experience in investment banking, securities, treasury and asset management in the United States, Hong Kong, Taiwan and the PRC. Dr. Wang is currently the executive director of Shanghai International Asset Management (HK) Co., Ltd., a licensed corporation registered with Hong Kong Securities and Futures Commission and the executive director of Shanghai International Shanghai Growth Investment Limited ("Shanghai Limited"), an investment fund company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 770). Dr. Wang also serves as independent non-executive director of China Singyes Solar Technologies Holdings Limited (stock code: 750) and Minth Group Limited (stock code: 425), which are both listed on the Stock Exchange. He is also appointed as non-executive director of Global Market Group Limited, the unlisted investment of the Shanghai Limited. Dr. Wang received his bachelor degree majoring in economics from the National Taiwan University in 1977. He obtained his Master's degree in business administration from the University of Houston and Ph.D from the Graduate School of Business, Columbia University in the city of New York. He joined the Group in April 2019.

CHEUNG Siu Kee, aged 76. Mr. Cheung has extensive experience in the financial industry. Mr. Cheung was the Group Treasurer of Nam Tai Electronics, Inc. from 2004 to 2005. Mr. Cheung had also worked for the Hongkong and Shanghai Banking Corporation Limited in Hong Kong for 37 years when he retired in 2003 as a Senior Executive in the Corporate and Institutional Banking division. Mr. Cheung obtained his Bachelor's degree in Arts from the University of Hong Kong. He joined the Group in 2004. Mr. Cheung retired as an independent non-executive director of the Company upon the expiration of his service agreement on 15 April 2019. Following the retirement of Mr. Cheung Siu Kee, he also ceased to be a member of each of the audit committee, the remuneration committee and the nomination committee of the Company.

SENIOR MANAGEMENT

TAN Sunny, aged 46, is the Executive Vice President of the Company, responsible for the Accessories Division. Prior to joining the Group in 1999, Mr. Tan worked at the investment banking division of Merrill Lynch (Asia Pacific). Mr. Tan is the Deputy Chairman of the Federation of Hong Kong Industries ("FHKI"), Chairman of the Confederation of Wearable of the Philippines (CONWEP), Board Member of the American Apparel and Footwear Association (AAFA), Executive Committee Member of the Hong Kong Shippers' Council, Council Member of the Hong Kong Productivity Council. Executive Vice Chairman of the Hong Kong General Chamber of Textiles. As in public services, Mr. Tan is currently serving as a Member of the Trade and Industry Advisory Board of the Commerce and Economic Development Bureau of HKSAR, the Action Committee Against Narcotics of the Security Bureau of HKSAR. Mr. Tan also serve as Member of Hebei Province Chinese People's Political Consultative Conference. In 2013, Mr. Tan was awarded "Young Industrialist Award" by FHKI. Mr. Tan obtained a Master of Science degree from Stanford University and Bachelor of Business Administration degree from the University of Wisconsin-Madison.

KORNBLUM Joerg, aged 56, is the Chief Financial Officer of the Group. Mr. Kornblum has a Master's degree in Business Administration and Mechanical Engineering from the University of Darmstadt in Germany. From 1991 to 2002, he has held various senior management positions at The Freudenberg Group, including the position of General Manager of Freudenberg & Vilene International Limited in Hong Kong from 1997 to 2001. Mr. Kornblum joined TMS Group, a Business Division of Luen Thai, in the capacity of CFO in 2002 before heading the TMS Group as Executive Vice President. In April 2017 he was appointed as the Chief Financial Officer of the Group and Chair of the Finance & Governance Committee.

MANAGEMENT EXECUTIVES

SAUCEDA Francisco, aged 61, is the Chief Operating Officer of the Apparel Division and President of the Company. He is responsible for the business units which manufactures brand name apparel in facilities in Asia. He oversees Corporate Communications and has been with the Group since 1994. Mr. Sauceda obtained his degree in Business Administration from Texas Southmost College. He is a board member of The American Apparel and Footwear Association (AAFA) and a member of the Hong Kong Chamber of Commerce and the Mexican Chamber of Commerce in Hong Kong.

WONG, Sammy, aged 63, is the Managing Director of Tien-Hu Trading (Hong Kong) Limited, Tien-Hu Knitters Limited and Tien-Hu Knitting Factory (Hong Kong) Limited. Mr. Wong joined Tien-Hu in 1981 and has over 39 years of experience in sweater business. Mr. Wong obtained a Diploma in Architectural and Environmental Design of the OCAD University in Toronto, Canada.

COMPANY SECRETARY

CHIU Chi Cheung, aged 56, is the Senior Vice President of Corporate Finance, Company Secretary of the Company. Mr. Chiu has over 27 years of experience in the field of company secretarial, auditing and accounting. He joined the Group in 2002. He was an auditing manager of an international auditing firm. Mr. Chiu is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chiu holds a Bachelor of Business Administration degree from the University of Hong Kong.

REPORT OF THE DIRECTORS

The board of directors of Luen Thai Holdings Limited (the "Directors") has the pleasure in presenting to the shareholders this annual report together with the audited consolidated financial statements of Luen Thai Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019.

GROUP PROFIT

The consolidated statement of profit or loss is set out on page 75 and shows the Group's profit for the year ended 31 December 2019. A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided on pages 16 to 27 of the annual report.

DIVIDENDS

An interim dividend of US0.190 cent (or equivalent to HK1.49 cents) per share was paid to the shareholders during the year totaling approximately US$1,965,000. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 11 to the consolidated financial statements. An analysis of the Group's performance for the year by operating segment is set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 together the future business development are set out in the section headed "Chairman's Statement" "Message from the CEO" and "Management Discussion and Analysis" on pages 4 to 7, pages 8 to 15 and pages 16 to 27 of this annual report respectively.

Environmental policies and social responsibilities

To minimize the impact of our manufacturing activities to the environment, the Group has implemented policies in environmental protection. The Group is committed to adopt a clean production model and has engaged consultant to give advice on reducing carbon emission in our manufacturing activities. During the year ended 31 December 2019 and up to date of this report, the Group is in compliance with the applicable environmental laws and regulations of the jurisdictions where the factories are located.

Detail information regarding the environmental, social and governance practices adopted by the Group is set out in the Environmental, Social and Governance Report which will be disclosed in a separate report and published on the websites of the HKEX and the Company no later than three months after the publication of this annual report.

Compliance with laws and regulations

The Group's production and operations are mainly carried out by the Company's subsidiaries in mainland China and certain Southeast Asian countries including the Philippines, Vietnam, Cambodia, Myanmar, Thailand and Indonesia, while the Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited. Sufficient resources have been allocated to ensure the on-going compliance with applicable laws and regulations. During the year under review and up to the date of this report, the Board is not aware of any material non-compliance with the relevant laws and regulations in the countries where the Group is operating.

Principal risks and uncertainties

The business operations and results may be affected by various factors, some of which are external causes and some are inherent to the business. The principal risks and uncertainties are summarized below:

(i) Macroeconomic environment

The global economy and business environment remain full of uncertainties and consumer sentiment stays at low level. Such challenging environment could adversely affect the financial conditions of our customers and, which in turn could undermine the demand for our products. Thus, it is vital for the Group to closely monitor the changes of the macroeconomic environment and adjusts its business plan in a timely manner.

(ii) Intense competition

Increasingly tense competition in the apparel and accessories manufacturing industry is reflected in the continuous concentration and expanding scale in the industry. If we do not respond timely to our competitors, our costs may increase or the consumer demand for our products may decline and our revenue and profits would be affected.

(iii) Strategic direction

The success of our future business development is heavily relied on achieving our strategic objectives, including but not limited to merger and acquisition and investment in joint ventures. The Group encounters risk in application of its capital and assets towards appropriate investments and grab the investment opportunities when such opportunities arise.

Relationship with key stakeholders

The success of the Group also depends on the support from key stakeholders which comprise customers, suppliers, employees and shareholders.

Customers

The Group's principal customers are branded apparel and bags. The Group has well established operational experience partnering with major global brands in apparel and bags, offering competitive price, good quality and reliable delivery times. Effective communications between the Group and the customers have been established through various means which enable the Group and the customers to achieve their profitability and sustainable growth.

Suppliers

Good relationship with suppliers constitutes one of the essential elements of the Group's success. To achieve positive business growth, the Group maintains close relationship with its suppliers in order to maintain a steady supply of materials with superior quality for reaching the Group's business goals.

Employees

Employees constitute one of the valuable assets of the Group. The key objective of the Group's human resource management is to recognize and reward performing staff by providing competitive remuneration packages and implementing an effective performance appraisal system with appropriate incentives. Sufficient training and development are provided to all the employees and equal opportunities are provided within the Group for career advancement.

Shareholders

One of the major goals of the Group is to maximize the return to the shareholders. The Group endeavors to foster the development of business for achieving sustainable profit growth and rewarding the shareholders with stable dividend payouts taking into account the business development needs, operating environment and financial health of the Group.

PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Details of the principal subsidiaries and joint ventures of the Company and the Group as at 31 December 2019 are set out in notes 11 to 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 18 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserves available for distribution to the Shareholders of the Company amounted to US$82,588,000. Details of the movements in the reserves of the Company are set out in note 35(a) to the consolidated financial statements. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the capital reserve account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 170 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in note 21 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately US$310,000.

SHARE OPTIONS

A share option scheme of the Company was approved and adopted by way of an ordinary resolution in the annual general meeting of the Company held on 26 May 2014, pursuant to which options may be granted to eligible participants ("Eligible Participants") to subscribe for shares in the Company. The principal purposes of the share option schemes are to provide the Company with a flexible means of recognizing and acknowledging the contributions of the Eligible Participants and to attract and retain and appropriately remunerate the best possible quality of employees and other Eligible Participants.

The following persons shall be eligible for participation in the share option scheme:

(i) any director ("Group Director") of any member company with the Group ("Group Company") and any full-time employee for the time being of any Group Company ("Employee") (and any proposed Group Directors and Employees);

(ii) any customer, supplier or provider of services, landlord or tenant, agent, partner, consultant, or adviser of or a contractor to or person doing business with any Group Company;

(iii) the trustee of any trust the principal beneficiary of which is, or any discretionary trust the discretionary objects of which include, any person referred to in (i) or (ii) above;

(iv) a company controlled by any person referred to in (i) or (ii) above; and

(v) such other persons (or classes of persons) as the Board may in its absolute discretion determine should be Eligible Participants. In exercising such discretion, the Board shall have regard to factors such as any contributions which have been made, or may be made, by such persons to the Group and other factors as the Board may consider appropriate.

Pursuant to the share option scheme, no option may be granted to any person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the options already granted and to be granted to such person (including exercised, cancelled and outstanding options but excluding lapsed options) in the 12-month period up to and including the date of such new grant exceeding 1% of the shares of the Company in issue as at the date of such new grant.

The basis of determining the exercise price under the share option scheme shall not be less than the highest of:

(i) the closing price of a share of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant option;

(ii) an amount equivalent to the average closing price of a share of the Company as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant Option; and

(iii) the nominal value of a share of the Company.

The share option scheme will remain in force for ten years from 26 May 2014, unless otherwise determined in accordance with its term. An option may be exercised at any time during a period to be notified by the Board to each grantee. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.

Under the share option scheme, each grantee shall pay a consideration of HK$10 upon acceptance of the offer of the option and the exercise price of the share options is subject to the adjustment in the event of any alteration in the capital structure of the Company.

During the year, no share option was granted under the share option scheme and there is no share option outstanding as at 31 December 2019.

As at the date of this report, the total number of shares available for issue under the share option scheme is 103,411,266, representing approximately 10% of the total issued share capital of the Company as at the date of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

SHEN Yaoqing
TAN Siu Lin
TAN Cho Lung, Raymond
QU Zhiming
HUANG Jie
(re-designated from non-executive director to executive Director on 15 February 2020)

Non-executive Director

MOK Siu Wan, Anne
(re-designated from executive Director to non-executive Director on 1 February 2020)

Independent non-executive Directors

CHAN Henry
SEING Nea Yie
WANG Ching *(appointed on 8 April 2019)*
CHEUNG Siu Kee *(retired on 15 April 2019)*

Pursuant to Article 87 of the Articles of Association of the Company ("Articles"), Messrs. Shen Yaoqing, Qu Zhiming, Huang Jie and Seing Nea Yie shall retire from office at the forthcoming annual general meeting. Mr. Shen Yaoqing has informed the Company that he will not offer himself for re-election at the forthcoming annual general meeting, and he will retire at the conclusion of the forthcoming annual general meeting. Each of the other three retiring Directors, namely Messrs. Qu Zhiming, Huang Jie and Mr. Seing being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

CHANGE IN INFORMATION OF DIRECTOR

The change in the information of the Directors of the Company since the publication of the 2019 interim report of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr. Huang Jie has been re-designated from non-executive Director to executive Director and ceased to be a member of the audit committee of the Company on 15 February 2020.

Ms. Mok Siu Wan, Anne has been re-designated from executive Director to non-executive Director on 1 February 2020.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The updated biographical details of the Directors are set out in the preceding section head “Management Executives”.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Except for Messrs. Shen Yaoqing and Qu Zhiming whose service contracts have been expired on 14 February 2020, each of the executive Directors and independent non-executive Directors has entered into service contracts and/or letter of appointment with the Company for a term of three years and is subject to termination by either party by giving not less than three months’ written notice or compensation in lieu.

The non-executive Director entered into a service agreement with the Company for an initial term of one year commencing from 1 February 2020 and is subject to retirement by rotation once every three years under the Articles.

Under the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation. And, according to the CG Code, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. A retiring Director is eligible for re-election and continues to act as a Director throughout the meeting at which he retires.

The Articles provide that any Director appointed by the Board, either to fill a casual vacancy in the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

DIRECTORS’ MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed “Connected Transactions and Directors’ Interests in Contracts” below, no other transactions, arrangements and contracts of significance in relation to the Group’s business to which the Company or any of its subsidiaries was a party and in which a Director and the Director’s connected entities had a material interest, whether directly or indirectly, subsisted as at 31 December 2019 or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors and Chief Executives' Interests in Shares" and for the share option scheme adopted by the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of an acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of directors and senior management are set out in the section headed "Management Executives" on pages 30 to 34 of this annual report.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles 167(1) provides that every Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses as a result of any act or failure to act in carrying out his/her functions. The Company has also maintained Directors and officers liability insurance during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2019, the interests of the Directors and chief executives of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Long position in the Shares

Name of Director	Capacity	No. of Shares	Percentage of interests in the Company (Note a)
TAN Siu Lin	Trustee (note b)	1,840,757	0.18%
	Interest of controlled corporation (note b)	9,752,986	0.94%
TAN Cho Lung, Raymond	Interest of controlled corporation (note c)	15,655,639	1.51%
	Interest of spouse (note c)	2,050,000	0.20%
MOK Siu Wan, Anne	Beneficial Owner (note d)	2,000,000	0.19%

Notes:

a. The percentage has been compiled based on the total number of shares of the Company issued (i.e. 1,034,112,666) as at 31 December 2019.

b. Dr. Tan Siu Lin as a trustee indirectly controls the entire issued share capital of Wincare International Company Limited, which in turn holds directly 1,840,757 shares of the Company ("Shares"). Dr. Tan Siu Lin also controls and is a subscriber and founding member of Tan Siu Lin Foundation Limited, which in turn owns directly 9,752,986 Shares.

c. Mr. Tan Cho Lung, Raymond wholly owns Flying Base Limited, which own 15,655,639 Shares.

   A total of 2,050,000 Shares was acquired by an associate of Mr. Tan Cho Lung, Raymond. He is therefore deemed under Part XV of the SFO to be interested in all of the 2,050,000 Shares acquired by his associate.

d. Ms. Mok Siu Wan, Anne owns 2,000,000 Shares through the exercise of share options granted by the Company on 21 April 2008 and none of the 2,000,000 shares was disposed of up to the date of this report.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

The related party transactions of the Company for the year ended 31 December 2019 are set out in note 33 to the consolidated financial statements. Other than disclosed below, the related party transactions of the Company did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement and/or independent shareholders' approval requirements under the Listing Rules.

Non-exempt Continuing Connected Transactions

During the year ended 31 December 2019, the Group has entered into the following transactions, which constituted non-exempt continuing connected transactions for the Company are subject to announcement, annual review and/or independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

The following table is a summary of the approximate aggregate value and the annual caps of each category of the non-exempt continuing connected transactions of the Group pursuant to Chapter 14A of the Listing Rules for the year ended 31 December 2019. Details of these connected transactions are set out below in accordance with the Listing Rules.

Connected Party	Category	Approximate aggregate value for the year ended 31 December 2019 US$'000	Annual Cap for the year ended 31 December 2019 US$'000
LTG Group	Provision of technological support services (note a)	1,920	2,400
	Lease agreements		
	— Group as tenants of QZ LT Estate and LTID (note b)	1,021	1,900
	— Group as tenants of DGLT (note c)	1,960	3,240
	Logistics services to the Group (note d)	748	1,383
	Provision of services (note e)	29,774	120,000
Shangtex Group	Purchase of textile and related products (note f)	4,151	10,500
	Provision of Services (note g)	288	500

Notes:

(a) On 14 December 2018, Luen Thai Overseas Limited ("LTO"), a subsidiary of the Company, entered into an agreement with Luen Thai Group Ltd. (formerly known as Helmsley Enterprises Limited) ("LTG") for a term of 3 years from 1 January 2019 to 31 December 2021 pursuant to which LTG, through its indirectly wholly owned subsidiary, Integrated Solutions Technology Limited ("IST BVI"), shall continue to provide technological support services to the Group including but not limited to software and system development and maintenance services such as process mapping, analysis and design, process reengineering, scheduling, management reporting and analysis ("Technological Support Master Agreement").

IST BVI has been providing technological support services to the Group since the Company's listing on the Stock Exchange in 2004 (the "Listing"). The fees charged under the Technological Support Master Agreement were based on similar rates charged by service support consultants in the market. While the fees for such technological support services reflect normal commercial terms negotiated on an arm's length basis and are comparable to the terms given by independent third parties, the Directors believe that the Group will benefit from the continuation of such technological support services by IST BVI, which has a better understanding of the Group's existing systems due to its long-term service and has been providing smooth and efficient technological support services to the Group. Therefore, such transactions are beneficial to the Group as a whole as the Group is able to leverage on its long-established relationship with IST BVI. The Directors further believe that IST BVI's expertise and knowledge of the Group's operations, coupled with its development of various software and systems for the Group, should also warrant the continued engagement of IST BVI for provision of technical support services to the Group.

Given the quality services offered by IST BVI to the Group in the past and the benefits of continuity, the Directors (including the independent non-executive Directors) consider that such technological support services and their respective terms are on normal commercial terms, fair and reasonable and are in the interests of the Group and the Company's shareholders as a whole.

IST BVI is an indirect wholly-owned subsidiary of LTG. LTG is ultimately owned by the family trust of Dr. Tan Siu Lin, being an executive Director of the Company. Hence, LTG is a connected person of the Company. IST BVI is therefore deemed an associate, and hence a connected person of the Company.

(b) On 14 December 2018, LTO entered into an agreement with the LTG in relation to the leasing of properties between the Group and the LTG and its subsidiaries (collectively, the "LTG Group"), pursuant to which such leasing arrangements will be for a term of 3 years from 1 January 2019 to 31 December 2021 ("Properties Lease Master Agreement"). For the leasing arrangements, the relevant members of the LTG Group, including Quanzhou Luen Thai Real Estate Development Co Ltd ("QZ LT Estate") and Luen Thai International Development Limited ("LTID").

The LTG Group, with a diverse and wide business network, has been leasing properties to the Group since the Listing. The Directors believe that such transactions are beneficial to the Group as a whole as the Group is able to leverage on its long-established relationship with the LTG Group.

For the other leasing arrangements under the Properties Lease Master Agreement, the Directors believe that the Group will benefit from such leasing arrangements for cost efficiency and better utilization of the Group's office premises, which is beneficial to the Group as a whole.

The rentals under the Properties Lease Master Agreement were determined based on the prevailing market rentals for similar properties in the nearby locations of the leased properties. While the rentals payable by the Group pursuant to the Properties Lease Master Agreement reflect normal commercial terms negotiated on an arm's length basis and are comparable to the terms given by independent third parties, the Directors therefore consider that the Group will benefit from the continuity of the leasing arrangements and will save the relocation costs which may otherwise have to be incurred due to any discontinuation of the existing leasing arrangements. The Directors further believe that all the above leasing arrangements and their respective terms are on normal commercial terms, fair and reasonable and are in the interests of the Group and the Company's shareholders as a whole.

QZ LT Estate is a subsidiary of Luen Thai Enterprises Limited ("LTE"), which is in turn wholly-owned by LTG. LTG is ultimately owned by the family trust of Dr. Tan Siu Lin, being an executive Director of the Company. Hence, LTG is a connected person of the Company. QZ LT Estate is therefore deemed an associate and hence connected person of the Company.

LTID is indirectly owned by Dr. Tan Siu Lin, a Director of the Company. It is therefore an associate and hence connected person of the Company.

(c) On 25 October 2016, LTO entered into an agreement with Dongguan Luen Thai Garment Co. Ltd. ("DGLT") in relation to the leasing of certain factory premises ("Factory") between the Group and the DGLT ("Old Lease Agreement"), pursuant to which such leasing arrangement will be for a term of 3 years from 1 January 2017 to 31 December 2019, as the Lease Agreement was approved by the independent shareholders of the Company in the extraordinary general meeting on 31 December 2016.

The Factory was using by the Group as manufacturing premises and relocation of the manufacturing facilities and staff would involve costs and potential loss of labour, the Directors propose to continue its manufacturing operations in the Factory subject to the terms of the relevant leases being more favourable than or at least the same as those offered by other landlords and subject to the Group's needs and operation plans in the future.

DGLT is a subsidiary of Winley Industries Ltd., which is in turn wholly-owned by LTG. DGLT is therefore deemed an associate, and hence a connected person of the Company.

The Old Lease Agreement has expired on 31 December 2019 and the Company expects to continue this continuing connected transaction thereafter, as the Company will save the relocation costs. In this connection, LTO entered into a new lease agreement (the "New Lease Agreement) with DGLT on 19 December 2019. Pursuant to the New Lease Agreement, the maximum aggregate fees to be paid by the Group for the year ending on 31 December 2020 will amount to approximately US$2,700,000.

(d) On 25 October 2016, LTO entered into an agreement with CTSI Holdings Limited ("CTSI") in relation to the provision of freight forwarding and logistics services ("Old Logistics Master Agreement") by the CTSI and its subsidiaries ("CTSI Group"), pursuant to which such services will be for a term of 3 years from 1 January 2017 to 31 December 2019, as the Old Logistics Master Agreement was approved by the independent shareholders of the Company in the extraordinary general meeting on 31 December 2016.

REPORT OF THE DIRECTORS

The Group was using the freight forwarding and logistics services provided by CTSI Group for transportation of its products. The Directors continue to use the freight forwarding and logistics services to be provided by CTSI Group for the purpose of transporting its apparel and bags products in Hong Kong, the Philippines, Cambodia, Vietnam and the United States of America, etc., subject to the relevant terms of such services being more favourable than or at least the same as those provided by other parties.

CTSI is a subsidiary of Torpedo Management Limited, which is in turn wholly-owned by LTG. CTSI is therefore an associate, and hence a connected person of the Company.

The Old Logistics Master Agreement has expired on 31 December 2019 and the Company expects to continue this continuing connected transaction thereafter. In this connection, LTO entered into a new agreement for the freight forwarding and logistics services (the "New Logistics Master Agreement) with CTSI on 19 December 2019. Pursuant to the New Logistics Master Agreement, the maximum aggregate fees to be paid by the Group for each of the three years ending on 31 December 2022 will amount to approximately US$1,500,000, US$1,800,000 and US$2,000,000 respectively.

(e) On 20 December 2017, LTO entered into the services master agreement (the "Services Master Agreement") with LTE in relation to the provision of design, sourcing and manufacturing of apparel and/or the related advance payment of the expenses ("Services") by the LTO Group to the LTE Group. The Services Master Agreement was subsequently approved, confirmed and ratified by the independent shareholders on 2 February 2018. Pursuant to the Services Master Agreement, the maximum aggregate fee to be received by the Group for each of the three years ending on 31 December 2020 will amount to US$70,000,000, US$120,000,000 and US$200,000,000, respectively.

The Directors believe that the transactions contemplated under the Services Master Agreement will enhance the revenue streams of the Group and will help optimize the productivity of the design, sourcing and manufacturing workforce of the Group, which is beneficial to the long term development of the Group. In addition, the Directors believe that the transactions with the LTE Group under the Services Master Agreement would be a less risky option for the Group to take part in the retail business, as the Group may otherwise need to incur additional time and cost in due diligence exercise.

The determination of the above proposed annual caps in respect of the Services under the Services Master Agreement is based on: (i) the historical amount of fees received by the LTO and its subsidiaries and the joint venture of the LTO ("JV") pursuant to the Services Master Agreement and the individual agreements made between the JV and the LTE Group; (ii) the anticipated organic growth of the business with the LTE Group; (iii) payment and credit terms for the potential transactions under the Services Master Agreement; and (iv) delivery schedules for the potential transactions under the Services Master Agreement provided by the LTE Group.

LTE is wholly owned by LTG. LTG is ultimately owned by the family trust of Dr. Tan Siu Lin, being an executive Director of the Company. LTE is therefore an associate, and hence a connected person of the Company.

(f) On 7 July 2017, LTO entered into an agreement with the Shangtex Group in relation to the purchase of textile and apparel related products by the Group from the relevant members of the Shangtex Group (the "Old Sale and Purchase Framework Agreement"), pursuant to which such transaction will be for a term of 2 years and 7 months from 1 June 2017 to 31 December 2019.

The Group is engaged in the manufacturing and trading of apparel and accessories and has a regular demand for the types of textile and apparel related products offered by the Shangtex Group. The Directors believe that the Shangtex Group, being a leading textile manufacturer and trader in the PRC, is able to offer quality textile and apparel related products that are suitable for the Group's business at competitive prices.

Shangtex (Hong Kong) Limited ("Shangtex HK") is a controlling shareholder of the Company and Shangtex, being the holding company of Shangtex HK, is an associate of Shangtex HK and hence a connected person of the Company. Accordingly, the transactions under the Old Sale and Purchase Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

The Old Sale and Purchase Framework Agreement has expired on 31 December 2019 and the Company expects to continue this continuing connected transaction thereafter. In this connection, LTO entered into a new sale and purchase agreement (the "New Sale and Purchase Framework Agreement) with the Shangtex Group on 19 December 2019. Pursuant to the New Sale and Purchase Framework Agreement, the maximum aggregate fees to be paid by the Group for each of the three years ending on 31 December 2022 will amount to approximately US$4,500,000, US$4,500,000 and US$4,500,000 respectively.

(g) On 7 July 2017, LTO entered into an agreement with the Shangtex Group in relation to provision of services including solicitation of customers for the Shangtex Group's products as well as custom clearance and logistics arrangement (the "Old Services Framework Agreement"), pursuant to which such services will be provided for a term of 2 years and 7 months from 1 June 2017 to 31 December 2019.

The Group is engaged in the manufacturing and trading of apparel and accessories. Through the collaboration of efforts by the Group and Shangtex Group, the Directors believe that Shangtex Group can expand its customer base for its products and the Group can benefit by providing the related services to the Shangtex Group.

Shangtex HK is a controlling shareholder of the Company and Shangtex, being the holding company of Shangtex HK, is an associate of Shangtex HK and hence a connected person of the Company. Accordingly, the transactions under the Old Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Old Services Framework Agreement has expired on 31 December 2019 and the Company expects to continue this continuing connected transaction thereafter. In this connection, LTO entered into a new services framework agreement (the "New Service Framework Agreement) with the Shangtex Group on 19 December 2019. The terms of the New Services Framework Agreement will be substantially the same as the Old Services Framework Agreement, except the scope of service will be expanded to cover design and manufacturing services. Pursuant to the New Services Framework Agreement, the maximum aggregate fees to be paid by the Group for each of the three years ending on 31 December 2022 will amount to approximately US$2,000,000, US$2,000,000 and US$2,000,000 respectively.

The aforesaid continuing connected transactions have been reviewed by the directors (independent non-executive directors) of the Company.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the aforesaid continuing connected transactions and have confirmed that these continuing connected transactions (a) were entered into in the ordinary and usual course of business of the Group; (b) were either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) were in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company confirmed that the above transactions were approved by the Board, were in accordance with the pricing policies of the Company, and were entered into under respective agreements that regulate such transactions and did not exceed any of the relevant caps as mentioned in the relevant agreements and announcements of the Company. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 42 to 46 of the Annual Report in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

REPORT
OF THE DIRECTORS

Save as disclosed above:

(i) no contracts of significance subsisted to which the Company or any of its subsidiaries was a party and in which any one of the Directors of the Company had a material interest, whether directly or indirectly at the end of the year or at any time during the year; and

(ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2019, the register of substantial shareholders maintained pursuant to Section 336 of Part XV of the SFO showed that other than the interest disclosed in "Directors' and Chief Executives' Interests in Shares", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

Long position in the shares

Name of shareholder	Note	Capacity	Number of ordinary shares beneficially held	Approximate percentage of interests in the Company (Note a)
Shangtex HK	(b)	Beneficial owner	730,461,936	70.64%
Shangtex Investment Co., Ltd.	(b)	Interest of controlled corporation	730,461,936	70.64%
Shangtex	(b)	Interest of controlled corporation	730,461,936	70.64%
Orient International (Holding) Co., Ltd.	(b)	Interest of controlled corporation	730,461,936	70.64%
Shanghai Guosheng Group Co., Ltd.	(b)	Interest of controlled corporation	730,461,936	70.64%
Double Joy Investments Limited	(c)	Beneficial owner	71,975,726	6.96%
Dr. Tan Henry	(d)	Interest of controlled corporation	89,179,725	8.62%
Ms. Tan Chiu Joise	(d)	Interest of controlled corporation Interest of spouse	89,179,725	8.62%

Notes:

(a) The percentage has been complied based on the total number of shares of the Company in issue (i.e. 1,034,112,666) as at 31 December 2019.

(b) Based on the information recorded in the register required to be kept under section 336 of the SFO, Shangtex (Hong Kong) Limited ("Shangtex HK") directly holds 730,461,936 shares of the Company. Shangtex HK is 100% directly owned by Shangtex Investment Co., Ltd ("Shangtex Investment"). Shangtex Investment is 100% directly owned by Shangtex Holding Co., Ltd ("Shangtex"). Orient International (Holding) Co., Ltd ("Orient International") directly holds 76.33% in Shangtex. Shanghai Guosheng Group Co., Ltd directly holds 34% in Orient International.

(c) Double Joy Investments Limited ("Double Joy") is a company incorporated in the British Virgin Islands with limited liability and is owned by Ms. Tan Chiu Joise and Dr. Tan Henry in equal shares. Each Ms. Tan Chiu Joise and Dr. Tan Henry is deemed to be interested in the 71,975,726 Shares held by Double Joy.

(d) (i) Both Dr. Henry Tan and Ms. Tan Chiu Joise are deemed to be interested in the 71,975,726 Shares held by Double Joy as mentioned in note (c) above; and

(ii) Dr. Tan Henry wholly owns Hanium Industries Limited, which own 17,203,999 Shares. Ms. Tan Chiu Joise is the wife of Dr. Tan Henry and is deemed to be interested in the shares which are interested by Dr. Tan Henry under Part XV of the SFO.

Save as disclosed above, so far as is known to the Directors, there are no other person (not being a Director or chief executive of the Company) who has an interest or a short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 during the year ended 31 December 2019.

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 report as required under the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, there were no competing business of which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year which is required to be disclosed.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 65.5% (2018: 60.2%) of the total sales. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 21.0% (2018: 16.8%) of the total sales. During the year, none of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CORPORATE GOVERNANCE

The Corporate Governance Report of the Company is set out in pages 50 to 65 of this annual report.

AUDITOR

The consolidated financial statements for the year have been audited by Messrs. PricewaterhouseCoopers. A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Messrs. PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board

Tan Cho Lung, Raymond
Chief Executive Officer and Executive Director

27 March 2020

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Luen Thai Holdings Limited together with its subsidiaries (the "Group" or "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.

Throughout the year ended 31 December 2019, 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. This report includes key information relating to corporate governance practices of the Company during the year ended 31 December 2019 and significant events after that date and up to the date of this report.

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 2019.

BOARD OF DIRECTORS

The Board

The Board is scheduled to meet at least four times a year to determine overall strategic direction and objectives and approve interim and annual results and other significant matters. Each of the Directors is required to give sufficient time and attention to the affairs of the Company. In 2019, five Board meetings were held with satisfactory attendance, details of which are presented below.

Board Members	Meetings Attended/Held	Average Attendance Rate
Executive Directors		95.6%
SHEN Yaoqing	5/5	100%
TAN Siu Lin	5/5	100%
TAN Cho Lung, Raymond*	5/5	100%
QU Zhiming	5/5	100%
MOK Siu Wan, Anne *(re-designated to non-executive Director on 1 February 2020)*	5/5	100%
Non-executive Director		100%
HUANG Jie *(re-designated to executive Director on 15 February 2020)*	5/5	100%
Independent non-executive Directors		100%
CHAN Henry	4/5	80%
SEING Nea Yie	5/5	100%
WANG Ching *(appointed on 8 April 2019)*	4/4	100%
CHEUNG Siu Kee *(retired on 15 April 2019)*	0/1	0%

* Son of TAN Siu Lin

Directors are consulted to include any matter in the draft agenda. As part of our best practices, the agenda of Board meetings are finalized by the Chairman after taking into consideration any matters proposed by other Directors, including the independent non-executive Directors. The notice and agenda are generally released at least 14 days in advance. The Articles provide that a Board meeting shall be held in cases where a substantial shareholder or Director has a conflict of interest in a material matter, in which the substantial shareholder or Director is required to abstain from voting and shall not be counted in quorum. This is also in conformity with the requirements of the CG Code.

Up to the date of this report, the Chairman of the Company has held various meetings with the non-executive Directors (including the independent non-executive Directors) without the presence of the executive Directors.

The Company Secretary is responsible for taking minutes of meetings of the Board and the Committees under the Board ("Board Committees"). Draft and final minutes are sent to all Directors for comments within a reasonable time. A final draft of each minutes of meetings is made available for inspection by Directors/Committee Members.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters. They are also encouraged to take independent professional advice at the Company's expense in performance of their duties, if necessary. If a substantial shareholder or a Director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter. Furthermore, all the Directors are covered by the Directors' & Officers' Liability Insurance.

Board responsibilities

The Board acknowledges its responsibility for the management of the Group and is collectively responsible to ensure sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of the shareholders. The Board is responsible to formulate the overall strategies of the Group, monitors operating and financial performance, reviews the effectiveness of the internal control system and determines the corporate governance policy of the Group. The Board members have separate and independent access to the senior management, and are provided with complete and timely information about the conduct of the business and development of the Company, including monthly reports and recommendations on significant matters.

Regarding our Group's corporate governance, the Board as a whole is responsible to perform the following corporate governance duties including:

(i) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(ii) to develop and review the Company's policies and practices on corporate governance;

(iii) to review and monitor the training and continuous professional development of directors and management;

(iv) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance report; and

(v) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors.

Corporate Governance Functions

The Board is responsible for performing the corporate governance functions, which includes formulating and reviewing the Group's policies and practices on corporate governance, reviewing and monitoring the training and continuous professional development of the Directors and the senior management, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, formulating, reviewing and monitoring the code of conduct, guidelines and compliance manual applicable to employees and Directors, as well as reviewing the Group's compliance with the CG Code and disclosures in this Corporate Governance Report.

Chairman and CEO

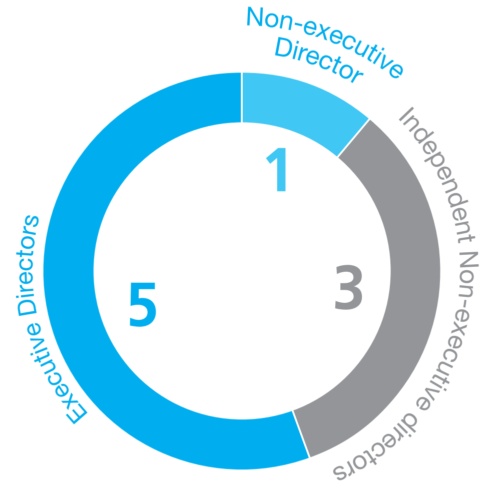
During the year 2019 and as of the date of this report, Mr. Shen Yaoqing is the Chairman of the Board and Mr. Tan Cho Lung Raymond is the CEO of the Company. The Chairman is responsible for providing leadership to, and overseeing the functioning of the Board to ensure that the Board acts in the best interests of the Group. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters raised by other Directors for inclusion in the agenda. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive reliable, adequate and complete information in a timely manner. The Chairman also actively encourages Directors to fully engage in the Board's affairs and make contribution to the Board's functions.

The CEO is in charge of the Company's operations and day-to-day management. The CEO is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

Composition

During the year ended 31 December 2019, there were five executive Directors, including the Chairman of the Board, one non-executive Director and three independent non-executive Directors. The number of independent non- executive Directors constitute one-third of the Board which is in compliance with the requirement under Rule 3.10(A) of the Listing Rules. Hence, there has a strong independence element in the composition of its Board. Each of the Directors has the relevant experience, competencies and skills appropriate to the requirements of the business of the Group. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Company.

Balance of Executive Directors and Non-executive Directors 31 December 2019



Independent non-executive Directors

The roles of the independent non-executive Directors include the following:

(i) provision of independent judgment at the Board meeting;

(ii) take the lead where potential conflicts of interests arise;

(iii) serve on committees if invited; and

(iv) scrutinize the performance of the Group as necessary.

The independent non-executive Directors and their immediate family receive no payment from the Company or its subsidiaries (except the director fee). No family member of any independent non-executive Directors is employed as an executive officer of the Company or its subsidiaries, or has been so in the past three years. The independent non-executive Directors are subject to retirement and re-election at the annual general meeting in accordance with the provisions of the Articles. Each independent non-executive Director has provided a written annual confirmation of his independence with reference to the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

Two of the independent non-executive Directors, namely Messrs. Seing Nea Yie and Chan Henry have served on the Board for more than nine years. The Nomination Committee is fully satisfied that they demonstrate complete independence in judgement and character both in their designated roles and as Board members and is of the opinion that they continue to bring independent view of the Company's affairs to the Board notwithstanding their length of service. The Board believes that their in-depth knowledge of the Group's business and their expertise and extensive experience continue to provide invaluable contribution to the Board.

Supply of and access to information

In respect of regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all Directors at least 3 days before the intended date of a meeting. The management has the obligation to supply the Board and the various committees with adequate information in a timely manner to enable the members to make informed decisions. All board papers and minutes are also made available for inspection by the Board and its Committees.

Continuing professional development

Directors are committed to comply with Code Provision A.6.5 of the CG Code on Directors' training so as to ensure that their contribution to the Board will be informed and relevant. All Directors have participated in appropriate continuous professional development to develop and refresh their knowledge and skills and provided the Company their record of training they received for the year ended 31 December 2019.

Individual directors had also attended seminars and/or conferences or workshops or forums relevant to his profession and duties as directors.

A summary of training record of each Director for the year ended 31 December 2019 is summarized below:

Board Members	Type of training
Executive Directors	
SHEN Yaoqing	A
TAN Siu Lin	A
TAN Cho Lung, Raymond*	A
QU Zhiming	A
MOK Siu Wan, Anne	A
(re-designated to non-executive Director on 1 February 2020)	
Non-executive Director	
HUANG Jie	A
(re-designated to executive Director on 15 February 2020)	
Independent non-executive Directors	
CHAN Henry	A
SEING Nea Yie	A, B
WANG Ching *(appointed on 8 April 2019)*	A, B
CHEUNG Siu Kee *(retired on 15 April 2019)*	N/A

* Son of TAN Siu Lin

A: attending training session arranged by the Company

B: attending seminars/conferences/workshops/forums

During the year ended 31 December 2019, Mr. Chiu Chi Cheung, the Company Secretary, has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

BOARD COMMITTEES

The Board has established the Audit Committee, Remuneration Committee and Nomination Committee (collectively, "Board Committees") in accordance with the CG Code and these Board Committees are mainly composed of independent non-executive Directors. Each of these Board Committees has specific written terms of reference which are posted on the website of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference that sets out the authorities and duties of the Committee adopted by the Board. The functions of risk management and corporate governance was adopted into the terms of reference of Audit Committee in compliance with the amendments to the Main Board Listing Rules, Appendix 14 with effect from 1 January 2016.

For the year under review, the Audit Committee comprised three independent non-executive Directors, namely, Mr. Henry Chan, Mr. Seing Nea Yie and Mr. Wang Ching (appointed on 8 April 2019), and a non-executive Director, namely, Mr. Huang Jie (resigned from the committee on 15 February 2020). The Audit Committee is chaired by an independent non-executive Director, Mr. Seing Nea Yie. None of the members of the Audit Committee is a former partner of the external auditor. The Audit Committee must meet not less than two times a year with the Company's external auditor and meetings shall be held at such other times on an ad hoc/as-needed basis. It meets with the external auditor and the management of the Group, to ensure that the audit findings are addressed properly. The Audit Committee is authorized to take independent professional advice at Company's expense. The principal responsibilities of the Audit Committee include the following:

(i) To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.

(ii) To review the financial statements and reports and consider any significant or unusual items raised by the external auditor or qualified accountant before submission to the Board.

(iii) To review the effectiveness and adequacy of the Company's financial reporting system, internal control systems and associated procedures, risk management and corporate governance matters.

(iv) To review the resources, qualifications, experience, training programs and budget of the staff of the Group's financial reporting and accounting and internal audit functions are adequate.

The Audit Committee held three meetings during the year to review the financial results and reports, financial reporting and compliance procedures, internal control and risk management systems, corporate governance matters and the re-appointment of the external auditor. The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming AGM of the Company, Messrs. PricewaterhouseCoopers be re-appointed as the external auditor of the Group for 2020.

In 2019, three Audit Committee meetings were held and the attendance is presented below:

Audit Committee Members	Meeting Attended/Held
Independent non-executive Directors	
CHAN Henry	3/3
SEING Nea Yie	3/3
WANG Ching *(appointed on 8 April 2019)*	2/2
CHEUNG Siu Kee *(retired on 15 April 2019)*	0/1
Non-executive Director	
HUANG Jie *(re-designated to executive Director and resigned from the committee on 15 February 2020)*	3/3

The consolidated financial statements for the year have been audited by PricewaterhouseCoopers. During the year, remuneration of approximately US$746,000 was payable to PricewaterhouseCoopers for the provision of audit services. In addition, approximately US$731,000 was payable to PricewaterhouseCoopers for other non-audit services.

REMUNERATION COMMITTEE

The Remuneration Committee was set up with the responsibility of recommending to the Board the remuneration policy of all the Directors and the senior management. In addition, the Remuneration Committee provides effective supervision and administration of the Company's share option scheme. The authorities and duties of the Remuneration Committee are set out in its written Terms of Reference (the "RC Terms of Reference"), which are available on the Company's website: http://www.luenthai.com. The Remuneration Committee comprised three independent non-executive Directors, namely, Mr. Henry Chan, Mr. Seing Nea Yie and Mr. Wang Ching (appointed on 8 April 2019), and an executive Director, Mr. Qu Zhiming. The Remuneration Committee is chaired by an independent non-executive Director, Mr. Seing Nea Yie.

The Chairman of the Remuneration Committee is required to report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

A meeting of the Remuneration Committee is required to be held at least once a year to coincide with key dates within the financial reporting and audit cycle.

The attendance record for the Remuneration Committee's meeting during the year ended 31 December 2019 is as follows:

Remuneration Committee Members	Meeting Attended/Held
Independent non-executive Directors	
CHAN Henry	1/1
SEING Nea Yie	1/1
WANG Ching *(appointed on 8 April 2019)*	N/A
CHEUNG Siu Kee *(retired on 15 April 2019)*	0/1
Executive Director	
QU Zhiming	1/1

The Remuneration Committee is authorized to investigate any matter within the RC Terms of Reference and seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if it considers necessary. The Remuneration Committee shall make recommendations to the Board on the Company's remuneration policy and structure for all Directors' and senior management. The Remuneration Committee has reviewed the compensation of the Directors and senior executives for 2019.

Pursuant to code provision B.1.5 of the CG Code, the emolument of the members of the senior management (other than the emoluments of Directors and five highest paid individuals disclosed in notes 26(b) and 36(a) pursuant to Appendix 16 to the Listing Rules) paid by the Group by band for the year ended 31 December 2019 is set out below:

Emolument band	Number of individuals
US$320,513 to US$384,615 (equivalent to HK$2,500,001 to HK$3,000,000)	1

In 2019, total Directors' remuneration amounted to approximately US$3,545,000 (2018: US$3,102,000). The executive Directors and senior management's compensation, including the long-term incentive, shall be based on the corporate and individual performance. Details of the remunerations of the Directors are set out in note 36(a) of the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established in March 2012 with written terms of reference in compliance with the requirements of the Listing Rules and the CG Code, which is published on the website of the Stock Exchange and the Company. The Nomination Committee comprised three independent non-executive Directors, namely, Mr. Henry Chan, Mr. Seing Nea Yie and Mr. Wang Ching (appointed on 8 April 2019), and an executive Director, Mr. Shen Yaoqing. The Nomination Committee is chaired by the chairman of the Board, Mr. Shen Yaoqing.

Upon acceptance of appointment, a new Director is provided with sufficient orientation package, including introduction to Group's activities (when necessary), induction into their responsibilities and duties, and other regulatory requirements, to ensure that he has a proper understanding of the business and his responsibilities as a Director.

The Nomination Committee reviews regularly the structure, size and composition of the Board and may make recommendations to the Board on the nominees for appointment as Directors for their consideration and approval. For the year ended 31 December 2019, two Nomination Committee meetings were held and Mr. Wang Ching was nominated as an independent non-executive director. During the year ended 31 December 2019, the Nomination Committee reviewed the structure, size and composition of the Board.

The attendance record for the Nomination Committee's meeting during the year ended 31 December 2019 is as follows:

Nomination Committee Members	Meeting Attended/Held
Executive Director	
SHEN Yaoqing	2/2
Independent non-executive Directors	
CHAN Henry	2/2
SEING Nea Yie	2/2
WANG Ching *(appointed on 8 April 2019)*	1/1
CHEUNG Siu Kee *(retired on 15 April 2019)*	0/1

Board Diversity Policy

The Board has adopted a policy on board diversity ("Board Diversity Policy") which sets out the approach by the Company to achieve diversity on the Board. Pursuant to the Board Diversity Policy, the Company recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Nomination Policy

The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint Directors to fill casual vacancies. When the Nomination Committee considers it appropriate, it invites Board members or any person to nominate candidates and makes final recommendations for the Board's consideration and approval.

Selection Criteria

When assessing and selecting candidates for directorships, the members of the Nomination Committee shall consider the following factors:

(a) age, skills, knowledge, experience, expertise, professional and educational qualifications, background and other personal qualities of the candidate;

(b) effect on the Board's composition and diversity;

(c) commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organizations, and other executive appointments or significant commitments will be considered;

(d) potential/actual conflicts of interest that may arise if the candidate is selected;

(e) independence of the candidate;

(f) in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served the Company; and

(g) other factors considered to be relevant by the Nomination Committee on a case by case basis.

These factors are for reference only, and not meant to be decisive and exhaustive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Nomination Procedures

Appointment of Directors

(a) The Nomination Committee identifies individual(s) suitably qualified to become Board members, having due regard to the Nomination Policy, and the Board Diversity Policy, and assesses the independence of the proposed independent non-executive Director(s) as appropriate;

(b) The Nomination Committee may use any process it deems appropriate to evaluate the candidate(s), which may include personal interviews, background checks, presentations or written submissions by the candidate(s) and third party references;

(c) The Nomination Committee makes recommendation(s) to the Board;

(d) The Board considers the individual(s) recommended by the Nomination Committee, having due regard to the Nomination Policy, the Board Diversity Policy and the Corporate Governance Guidelines;

(e) The Board confirms the appointment of the individual(s) as Director(s) or recommends the individual(s) to stand for election at a general meeting. Individual(s) appointed by the Board to fill a casual vacancy or as an addition to the Board will be subject to re-election by shareholders of the Company (the "Shareholders") at the next annual general meeting after initial appointment in accordance with the Articles; and

(f) The Shareholders approve the election of individual(s), who stand(s) for election at general meeting, as Director(s).

Re-appointment of Directors

(a) The Nomination Committee considers each retiring Director, having due regard to the Nomination Policy, the Board Diversity Policy and the Corporate Governance Guidelines, and assesses the independence of each retiring independent non-executive Director;

(b) The Nomination Committee makes recommendation(s) to the Board;

(c) The Board considers each retiring Director recommended by the Nomination Committee, having due regard to the Nomination Policy, the Board Diversity Policy and the Corporate Governance Guidelines;

(d) The Board recommends the retiring Directors to stand for re-election at the annual general meeting in accordance with the Articles; and

(e) The Shareholders approve the re-election of Directors at the annual general meeting.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. Accordingly, the Directors have prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. In addition, an explanation of the basis on which the Company generates or preserves value over the longer term and the strategy for delivering the Company's objective is included in the Chairman's Statement, Message from the CEO and the Management Discussion and Analysis sections on pages 4 to 7, pages 8 to 15 and pages 16 to 27 respectively.

Risk Management and Internal Control

The Board has overall responsibility for the system of risk management and internal controls of the Company and for reviewing its effectiveness through the Audit Committee. The Board is committed to the management, identification and monitoring of risks associated with its business activities and has implemented an effective and sound risk management and internal controls systems to safeguard the interests of the shareholders and the Group's assets.

The internal control procedures of the Group feature a comprehensive budgeting and financial/ management reporting system to facilitate management's ongoing review and monitoring. Business strategic plans and budgets are prepared on an annual basis by the management of individual business and subject to review and approval by the executive Directors. During the budget setting process, the likelihood and potential financial impact of fundamental business risk have been identified, evaluated and reported by the management. Certain procedures and guidelines have been established for management approval and control including but not limited to capital expenditures, mergers and acquisitions, unbudgeted items and operating expenses.

The executive Directors review the monthly management reports on major business units and the financial results and hold periodic meetings with senior finance and operational management team to review and discuss the business performance against budget, market outlooks, and to address deficiencies of any key issues on a timely basis.

The Group has adopted a principle of minimizing financial and capital risks. Details of our financial and capital risk management covering market risk (including foreign exchange risk, cash flow interest rate risk), credit risk and liquidity risk are set out in Note 3 to the consolidated financial statements on pages 105 to 112.

All major operations are governed by its standard operating procedures with authorization matrix and supplemented by written policies and procedures tailored to the respective business units and support functions. These policies and procedures are aimed to provide guidelines on key risk management and control standards for our global operations and are updated on a regular and timely basis.

Management post-acquisition integration team was established to support and monitor the key integration process of acquired business through a structured integration program focusing on the alignment of operational, financial and compliance controls with the Group's standards and practices, and projected synergies and developments. Any significant integration issues and rectification actions will be reported to the management and the Audit Committee.

The Internal Audit Team ("IA Team") was established in May 2005 with an Internal Audit Charter approved and adopted by the Audit Committee. The IA Team is an independent unit established within the Group, which provides the Board with an independent appraisal of the Group's system of risk management and internal controls and evaluation of the adequacy and effectiveness of the controls established to safeguard shareholders' investment and the Group's assets on an ongoing basis. The head of Internal Audit has a direct reporting line to the Audit Committee.

The IA Team independently reviews compliance with Group policies and guidelines, legal and regulatory requirements, risk management and internal controls and evaluates their adequacy and effectiveness. The IA Team is also tasked to review special areas of concern or risk as raised by the Audit Committee or the management.

The Internal Audit plan is risk-based that covers the Group's significant operations over a cycle and recurring basis. The annual internal audit review plan is reviewed and endorsed by the Audit Committee, the head of Internal Audit attends meetings of the Audit Committee held during the year to report its progress in achieving the audit plan. The internal audit scope covers significant controls including financial, operational and compliance controls, and risk management policies and procedures. Major findings and recommendations including the implementation status of agreed recommendations are reported at the Audit Committee meetings, no major issues but areas of improvement have been identified. Directors and the Audit Committee considered that the major areas of the internal control systems of the Group are reasonably and adequately implemented.

As part of the annual review of the effectiveness of the Group's risk management and internal control systems for 2019, management teams of business units conducted an internal control self-assessment of business operations and relevant accounting and support functions, and considered that sound risk and internal control practices were in place for 2019.

Our external auditor performs independent statutory audits of the Group's consolidated financial statements. The external auditor also reports to the Audit Committee any significant weaknesses in our internal control which come to notice during the course of the audit. Responsible management have been responded and followed up recommendations from the external auditor.

Over the years, the Company has adopted a code of business ethics which requires all Directors and employees to conform with a set of high ethical standards in conducting the business. The Company has also adopted the inside information policy setting out the guidelines to the Directors and employees of the Group in accordance with the applicable laws and regulations.

Up to the date of approval of the Company's 2019 Annual Report based on the respective assessments made by management and the IA Team, and also taking into account the results of the audit conducted by the external auditors, the Audit Committee and the Directors considered that:

(i) the risk management, internal controls and accounting systems of the Group are designed to provide reasonable but not absolute assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication;

(ii) the risk management and internal controls systems of the Group have been implemented with room for improvement and the IA Team has actively conducted follow-up audit for any improvements which were identified; and

(iii) there is an on-going process in place for identifying, evaluating and managing significant risks faced by the Group.

External Auditors

PricewaterhouseCoopers has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of the external auditor.

COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders is considered an effective way to enable the shareholders of the Company (the "Shareholders") to have a clear assessment of the Group's performance as well as accountability of the Board. Major means of communication with the Shareholders are as follows:

Disclosure of information on corporate website

All material information in both English and Chinese about the Group is made available on the Company's website (www.luenthai.com). The Company regularly updates its corporate information such as annual reports, interim reports, corporate governance practices, business development and operations to all concerned parties on a timely basis. Announcements made through the Stock Exchange, the same information will be made available on the Company's website.

General meetings with shareholders

The Company's general meeting acts as a useful platform for direct communication between the Shareholders and the Board. Separate resolutions are proposed on each substantially separate issue at the general meetings.

The 2019 annual general meeting ("2019 AGM") was held on 24 May 2019. The attendance record of the Directors at the 2019 AGM are set out below:

Board Members	Meeting Attended/Held
Executive Directors	
SHEN Yaoqing	1/1
TAN Siu Lin	1/1
TAN Cho Lung, Raymond*	1/1
QU Zhiming	1/1
MOK Siu Wan, Anne	1/1
(re-designated to non-executive Director on 1 February 2020)	
Non-executive Director	
HUANG Jie	1/1
(re-designated to executive Director on 15 February 2020)	
Independent non-executive Directors	
CHAN Henry	1/1
SEING Nea Yie	1/1
WANG Ching *(appointed on 8 April 2019)*	1/1
CHEUNG Siu Kee *(retired on 15 April 2019)*	N/A

* Son of TAN Siu Lin

The Company's independent external auditor also attended the 2019 AGM.

Voting by poll

Resolutions put to vote at the general meetings of the Company are taken by poll. Procedures regarding the conduct of the poll are explained to the Shareholders at the commencement of each general meeting, and questions from Shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day as the poll.

SHAREHOLDERS' RIGHTS

Pursuant to the mandatory disclosure requirement under paragraph O of the CG Code, a summary of certain rights of the Shareholders is set out below:

Procedures for Shareholders to convene Extraordinary General Meeting ("EGM")

Pursuant to Article 58 of the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The written requisition must state the objects of the EGM and must be signed by the requisitionists concerned and deposited at the registered office of the Company at Rooms 1001–1005, 10th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong for the attention of the Company Secretary. The requisition may consist of several documents in like form, each signed by one or more of the requisitionists concerned.

The EGM convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the Board.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries to the Board in writing through the Company Secretary of the Company whose contact details are as follows:

Luen Thai Holdings Limited
Rooms 1001–1005, 10th Floor, Nanyang Plaza,
57 Hung To Road, Kwun Tong, Kowloon,
Hong Kong
Email: corporate_communications@luenthai.com

The Company Secretary shall forward the Shareholders' enquiries and concerns to the Board and/or relevant board committees of the Company, where appropriate, to answer the Shareholders' questions.

In addition, Shareholders may also make enquiries to the Board at the general meetings of the Company.

Procedures for Shareholders to propose a person for election as a Director

Subject to applicable laws, rules and regulations, including the Listing Rules and the Articles as amended from time to time, if any Shareholder(s) intends to propose a person other than a Director for election as a Director at any general meeting, the following procedures shall apply:

- a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Hong Kong Branch Share Registrar of the Company;

- such notice(s) shall be given within seven (7) days after the day of dispatch of the notice of the meeting (or such other period, being a period of not less than seven (7) days, commencing no earlier than the day after the dispatch of the notice of such meeting and ending no later than seven (7) days prior to the date of such meeting, as may be determined by the Board from time to time); and

- in order for the Company to inform Shareholders of that proposal, such notice(s) for the nomination of a director must state the full name of the person nominated for election as a Director and include the person's biographical details as required by the Listing Rules.

For Shareholders who would like to nominate a person for election as a Director at the forthcoming AGM, please refer to the notice of the AGM to be published for further information on the relevant nomination period.

Constitutional documents

For the year ended 31 December 2019, the Company has amended the Articles to order to give flexibility to the Board in determining the number of directors to retire. Details of the amendment were set out in the Company's announcement and circular dated 29 March 2019 and 16 April 2019, respectively. The amendments to the Articles was approved by the Shareholders in the annual general meeting of the Company held on 24 May 2019. An up-to-date version of the Articles is available on the websites of the Company and the Hong Kong Stock Exchange.

Dividend Policy

The Company intends to maintain a balance between meeting the expectations of the Shareholders and retaining adequate capital for development and operation of the Company's business. According to the dividend policy of the Company ("Dividend Policy"), in deciding whether to declare or recommend a dividend, the Board shall consider the following factors:

- the Group's operating results, actual and expected financial performance;
- the liquidity position of the Group;
- retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;
- the Group's capital expenditure requirements, working capital requirements and future expansion plans;
- general economic and financial conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant and appropriate.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

TO THE SHAREHOLDERS OF LUEN THAI HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Luen Thai Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 73 to 169, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

1. Risk of impairment of goodwill relating to the cash-generating units of Apparel segment and Universal Group; and

2. Potential tax exposures of the Group.

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Risk of impairment of goodwill relating to the cash-generating units of Apparel segment and Universal Group *Refer to Notes 4 and 10 to the consolidated financial statements* As at 31 December 2019, the Group had goodwill related to the Apparel segment and the Universal Group of US$33,710,000 and US$8,368,000 respectively. Annual impairment assessments were performed based on the value in use calculation using the discounted cash flow model in order to determine the recoverable amounts of the cash-generating units of Apparel segment and the Universal Group ("CGUs"). After taking into account the result of the impairment assessments performed, no provision for impairment of goodwill was made in respect of these CGUs.	We tested management's impairment assessments of goodwill which focused on assessing the reasonableness of the key assumptions used in determining the recoverable amount. Our procedures performed included the following: • involved our internal valuation specialists to assess the appropriateness of the methodologies used in determining the recoverable amounts; • tested the underlying calculations and compared the data used in the discounted cash flow to the latest approved budgets; • assessed the reasonableness of the key assumptions used as follows: • evaluated the assumptions used, mainly average revenue growth, average gross profit margin and terminal growth rate, within the impairment assessment by comparing them to historical results and economic and industry forecast; and

INDEPENDENT
AUDITOR'S REPORT

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Key Audit Matter	How our audit addressed the Key Audit Matter
1. Risk of impairment of goodwill relating to the cash-generating units of Apparel segment and Universal Group (Continued) We considered this as a key audit matter as significant judgements are required in relation to the assumptions made in the discounted cash flow used under the value in use calculation. The key assumptions used are as follows: • Average revenue growth; • Average gross profit margin; • Terminal growth rate; and • Discount rate.	• benchmarked the discount rate range which was used in determining the recoverable amount against certain market data and industry research; • performed sensitivity analysis over key assumptions in the models in order to assess the potential impact of a range of possible outcomes; and • reviewed the inclusion of all appropriate assets and liabilities in the cash-generating units. For the aforementioned key assumptions, mainly average revenue growth, average gross profit margin, terminal growth rate and discount rate used in determining the recoverable amounts, we found them to be consistent and in line with our expectations.

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Key Audit Matter	How our audit addressed the Key Audit Matter
2. Potential tax exposures of the Group *Refer to Notes 4 and 28 to the consolidated financial statements* During the year ended 31 December 2019, certain subsidiaries of the Group continued to be enquired or audited by their respective local tax authorities. In response to these enquiries and audits, the Group recorded prepayments and tax provisions in respect of the following as at 31 December 2019: • The eligibility of a Hong Kong incorporated subsidiary's 50% to 100% offshore profits claim; and • The tax position undertaken by overseas subsidiaries.	With respect to these potential tax exposures, we performed the following procedures: • discussed with management the advice and action they had taken with regards to the enquiries and reviewed any associated documents; • examined the correspondence between the Group and the relevant tax authorities and between the Group and its external tax advisers; and • examined the matters in dispute, used our knowledge of the law of the relevant tax jurisdictions and other similar taxation matters and involved our internal tax specialists to assess the available evidence and the provisions made by management. As set out in the notes to the consolidated financial statements, the settlement of the Group's tax position is subject to future negotiation with relevant tax authorities, and the calculations of the provisions are currently based on management's interpretation of the relevant law of the respective tax jurisdictions and latest correspondence with the relevant tax authorities. Based on the procedures performed, we found management's assessments to be supported by available evidence.

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OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the Corporate Information, Key Financial Highlights, Chairman's Statement, Message from the CEO, Management Discussion and Analysis, Management Executives, Report of the Directors, Corporate Governance Report and Five Year Financial Summary (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Environmental, Social and Governance Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

pwc 羅兵咸永道

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT
AUDITOR'S REPORT

pwc 羅兵咸永道

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam Chun Yee Johnny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	As at 31 December 2019 US$'000	2018 US$'000
ASSETS			
Non-current assets			
Land use rights	6	—	5,628
Investment properties	8	—	6,510
Property, plant and equipment	7	**121,848**	109,297
Right-of-use assets	9	**34,915**	—
Intangible assets	10	**46,350**	47,066
Interests in joint ventures	12	**4,240**	4,551
Deferred income tax assets	13	**1,995**	1,599
Deposits, prepayments and other receivables	16	**7,831**	3,812
Total non-current assets		**217,179**	178,463
Current assets			
Inventories	14	**99,975**	87,858
Trade and other receivables	16	**158,207**	160,728
Prepaid income tax		**4,795**	9,661
Cash and bank balances	17	**82,959**	80,444
Restricted cash	17	**14**	3,180
Total current assets		**345,950**	341,871
Total assets		**563,129**	520,334
EQUITY			
Equity attributable to owners of the Company			
Share capital	18	**10,341**	10,341
Other reserves	19	**2,006**	2,028
Retained earnings		**206,346**	191,618
Total equity		**218,693**	203,987

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	As at 31 December 2019 US$'000	2018 US$'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	**20,200**	25,100
Other payables	22	**—**	688
Lease liabilities	9	**27,714**	—
Retirement benefit obligations	21	**12,239**	8,113
Deferred income tax liabilities	13	**3,465**	3,885
Total non-current liabilities		**63,618**	37,786
Current liabilities			
Trade and other payables	22	**120,919**	142,456
Borrowings	20	**146,927**	122,243
Lease liabilities	9	**4,653**	—
Derivative financial instruments	23	**19**	—
Current income tax liabilities		**8,300**	13,862
Total current liabilities		**280,818**	278,561
Total liabilities		**344,436**	316,347
Total equity and liabilities		**563,129**	520,334

The consolidated financial statements on pages 73 to 169 were approved by the Board of Directors on 27 March 2020 and signed on its behalf by:

Tan Cho Lung, Raymond
Director

Qu Zhiming
Director

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000
Revenue	5	**969,789**	851,000
Cost of sales	25	**(827,615)**	(723,575)
Gross profit		**142,174**	127,425
Other gains — net	24	**13,933**	5,701
Selling and distribution expenses	25	**(3,265)**	(2,855)
General and administrative expenses	25	**(117,866)**	(90,267)
Operating profit		**34,976**	40,004
Finance income	27	**607**	563
Finance costs	27	**(7,212)**	(3,621)
Finance costs — net	27	**(6,605)**	(3,058)
Share of losses of joint ventures		**(44)**	(3,635)
Profit before income tax		**28,327**	33,311
Income tax expense	28	**(3,162)**	(10,008)
Profit for the year attributable to owners of the Company		**25,165**	23,303
Earnings per share attributable to owners of the Company for the year (expressed in US cents per share)			
Basic and diluted	29	**2.4**	2.3

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000
Profit for the year		**25,165**	23,303
Other comprehensive (loss)/income:			
Item that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gains on retirement benefit obligations		**(2,470)**	3,681
Item that may be reclassified to profit or loss:			
Currency translation differences		**1,485**	(2,881)
Exchange reserve released upon disposal of subsidiaries	38	**(708)**	—
Total comprehensive income for the year, net of income tax		**23,472**	24,103
Total comprehensive income attributable to owners of the Company		**23,472**	24,103

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company			
	Share capital US$'000	**Other reserves (Note 19)** US$'000	**Retained earnings** US$'000	**Total equity** US$'000
Balance at 1 January 2018	10,341	1,228	178,748	190,317
Profit for the year	—	—	23,303	23,303
Other comprehensive (loss)/income:				
Currency translation differences	—	(2,881)	—	(2,881)
Actuarial gains on retirement benefit obligations (Note 21)	—	3,681	—	3,681
Total comprehensive income	—	800	23,303	24,103
Total contributions by and distributions to owners of the Company, recognized directly in equity				
Dividends paid	—	—	(10,433)	(10,433)
Total transactions with owners, recognized directly in equity	—	—	(10,433)	(10,433)
Balance at 31 December 2018	10,341	2,028	191,618	203,987
Changes in accounting policy (Note 2.2(iv))	—	—	(2,520)	(2,520)
Balance at 1 January 2019	**10,341**	**2,028**	**189,098**	**201,467**
Profit for the year	**—**	**—**	**25,165**	**25,165**
Other comprehensive (loss)/income:				
Currency translation differences	**—**	**1,485**	**—**	**1,485**
Exchange reserve released upon disposal of subsidiaries	**—**	**(708)**	**—**	**(708)**
Actuarial losses on retirement benefit obligations (Note 21)	**—**	**(2,470)**	**—**	**(2,470)**
Total comprehensive income	**—**	**(1,693)**	**25,165**	**23,472**
Total contributions by and distributions to owners of the Company, recognized directly in equity				
Disposal of subsidiaries (Note 38)	**—**	**1,671**	**(1,671)**	**—**
Dividends paid	**—**	**—**	**(6,246)**	**(6,246)**
Total transactions with owners, recognized directly in equity	**—**	**1,671**	**(7,917)**	**(6,246)**
Balance at 31 December 2019	**10,341**	**2,006**	**206,346**	**218,693**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000
Cash flows from operating activities			
Cash generated from operations	31	13,566	34,153
Interest paid		(7,158)	(3,621)
Income tax paid		(4,097)	(6,296)
Net cash generated from operating activities		2,311	24,236
Cash flows from investing activities			
Prepayment for acquisition of a subsidiary	37	(4,365)	—
Proceeds from disposal of subsidiaries, net of cash disposal	38	23,722	—
Acquisition of subsidiaries	34(b)	—	(12,926)
Proceeds from the disposal of a joint venture	12	—	4,300
Purchases of property, plant and equipment	7	(30,690)	(13,528)
Purchases of investment properties	8	—	(138)
Decrease in bank deposits maturing beyond 3 months		—	1
Proceeds from disposals of property, plant and equipment	31(a)	1,335	728
Dividends received from a joint venture	12	267	137
Interest received		607	563
Prepayments for purchases of property, plant and equipment	16	(285)	(365)
Net cash used in investing activities		(9,409)	(21,228)
Cash flows from financing activities			
Net increase/(net decrease) in bank borrowings of trade finances		15,166	(5,926)
Proceeds from bank borrowings of term loans		17,855	55,520
Repayments of bank borrowings of term loans		(13,237)	(36,545)
Principal elements of lease payments		(3,233)	—
Repayment of final consideration for the acquisition of subsidiaries	34	(3,623)	—
Repayment of consideration for the acquisition of additional interests in a subsidiary		—	(833)
Acquisition of additional interests in a subsidiary		—	(823)
Dividends paid		(6,246)	(10,433)
Net cash generated from financing activities		6,682	960
Net (decrease)/increase in cash and cash equivalents		(416)	3,968
Cash and cash equivalents at beginning of the year		80,443	77,791
Exchange gains/(losses) on cash and bank balances		2,931	(1,316)
Cash and cash equivalents at end of the year	17	82,958	80,443

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, Vietnam, Indonesia, Thailand and Myanmar.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and Rooms 1001–1005, 10/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong, respectively.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in United States dollars ("US$"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Changes in accounting policies and disclosures

(a) New and amended standards and interpretation adopted by the Group

The Group has applied the following amended standards and interpretation for the first time for their annual reporting period commencing 1 January 2019:

Annual Improvement Projects 2017	Annual Improvements 2015–2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Changes in accounting policies and disclosures (Continued)

(a) New and amended standards and interpretation adopted by the Group (Continued)

The Group had to change its accounting policies as a result of adopting HKFRS 16. The group elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. 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 or future periods.

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

Certain new and amended accounting standards have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of A Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Change of accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

The Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening consolidated statement of financial position on 1 January 2019. The new accounting policies are disclosed in Note 2.30.

On adoption of HKFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.17%.

(i) Practical expedients applied

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Change of accounting policies (Continued)

(ii) Measurement of lease liabilities

	2019 US$'000
Operating lease commitments disclosed as at 31 December 2018	23,041
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(7,093)
Less: short-term and low-value leases recognized on a straight-line basis as expense	(2,054)
Lease liabilities recognized as at 1 January 2019	13,894
Current lease liabilities	2,864
Non-current lease liabilities	11,030
	13,894

(iii) Measurement of right-of-use assets

The associated right-of-use assets for land and properties were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at 31 December 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Change of accounting policies (Continued)

(iv) Adjustments recognized in the consolidated statement of financial position on 1 January 2019

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

- Right-of-use assets — increase by US$17,279,000
- Land use rights — decrease by US$5,628,000
- Current lease liabilities — increase by US$2,864,000
- Non-current lease liabilities — increase by US$11,030,000
- Current other payables — decrease by US$13,000
- Non-current other payables — decrease by US$688,000
- Current prepayment — decrease by US$63,000
- Non-current prepayment — decrease by US$915,000

The net impact on retained earnings on 1 January 2019 was a decrease of US$2,520,000. The impact on disclosure of segment and earnings per share are not significant.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries

2.3.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Subsidiaries

The Group applies the acquisition method to account for business combinations.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and consolidated statement of financial position, respectively.

(b) Business combinations

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, liabilities incurred to the former owners of the acquired business and the equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

(b) Business combinations (Continued)

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and the acquisition-date fair value of any previous equity interest in the acquired entity, over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the consolidated statement of profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in the consolidated statement of profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquired entity is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in the consolidated statement of profit or loss.

(c) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

(c) Changes in ownership interests (Continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in the consolidated statement of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.3.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill (Note 2.12).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Joint arrangements

Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment (Note 2.12).

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in US$, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and bank balances are presented in the consolidated statement of profit or loss within "finance costs — net". All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "other gains — net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in the consolidated statement of profit or loss as part of the fair value gain or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

(d) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

2.7 Land use rights

Land use rights are stated at cost less accumulated amortization and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 10 to 50 years. Amortization of land use rights is calculated on a straight-line basis over the period of the land use right.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the reporting period in which they are incurred.

Freehold land is not depreciated. Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Buildings	20 years
Leasehold improvements	5–20 years or the remaining lease term, whichever is shorter
Plant and machinery	4–10 years
Furniture, fixtures and equipment	3–7 years
Motor vehicles	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognized within "general and administrative expenses" in the consolidated statement of profit or loss.

2.9 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.8.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investment properties

Investment properties, principally comprising land use rights and buildings, are held for long term rental yields or for capital appreciation or both, and that is not substantially occupied by the Group.

It is initially measured at cost, including related transaction costs and other costs incurred to bring the properties into their existing use, less accumulated depreciation and accumulated impairment losses, if any.

Depreciation of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, where appropriate, as follows:

Buildings	20 years
Land use right	50 years

Where the carrying amount of investment properties is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. At the date of reclassification, its cost and accumulated depreciation are transferred to property, plant and equipment and become its cost and accumulated depreciation for accounting purposes. If an owner occupied property becomes an investment property because its use has changed, it is reclassified as investment property. At the date of reclassification, its cost and accumulated depreciation are transferred to investment property and become its cost and accumulated depreciation for accounting purposes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Intangible assets

(a) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over the expected life of the customer relationship of 8 to 14 years.

2.12 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Investments and other financial assets (Continued)

(iii) Measurement (Continued)

Debt instrument

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in "other gains — net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortized cost are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within "other gains — net" in the period in which it arises.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amount, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.15 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of each reporting period. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated statement of profit or loss within 'other gains — net'. The Group does not have any derivative that is designated as a hedging instrument.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises design costs, direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.17 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

2.18 Cash and bank balances

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

2.19 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Trade and other payables

Trade and others payables represent liabilities for goods or services provided to the Group prior to the end of reporting period which are unpaid. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Financial guarantee contracts

The Group provides financial guarantees to financial institutions on behalf of subsidiaries to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments; and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2.22 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

2.24 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current and deferred tax is recognized in the consolidated statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in subsidiaries and joint arrangements where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.25 Employee benefits

(a) Pension obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Employee benefits (Continued)

(a) Pension obligations (Continued)

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognized in the consolidated statement of profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognized immediately in the consolidated statement of profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. They are included in employment benefits reserve in the statement of changes in equity and in the consolidated statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Employee benefits (Continued)

(b) Long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at the end of reporting period on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the consolidated statement of financial position.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Employee benefits (Continued)

(f) Other short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

2.26 Share-based payments — equity-settled share-based payment transactions

The Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specific period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Provisions

Provisions for legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognized as interest expense.

2.28 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

2.29 Revenue recognition

The Group manufactures and trades a range of apparels and accessories. Sales are recognized when control of the products has transferred, being when the products are shipped to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made with a short credit term, which is consistent with market practice. The Group's obligation to replace faulty products or refund customers under the standard warranty terms is recognized as a provision, see Note 2.27.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Revenue recognition (Continued)

A receivable is recognized when the products are shipped as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract liability is recognized when payments are received from customers in advance but the relevant performance obligation has not been performed.

Other than sales of apparels and accessories, the Group does not have other material revenue stream. Certain ancillary income, such as scrap sales, follows the same recognition policy.

2.30 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

For leases of properties for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and

- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Leases (Continued)

To determine the incremental borrowing rate, the Group, where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received, and
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of properties and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipment.

Rental income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statement of financial position based on their nature. The group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.32 Interest income

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides guidance for overall risk management and specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$, the Hong Kong dollar ("HK$"), the Euro ("Euro"), the Philippine Peso ("Peso"), the Chinese Renminbi ("RMB") and Burmese Kyat ("Kyat"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group enters into foreign exchange forward contracts with external financial institutions to partially hedge against such foreign exchange risk. The Group also mitigates this risk by maintaining HK$, Euro, Peso, RMB and Kyat bank accounts which are used by the Group to pay for the transactions denominated in these currencies.

The HK$ is pegged to the US$ and thus foreign currency exposure is considered as minimal and is not hedged. At 31 December 2019, if the US$ had weakened/strengthened by 5% (2018: 5%) against the Euro with all other variables held constant, the post-tax profit for the year would have been US$118,000 (2018: US$95,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade and other receivables, trade payables and cash and bank balances.

At 31 December 2019, if the US$ had weakened/strengthened by 5% (2018: 5%) against the RMB with all other variables held constant, the post-tax profit for the year would have been US$157,000 (2018: US$529,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated trade and other receivables, payables and cash and bank balances.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2019, if the US$ had weakened/strengthened by 5% (2018: 5%) against the Peso with all other variables held constant, the post-tax profit for the year would have been US$115,000 (2018: US$139,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Peso-denominated other receivables, trade and other payables and cash and bank balances.

At 31 December 2019, if the US$ had weakened/strengthened by 5% against the Kyat with all other variables held constant, the post-tax profit for the year would have been US$22,000 (2018: US$79,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Kyat-denominated cash and bank balances.

(ii) Cash flow interest rate risk

The Group's interest rate risk arises from bank borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. During the year, the Group's borrowings at variable rate were denominated in the US$ and HK$. Borrowings obtained at various rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at various rates.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

At 31 December 2019, if interest rates on borrowings had been 50 basis points (2018: 50 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been US$903,000 (2018: US$768,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk of the Group mainly arises from deposits with banks and financial institutions, as well as credit exposures to customers such as trade receivables, amounts due from related companies, joint ventures, and other receivables. The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets.

(i) Risk Management

Majority of the Group's bank deposits are placed in those banks and financial institutions which are independently rated with a high credit rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

Debtors of the Group may be affected by the unfavorable economic conditions, the lower liquidity situation, and deteriorating operating conditions, which have an impact on management's cash flow forecasts and assessment of the impairment of receivables. Management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The compliance with credit limits by customers is regularly monitored by management.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- Trade receivables;
- Other financial assets at amortized cost included in other receivables.

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2019 and 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the overall industry outlook and Gross Domestic Product ("GDP") of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the closing loss allowances for trade receivables as at 31 December 2019 and 2018 reconcile to the opening loss allowances as follows:

	2019 US$'000	2018 US$'000
At 1 January — calculated under HKFRS 9	**113**	234
Increase in loss allowances recognized in profit or loss during the year	**347**	81
Receivables written off during the year as uncollectible	**(23)**	(85)
Unused amount reversed	**(6)**	(98)
Exchange differences	**(33)**	(19)
At 31 December	**398**	113

As at 31 December 2019, the Group had a concentration of credit risk given that the top 5 customers account for 73% (2018: 53%) of the Group's total year end trade receivables balance. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. The directors aim to maintain flexibility in funding by keeping credit lines available.

Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 20) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Surplus cash held by Group entities over and above balances required for working capital management is invested in interest-bearing bank accounts and bank deposits with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

The following tables analyze the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity grouping based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the date of the consolidated statement of financial position) and the earliest date the Group can be required to pay.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings and finance lease liabilities is prepared based on the scheduled repayment dates.

	On demand	Within 3 months	More than 3 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash outflows
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Group							
At 31 December 2019							
Bank borrowings	142,027	1,003	3,966	10,033	11,508	—	168,537
Trade and other payables	—	108,181	3,122	—	—	—	111,303
Lease liabilities	—	1,831	4,859	5,409	9,604	32,337	54,040
	142,027	111,015	11,947	15,442	21,112	32,337	333,880
Group							
At 31 December 2018							
Bank borrowings	118,843	853	2,606	5,172	22,617	—	150,091
Trade and other payables	—	101,547	8,428	—	—	—	109,975
	118,843	102,400	11,034	5,172	22,617	—	260,066

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below summarizes the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Bank borrowings subject to a repayment on demand clause based on scheduled repayments			
	Within 1 year US$'000	**More than 1 year but less than 2 years** US$'000	**More than 2 years but less than 5 years** US$'000	**Total outflows** US$'000
At 31 December 2019	**131,897**	**5,167**	**10,669**	**147,733**
At 31 December 2018	104,946	3,100	15,997	124,043

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital by maintaining a net cash position throughout the year.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's liabilities that were measured at fair value.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
At 31 December 2019				
Liabilities				
— Derivative financial instruments (Note i)	—	(19)	—	(19)

Notes:

(i) The fair values of financial instruments, that are not traded in an active market, which primarily represented the forward foreign exchange contracts, is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ii) There were no transfers among level 1, level 2 and level 3 during the year.

3.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2019 (2018: same).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Please refer to Note 28 for details.

(b) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives, and related depreciation and amortization charges for its property, plant and equipment and intangible assets (other than goodwill). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortization charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortization lives and therefore depreciation and amortization expense in future periods.

(c) Impairment of property, plant and equipment, land use rights and intangible assets (other than goodwill)

Property, plant and equipment, land use rights and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable such as declines in asset's market value and significant increase in interest rates that may affect the discount rate used in calculating the asset's recoverable amount. The recoverable amounts have been determined based on the higher of fair value less costs of disposal calculations or value in use calculations. These calculations require the use of judgements and estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on the higher of fair value less costs of disposal or value in use calculations. The recoverable amount calculations primarily use cash flow forecast based on financial budgets and forecasts covering a period of 5 years approved by management and estimated terminal value at the end of the budget period.

There are a number of assumptions and estimates involved in the preparation of cash flow forecast for the period covered by the approved budgets. Key assumptions include the growth rates and discount rates to reflect the risks involved. Management prepares the financial budgets and forecasts reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow forecast and changes to key assumptions could affect these cash flow forecast and therefore the results of the impairment reviews.

No impairment has been recognized in the year ended 31 December 2019 (Note 10).

(e) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 21.

5 SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of apparels and accessories. Revenue 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 2019 and 2018 is as follows:

	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 amortization	(9,517)	(12,823)	(22,340)
Provision for loss allowances of trade and bills receivables	(332)	(9)	(341)
Provision for inventory obsolescence	(1,207)	(540)	(1,747)
Reversal of provision for material claims	1,080	—	1,080
Share of losses of joint ventures	(44)	—	(44)
Finance income	554	53	607
Finance costs	(3,943)	(3,234)	(7,177)
Income tax expense	(670)	(2,492)	(3,162)

5 SEGMENT INFORMATION (CONTINUED)

	Apparel US$'000 (Restated)	Accessories US$'000	Total US$'000 (Restated)
For the year ended 31 December 2018			
Revenue (from external customers)	530,958	320,042	851,000
Timing of revenue recognition			
At a point in time	530,958	318,795	849,753
Over time	—	1,247	1,247
	530,958	320,042	851,000
Segment profit for the year	11,437	19,163	30,600
Profit for the year includes:			
Depreciation and amortization	(7,801)	(4,808)	(12,609)
Reversal of/(provision for) loss allowances of trade and bills receivables	37	(20)	17
Provision for inventory obsolescence	(381)	(1,369)	(1,750)
Reversal of provision for/(provision for) material claims	4,512	(386)	4,126
Reversal of impairment of property, plant and equipment	10	—	10
Share of losses of joint ventures	(3,635)	—	(3,635)
Finance income	436	127	563
Finance costs	(2,918)	(703)	(3,621)
Income tax (expense)/credit	(10,066)	58	(10,008)

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 profit before corporate expenses for the year.

5 SEGMENT INFORMATION (CONTINUED)

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

	2019 US$'000	2018 US$'000 (Restated)
Segment profit for the year	25,725	30,600
Corporate expenses (Note i)	(10,191)	(10,798)
One-off items (Note ii)	9,631	3,501
Profit for the year	25,165	23,303

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 2019, one-off items represent gain on disposal of subsidiaries and termination expenses (2018: gain on disposal of a joint venture).

	2019 US$'000	2018 US$'000
Analysis of revenue by category		
Sales of garment, textile products and accessories	962,219	842,557
Others	7,570	8,443
Total revenue	969,789	851,000

The Group's revenue is mainly derived from customers located in the United States of America (the "United States"), the PRC, Europe, Canada, Singapore and Japan, while the Group's business activities are conducted predominantly in Hong Kong, Macao, the PRC, the Philippines, Vietnam, Cambodia, the United States, Thailand and Myanmar.

5 SEGMENT INFORMATION (CONTINUED)

	2019 US$'000	2018 US$'000
Analysis of revenue by geographical location		
United States	582,099	438,862
Europe	144,564	184,442
PRC (including Hong Kong and Macao)	104,731	106,451
Canada	35,764	28,237
Singapore	28,577	3,409
Japan	25,770	33,515
Others	48,284	56,084
	969,789	851,000

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

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 year revenue. For the year ended 31 December 2018, revenue of approximately US$142,856,000, US$136,633,000, US$97,112,000 and US$90,499,000 are derived from four single external customers whose sales account for more than 10% of the total year 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:

	2019 US$'000	2018 US$'000
Analysis of non-current assets by geographical location		
PRC (including Hong Kong and Macao)	91,023	77,534
Philippines	40,394	22,527
Cambodia	43,556	41,844
Thailand	3,215	1,859
Myanmar	25,575	25,550
Vietnam	3,545	3,461
Others	5,471	4,089
	212,779	176,864

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 2019 (2018: same), because such performance obligations are part of contracts having an original expected duration of one year or less.

6 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analyzed as follows:

	2019 US$'000	2018 US$'000
At 1 January — as originally presented	5,628	5,257
Change in accounting policies (Note 2.2)	(5,628)	—
At 1 January (Restated)	—	5,257
Acquisition of subsidiaries	—	3,449
Transfer to investment properties (Note 8)	—	(2,685)
Amortization of land use rights (Note 25)	—	(146)
Exchange differences	—	(247)
At 31 December	—	5,628

7 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
Year ended 31 December 2019							
Opening net book amount	58,841	6,492	38,271	3,257	1,402	1,034	109,297
Transfer to investment properties (Note 8)	(529)	—	—	—	—	—	(529)
Additions	866	2,636	8,711	1,349	209	17,284	31,055
Disposals/write-off	—	(683)	(1,851)	(400)	(50)	—	(2,984)
Transfer	857	1,597	7,196	964	298	(10,912)	—
Depreciation (Note 25)	(3,086)	(1,535)	(9,433)	(1,796)	(441)	—	(16,291)
Exchange differences	360	173	647	120	—	—	1,300
Closing net book amount	57,309	8,680	43,541	3,494	1,418	7,406	121,848
At 31 December 2019							
Cost	84,284	27,898	134,898	22,771	4,137	7,406	281,394
Accumulated depreciation and impairment	(26,975)	(19,218)	(91,357)	(19,277)	(2,719)	—	(159,546)
Net book amount	57,309	8,680	43,541	3,494	1,418	7,406	121,848

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
Year ended 31 December 2018							
Opening net book amount	49,586	6,404	26,846	2,068	544	653	86,101
Acquisition of subsidiaries	14,643	1,185	8,786	1,395	345	—	26,354
Transfer to investment properties (Note 8)	(4,038)	(174)	—	—	—	—	(4,212)
Additions	980	154	4,767	704	880	7,476	14,961
Disposals/write-off	—	(94)	(397)	—	(208)	—	(699)
Transfer	498	797	5,241	382	151	(7,069)	—
Reversal of impairment	—	—	10	—	—	—	10
Depreciation (Note 25)	(2,430)	(1,413)	(6,424)	(1,211)	(295)	—	(11,773)
Exchange differences	(398)	(367)	(558)	(81)	(15)	(26)	(1,445)
Closing net book amount	58,841	6,492	38,271	3,257	1,402	1,034	109,297
At 31 December 2018							
Cost	84,139	26,813	128,937	21,970	3,895	1,034	266,788
Accumulated depreciation and impairment	(25,298)	(20,321)	(90,666)	(18,713)	(2,493)	—	(157,491)
Net book amount	58,841	6,492	38,271	3,257	1,402	1,034	109,297

Notes:

(i) Depreciation expense of US$11,873,000 (2018: US$8,657,000) had been charged to the cost of sales, no depreciation expense (2018: nil) has been charged to selling and distribution expenses and US$4,418,000 (2018: US$3,116,000) has been charged to general and administrative expenses.

(ii) As at 31 December 2019, the Group has not yet obtained the building certificate for a building located in the PRC with a carrying amount of US$3,055,000 (2018: US$3,633,000). Please refer to Note 9 for details.

8 INVESTMENT PROPERTIES

	2019 US$'000	2018 US$'000
As at 1 January	6,510	—
Transfer from owner-occupied land use rights (Note 6)	—	2,685
Transfer from owner-occupied properties (Note 7)	529	4,212
Transfer from right-of-use assets (Note 9)	36	—
Additions	—	138
Disposals	(5,802)	—
Depreciation and amortization (Note 25)	(438)	(330)
Exchange differences	(835)	(195)
As at 31 December	—	6,510

Notes:

(a) Rental income generated from the investment properties and recognized in the consolidated statement of profit or loss for the year ended 31 December 2019 amounted to US$2,045,000 (2018: US$1,243,000).

(b) Direct operating expenses from properties that generated rental income in the consolidated statement of profit or loss for the year ended 31 December 2019 amounted to US$948,000 (2018: US$557,000).

(c) Depreciation and amortization expenses have been charged to general and administrative expenses.

(d) Leasing arrangements

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments under non-cancellable operating leases of investment properties not recognized in the financial statements are receivable as follows:

	2019 US$'000	2018 US$'000
Within one year	—	1,914
Later than one year but not later than 5 years	—	9,697
	—	11,611

(e) The fair value of the investment properties at 31 December 2018 amounted to US$31,297,000. The estimate has been determined by the directors of the Company with reference to the current prices in an active market for properties of similar natures. Investment properties comprise factory premises located in the PRC.

(f) The transfer from property, plant and equipment and land use right to investment properties is also a non-cash transaction during the year.

9 LEASES

This note provides information for leases where the Group is a lessee.

	Land and properties US$'000	Land use rights US$'000	Motor vehicles US$'000	Total US$'000
Right-of-use assets				
As at 1 January 2019	11,640	5,628	12	17,280
Transfer to investment properties (Note 8)	—	(36)	—	(36)
Additions	22,218	—	—	22,218
Disposals	(299)	(258)	—	(557)
Depreciation (Note 25)	(4,571)	(315)	(9)	(4,895)
Exchange differences	1,060	(155)	—	905
As at 31 December 2019	30,048	4,864	3	34,915

As at 31 December 2019, the Group was in the process of obtaining the land use rights certificate in respect of a piece of land located in the PRC with a carrying amount of US$778,000 (2018: US$859,000). Based on the Group's experience and after seeking legal consultation, the directors are of the view that such problem is unlikely to have a material effect on the carrying amounts of the land use rights and the property located on this land.

(i) Amounts recognized in the consolidated statement of financial position

	31 December 2019 US$'000	1 January 2019 US$'000
Lease liabilities		
Current	**4,653**	2,864
Non-current	**27,714**	11,030
	32,367	13,894

(ii) Amounts recognized in the consolidated statement of profit or loss

	2019 US$'000	2018 US$'000
Interest expense (included in finance costs) (Note 27)	**1,539**	—
Expense relating to short-term leases (included in cost of sales and general administrative expenses)	**2,681**	—
Depreciation expenses of right-of-use assets	**4,895**	—

The total cash outflow for leases for the year ended 31 December 2019 was US$7,453,000.

10 INTANGIBLE ASSETS

	Goodwill US$'000	Customer relationships US$'000	Total US$'000
Year ended 31 December 2019			
Opening net book amount	**42,078**	**4,988**	**47,066**
Amortization (Note 25)	**—**	**(716)**	**(716)**
Closing net book amount	**42,078**	**4,272**	**46,350**
At 31 December 2019			
Cost	**63,256**	**52,892**	**116,148**
Accumulated amortization, write-off and provision for impairment loss	**(21,178)**	**(48,620)**	**(69,798)**
Net book value	**42,078**	**4,272**	**46,350**
Year ended 31 December 2018			
Opening net book amount	33,726	348	34,074
Acquisition of subsidiaries (Note 34)	8,368	5,000	13,368
Amortization (Note 25)	—	(360)	(360)
Exchange differences	(16)	—	(16)
Closing net book amount	42,078	4,988	47,066
At 31 December 2018			
Cost	63,256	52,892	116,148
Accumulated amortization, write-off and provision for impairment loss	(21,178)	(47,904)	(69,082)
Net book value	42,078	4,988	47,066

For the year ended 31 December 2019, amortization of customer relationships of US$716,000 (2018: US$360,000) is included in general and administrative expenses.

10 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments.

The following is a summary of goodwill allocation for each operating segment.

	Opening US$'000	Acquisition of subsidiaries (Note 34) US$'000	Exchange difference US$'000	Closing US$'000
2019				
Apparel	**33,710**	**—**	**—**	**33,710**
Accessories				
Universal Elite Holdings Limited and its subsidiaries ("Universal Group")	**8,368**	**—**	**—**	**8,368**
	42,078	**—**	**—**	**42,078**
2018				
Apparel	33,726	—	(16)	33,710
Accessories				
Universal Group	—	8,368	—	8,368
	33,726	8,368	(16)	42,078

In accordance with HKAS 36 "Impairment of Assets", the recoverable amount of a CGU is determined based on the higher of fair value less costs of disposal or value in use calculations. The Group has made reference to the valuation reports issued by an independent valuer for the calculation of the recoverable amount of the CGUs. These calculations use pre-tax (2018: same) cash flow forecast covering a five-year period. Cash flows beyond the five-year period are extrapolated using the terminal growth rate stated below.

Inherent in the development of the present value of future cash flow forecast are assumptions and estimates derived from a review of the expected revenue growth rates, gross profit margins, business plans, cost of capital and, if applicable, tax rates. Certain assumptions are made about future market conditions, market prices and interest rates. Changes in assumptions or estimates could materially affect the determination of the recoverable amount of a CGU, and therefore could eliminate the excess of recoverable amount over carrying value of a CGU entirely and, in some cases, could result in impairment.

10 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill (Continued)

The key assumptions and parameters used for value in use calculations are as follows.

	2019 Universal Group	2019 Apparel	2018 Universal Group	2018 Apparel
Average revenue growth (Note i)	**6.6%**	**6.0%**	2.0%	6.1%
Average gross profit margin	**17.2%**	**14.5%**	17.0%	15.0%
Terminal growth rate (Note ii)	**3.0%**	**3.0%**	2.0%	3.0%
Discount rate (Note iii)	**11.0%**	**15.0%**	12.0%	16.7%

Notes:

(i) Average revenue growth rate covers the five-year forecast period. It is based on the past performance and management's expectations on market development.

(ii) The terminal growth rates do not exceed the long-term average growth rate of the business in which the CGUs operate.

(iii) Pre-tax discount rate applied to the pre-tax cash flow forecast.

These assumptions and parameters have been used for the analysis of each CGU within the operating segment. Management determined the financial forecast based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

In Apparel CGU, the recoverable amount calculated based on value in use exceeded the carrying amount by US$16,858,000. A fall in annual net sales growth rate to 2.3%, a gross margin of 14.1%, a fall in long-term growth rate to 0.1% or a rise in discount rate to 16.3%, all changes taken in isolation, would remove the remaining headroom.

In Universal Group CGU, the recoverable amount calculated based on value in use exceeded the carrying amount by US$4,482,000. A fall in annual net sales growth rate to 4.7%, a gross margin of 17.1%, a fall in long-term growth rate to 2.1% or a rise in discount rate to 11.4%, all changes taken in isolation, would remove the remaining headroom.

11 SUBSIDIARIES

The directors are of the opinion that a complete list of the particulars of all the subsidiaries will be of excessive length and therefore the following list contains only the particulars of the subsidiaries which materially affect the results or assets of the Group.

Particulars of the principal subsidiaries as at 31 December 2019 and 2018 are shown as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)	
				2019	2018	**2019**	2018
Bright Sky Pte Ltd	Cambodia	Contractor manufacturing of garments in Cambodia	1,000 ordinary shares of US$1,000 each	—	—	**100%**	100%
Dluxe International Co., Ltd.	Cambodia	Manufacturing of bags in Cambodia	100 ordinary shares of US$10,000 each	—	—	**100%**	100%
Desk Top Bags Philippines, Inc.	Philippines	Manufacturing of bags in the Philippines	210,000 ordinary share of Peso 100 each	—	—	**100%**	100%
Dluxe Bags Philippines, Inc.	Philippines	Provision of subcontracting services in the Philippines	50,000,000 ordinary share of Peso 100 each	—	—	**100%**	100%
Dongguan Huan Yi Industrial Ltd	PRC	Provision of technical services in PRC	Registered and total paid-in capital of HK$10,000,000	—	—	**100%**	100%
東莞天河針織有限公司*	PRC	Garment manufacturing in the PRC	Registered and total paid-in capital of HK$26,771,800	—	—	**100%**	100%
東莞通威服裝有限公司*	PRC	Trading and manufacturing of garment products in the PRC	Registered and total paid-in capital of US$2,500,000	—	—	**100%**	100%
東莞星浩手袋有限公司*	PRC	Manufacturing of bags in the PRC	Registered capital of HK$94,200,000 and total paid-in capital of HK$78,200,000	—	—	**—**	100%
東莞星駿手袋有限公司*	PRC	Manufacturing of bags in the PRC	Registered capital of HK$10,014,600 and total paid-in capital of HK$9,930,000	—	—	**100%**	100%
Elite Enterprises Corporation Ltd	Hong Kong	Trading of handbags in Hong Kong	10,000 ordinary shares of HK$1 each	—	—	**100%**	100%
EMC Manufacturing Ltd	Myanmar	Manufacturing of handbags in Myanmar	189,718 ordinary shares of US$100 each	—	—	**100%**	100%

11 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)	
				2019	2018	**2019**	2018
Fortune Investment Overseas Limited	British Virgin Islands ("BVI")	Investment holding in Hong Kong	1 ordinary share of US$1 each	**—**	—	**100%**	100%
Golden Dragon Apparel, Inc.	Philippines	Garment manufacturing in the Philippines	62,000 ordinary shares of Peso 100 each	**—**	—	**100%**	100%
廣州市捷進製衣廠有限公司*	PRC	Garment manufacturing in the PRC	Registered and total paid-in capital of US$7,200,000	**—**	—	**100%**	100%
Luen Thai Overseas Macao Commercial Offshore Co. Limited	Macao	Trading company in Macao	100,000 ordinary shares of Macao Pataca ("MOP") 1 each	**—**	—	**100%**	100%
L & T International Group Phils., Inc.	Philippines	Garment manufacturing in the Philippines	20,000 ordinary shares of Peso 100 each	**—**	—	**100%**	100%
Luen Thai International Group Limited	Hong Kong	Sourcing, manufacturing and trading of textile and garment products in Hong Kong	2 ordinary shares of HK$1 each	**—**	—	**100%**	100%
Luen Thai Macao Commercial Offshore Company Limited	Macao	Sourcing, manufacturing and trading of textile and garment products in Macao	25,000 ordinary shares of MOP1 each	**—**	—	**100%**	100%
Luen Thai Overseas Limited	Bahamas	Investment holding in Hong Kong	16,685,806 ordinary shares of US$1 each	**100%**	100%	**100%**	100%
Ocean Sky Apparel (VN) Limited	Vietnam	Processing and exporting garment products in Vietnam	Registered capital of US$6,000,000 with total paid-in capital of US$1,800,000	**—**	—	**100%**	100%
Ocean Sky Global Singapore (S) Pte Ltd	Singapore	Garment trading and sourcing overseas in Singapore	Registered and total paid-in capital of US$21,223,245	**—**	—	**100%**	100%
On Time International Limited	BVI	Investment holding in Hong Kong	500 ordinary shares of US$1 each	**—**	—	**100%**	100%
Philippine Luen Thai Holdings Corporation	Philippines	Investment holding in the Philippines	260,000 ordinary shares of Peso 100 each	**—**	—	**100%**	100%
Suntex Pte Ltd	Cambodia	Contract manufacturing of garments in Cambodia	1,200,000 ordinary shares of US$1 each	**—**	—	**100%**	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Proportion of ordinary shares held by the Company (%) 2019	2018	Proportion of ordinary shares held by the Group (%) 2019	2018
TellaS Ltd.	United States	Import and distribution of garments in the United States	100 ordinary shares with total paid-in capital of US$100,000	—	—	100%	100%
Tien-Hu Knitting Factory (Hong Kong) Limited	Hong Kong	Subcontracting service of manufacturing garment products	1,000,000 ordinary shares of HK$1 each	—	—	100%	100%
Tien-Hu Trading (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	—	—	100%	100%
TMS Fashion (H.K.) Limited	Hong Kong	Garment trading and investment holding in Hong Kong	3,000,000 shares of HK$1 each	—	—	100%	100%
TMS International Limited	Hong Kong	Garment trading in Hong Kong	2,000 ordinary shares of HK$500 each	—	—	100%	100%
Unison Development (Asia) Ltd	Hong Kong	Trading of money pieces in Hong Kong	10,000 ordinary shares of HK$1 each	—	—	100%	100%
Unison Pan (Asia) Company Ltd	Thailand	Manufacturing of money pieces in Thailand	28,000,000 ordinary shares of THB$10 each	—	—	100%	100%
Universal Elite Holdings Limited	BVI	Investment holding in Hong Kong	10,000 ordinary shares of USD$1 each	—	—	100%	100%
Universal Handicraft Manufacturers Ltd	Hong Kong	Provision of technical and management services	1,000 ordinary shares of HK$100 each and 100 non-voting deferred shares of HK$1,000 each	—	—	100%	100%
Yuen Thai Philippines, Inc	Philippines	Garment manufacturing in the Philippines	1,000,000 shares of Peso 1 each	—	—	100%	100%

+ The subsidiaries are established as wholly foreign-owned enterprises in the PRC.

At 31 December 2019, there are no non-controlling interests (2018: nil).

12 INTERESTS IN JOINT VENTURES

The movement of interests in joint ventures is provided as follows:

	2019 US$'000	2018 US$'000
Beginning of the year	**4,551**	9,139
Disposal of a joint venture (Note i)	**—**	(799)
Share of post-tax losses of joint ventures	**(44)**	(3,635)
Dividends received	**(267)**	(137)
Exchange difference	**—**	(17)
End of the year	**4,240**	4,551

Note:

(i) On 6 September 2018, the Group entered into an agreement with Sunrise (Shengzhou) Textiles Co., Ltd, to dispose of 50% equity interest of Sunrise Luen Thai Textile Joint Stock Company, a joint venture of the Group which was incorporated in Vietnam and principally engaged in fabric manufacturing in Vietnam, for a consideration of US$4,300,000. A gain of US$3,501,000 was recognized and included in "other gains — net" for the year ended 31 December 2018.

The directors are of the opinion that the joint ventures are not material to the Group. Accordingly, summarized financial information is not presented.

As at 31 December 2019 and 2018, the Group has no share of capital commitments of joint ventures. There is no contingent liability in relation to the Group's interests in joint ventures.

13 DEFERRED INCOME TAX

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax liabilities	Accelerated tax depreciation US$'000	Intangible assets US$'000	Others US$'000	Total US$'000
At 1 January 2018	1,853	—	375	2,228
Acquisition of subsidiaries (Note 34)	731	825	—	1,556
Charge/(credited) to consolidated statement of profit or loss	186	(17)	(68)	101
At 31 December 2018	2,770	808	307	3,885
Charge/(credited) to consolidated statement of profit or loss	(344)	(110)	142	(312)
Credited to consolidated statement of comprehensive income	—	—	(70)	(70)
Disposal of subsidiaries	13	—	(51)	(38)
At 31 December 2019	**2,439**	**698**	**328**	**3,465**

Deferred income tax assets	Tax losses US$'000	Provision US$'000	Others US$'000	Total US$'000
At 1 January 2018	—	(637)	(236)	(873)
(Credited)/charged to consolidated statement of profit or loss	(751)	3	(66)	(814)
Charged to consolidated statement of comprehensive income	—	—	88	88
At 31 December 2018	(751)	(634)	(214)	(1,599)
(Credited)/charged to consolidated statement of profit or loss	(495)	(18)	117	(396)
At 31 December 2019	**(1,246)**	**(652)**	**(97)**	**(1,995)**

13 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets are recognized for tax loss carried forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of US$4,355,000 (2018: US$3,717,000) in respect of losses amounting to US$25,977,000 (2018: US$22,530,000) that can be carried forward against future taxable income. Among the tax losses, US$8,972,000 (2018: US$8,400,000) have expiry dates from 2020 to 2025 (2018: 2019 to 2024). The remaining tax losses have no expiry date.

Deferred income tax liabilities of US$7,135,000 (2018: US$4,885,000) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled US$34,338,000 (2018: US$23,526,000) at 31 December 2019.

14 INVENTORIES

	2019 US$'000	2018 US$'000
Raw materials	**45,531**	37,083
Work in progress	**47,822**	42,301
Finished goods	**6,622**	8,474
	99,975	87,858

The cost of inventories recognized as expense and included in cost of sales amounted to US$572,682,000 (2018: US$510,047,000), which included provision for inventory obsolescence of US$1,747,000 (2018:US$1,750,000).

As at 31 December 2019, inventories amounting to US$15,278,000 (2018: US$3,681,000) were held under trust receipt bank loans arrangement (Note 20).

15 FINANCIAL INSTRUMENTS BY CATEGORY

	Assets at fair value through profit or loss US$'000	Assets at amortized cost US$'000	Total US$'000
31 December 2019			
Financial assets as per consolidated statement of financial position			
Trade and other receivables excluding non-financial assets	—	151,378	151,378
Cash and bank balances	—	82,959	82,959
Restricted cash	—	14	14
Total	—	234,351	234,351
31 December 2018			
Financial assets as per consolidated statement of financial position			
Trade and other receivables excluding non-financial assets	—	157,222	157,222
Cash and bank balances	—	80,444	80,444
Restricted cash	—	3,180	3,180
Total	—	240,846	240,846

	Liabilities at fair value through profit or loss US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
31 December 2019			
Financial liabilities as per consolidated statement of financial position			
Borrowings	—	167,127	167,127
Trade and other payables excluding non-financial liabilities	—	111,303	111,303
Lease liabilities	—	32,367	32,367
Derivative financial instruments	19	—	19
Total	19	310,797	310,816
31 December 2018			
Financial liabilities as per consolidated statement of financial position			
Borrowings	—	147,343	147,343
Trade and other payables excluding non-financial liabilities	—	82,855	82,855
Total	—	230,198	230,198

16 TRADE AND OTHER RECEIVABLES

	2019 US$'000	2018 US$'000
Current portion		
Trade and bills receivables	129,049	126,802
Less: loss allowances	(398)	(113)
Trade and bills receivables — net	128,651	126,689
Deposits, prepayments and other receivables	24,366	28,575
Amounts due from related parties (Note 33)	5,190	5,464
	158,207	160,728
Non-current portion		
Prepayments for purchases of property, plant and equipment	285	365
Deposits	2,405	1,647
Prepayment for acquisition of a subsidiary (Note 37)	4,365	—
Others	776	1,800
	7,831	3,812

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:

	2019 US$'000	2018 US$'000
0 to 30 days	102,414	75,015
31 to 60 days	18,226	30,786
61 to 90 days	6,213	10,581
91 to 120 days	1,202	4,158
Over 120 days	994	6,262
	129,049	126,802

The Group does not hold any collateral as security.

16 TRADE AND OTHER RECEIVABLES (CONTINUED)

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2019 US$'000	2018 US$'000
US$	124,536	123,039
RMB	3,683	3,440
Euro	431	196
Other currencies	1	14
	128,651	126,689

(i) Transferred receivables

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement. Under this arrangement, the Group has transferred the relevant receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. However, the Group has retained late payment and credit risk. The Group therefore continues to recognize the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is presented as secured borrowing. The Group considers the held to collect business model to remain appropriate for these receivables and hence continues measuring them at amortized cost.

The relevant carrying amounts are as follows:

	2019 US$'000	2018 US$'000
Transferred receivables	7,153	6,135
Associated secured borrowing	5,722	4,784

(ii) Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(iii) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

Information about the impairment of trade and other receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

17 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	2019 US$'000	2018 US$'000
Cash at bank and on hand	69,321	72,812
Short-term bank deposits	13,637	7,631
Bank deposits with a maturity period of over 3 months	1	1
Cash and bank balances	82,959	80,444
Less: bank deposits with a maturity period of over 3 months	(1)	(1)
Cash and cash equivalents in the consolidated statement of cash flows	82,958	80,443

The effective interest rate on short-term bank deposits was 1.66% (2018: 1.42%) per annum; these deposits have an average maturity period of 15 days (2018: 68 days).

Significant restrictions

At 31 December 2019, the Group's cash and cash equivalents and short-term bank deposits included balances of US$19,461,000 (2018: US$30,047,000), which were deposited with banks in the PRC and Vietnam. The remittance of such balances out of the PRC and Vietnam is subject to the rules and regulations of foreign exchanges control promulgated by corresponding governments.

(b) Restricted cash

As at 31 December 2019, US$14,000 (2018: US$3,180,000), are restricted deposits held at bank as reserve for settling custom duties.

The Group's cash and bank balances and restricted cash are denominated in the following currencies:

	2019 US$'000	2018 US$'000
US$	55,150	42,280
HK$	2,604	3,045
Euro	2,403	2,078
RMB	16,040	29,133
Peso	2,495	2,891
Kyat	518	1,735
Other currencies	3,763	2,462
	82,973	83,624

18 SHARE CAPITAL

	Number of Shares	Nominal value US$'000
Authorized — ordinary shares of US$0.01 each		
At 31 December 2018 and 2019	1,500,000,000	15,000
Issued and fully paid — ordinary shares of US$0.01 each		
At 1 January 2018, 31 December 2018 and 2019	1,034,112,666	10,341

Share option

On 26 May 2014, a share option scheme (the "Option Scheme") of the Company was approved and adopted pursuant to an ordinary resolution. The terms of the Option Scheme is effective for a period of 10 years and will expire on 25 May 2024.

Under the Option Scheme, the Company may grant options to selected full-time employees and directors of the Company and subsidiaries to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of the listing of the shares without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the date of such grant, without prior approval from the Company's shareholders.

Options may be exercised at any time within the relevant exercise period. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The exercise price is determined by the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

As at 31 December 2019 and 2018, there is no outstanding share option under the Option Schemes. No share options have been granted or vested during the year ended 31 December 2019 (2018: Nil).

19 OTHER RESERVES

	Capital reserve (Note i) US$'000	Other capital reserves (Note ii) US$'000	Employment benefits reserve US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2018	7,891	(4,466)	1,144	(3,341)	1,228
Currency translation differences	—	—	(32)	(2,849)	(2,881)
Actuarial gains on retirement benefit obligations (Note 21)	—	—	3,681	—	3,681
At 31 December 2018	7,891	(4,466)	4,793	(6,190)	2,028
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 (Note 21)	**—**	**—**	**(2,470)**	**—**	**(2,470)**
Disposal of subsidiaries (Note iii)	**—**	**1,671**	**—**	**—**	**1,671**
Exchange reserve released upon disposal of subsidiaries (Note 38)	**—**	**—**	**—**	**(708)**	**(708)**
At 31 December 2019	**7,891**	**(2,795)**	**2,640**	**(5,730)**	**2,006**

Notes:

(i) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Initial Public Offering reorganization and the nominal value of the Company's shares issued in exchange thereof.

(ii) Other capital reserves primarily represent (a) the initial recognition of the financial liabilities in relation to the put options granted to the non-controlling interests and the subsequent derecognition of such financial liabilities upon the put options are exercised, expired or terminated; and (b) the difference between the amount by which the non-controlling interests are acquired and the fair value of the consideration paid.

(iii) During the year ended 31 December 2019, the Group disposed subsidiaries, the release of other capital represent (a) the initial recognition of the financial liabilities in relation to the put options granted to the non-controlling interests and the subsequent derecognition of such financial liabilities upon the put options are exercised, expired or terminated; and (b) the difference between the amount by which the non-controlling interests are acquired and the fair value of the consideration paid.

20 BORROWINGS

	2019 US$'000	2018 US$'000
Non-current		
Bank borrowings		
— Term loans	**20,200**	25,100
	20,200	25,100
Current		
Bank borrowings		
— Term loans	**82,585**	73,067
— Trade finances	**64,342**	49,176
	146,927	122,243
Total borrowings	**167,127**	147,343
Non-current borrowings		
— Secured	**—**	—
— Non-secured	**20,200**	25,100
Current borrowings		
— Secured	**37,420**	26,270
— Non-secured	**109,507**	95,973
	167,127	147,343

The interest-bearing bank borrowings, including those repayable on demand, are carried at amortized cost. The carrying amounts of the borrowings are approximately equal to their fair values.

20 BORROWINGS (CONTINUED)

As at 31 December 2019 and 2018, the Group's borrowings, based on the scheduled repayment terms set out in the loan agreements and ignoring effect of any repayment on demand clause, were repayable as follows:

	Trade finance		Term loans		Total	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000
Within 1 year	**64,342**	49,176	**67,585**	55,067	**131,927**	104,243
Bank borrowings due for repayment after 1 year:						
After 1 year but within 2 years	**—**	—	**14,600**	7,900	**14,600**	7,900
After 2 years but within 5 years	**—**	—	**20,600**	35,200	**20,600**	35,200
	—	—	**35,200**	43,100	**35,200**	43,100
	64,342	49,176	**102,785**	98,167	**167,127**	147,343
Representing:						
Maturity within 5 years	**64,342**	49,176	**102,785**	98,167	**167,127**	147,343

As at 31 December 2019 and 2018, the carrying amounts of the borrowings are denominated in the following currencies:

	2019 US$'000	2018 US$'000
US$	**144,530**	117,838
HK$	**22,597**	29,505
	167,127	147,343

20 BORROWINGS (CONTINUED)

The effective interest rates at the date of the consolidated statement of financial position are as follows:

	2019	2018
Term loans	3.35%	3.32%
Trade finances	3.53%	3.63%

As at 31 December 2019, the Group had aggregate banking facilities of approximately US$382,914,000 (2018: US$371,770,000) for overdrafts, loans, trade financing and bank guarantees. Unused facilities as at the same date amounted to approximately US$197,204,000 (2018: US$205,412,000).

Of the trade finances, US$5,722,000 (2018: US$4,784,000) relate to transferred receivables (Note 16). The remaining facilities are secured/guaranteed by:

(i) Floating charges over the Group's inventories amounting to US$15,278,000 (2018: US$3,681,000) held under trust receipt bank loans arrangements (Note 14); and

(ii) A corporate guarantee provided by the Company (Note 33).

21 RETIREMENT BENEFIT OBLIGATIONS

	2019 US$'000	2018 US$'000
Consolidated statement of financial position obligations for:		
Defined benefit plans (Note b)	12,005	7,821
Provision for long service payments (Note c)	234	292
	12,239	8,113

21 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2019 US$'000	2018 US$'000
Included in consolidated statement of profit or loss were charges included in operating profit for (Note 26(a)):		
— Defined contribution plans (Note a)	**4,492**	4,851
— Defined benefit plans (Note b)	**1,537**	2,046
— Provision for long service payment (Note c)	**40**	59
	6,069	6,956
Included in consolidated statement of comprehensive income:		
Defined benefit plans (Note b)	**2,567**	(3,786)
Provision for long service payments (Note c)	**(27)**	17
	2,540	(3,769)

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

(a) Defined contribution plans

During the year, the Group maintained various defined contribution retirement schemes for its employees, which are managed by independent trustees. Employees' and employer's contributions are based on various percentages of employees' gross salaries and length of service. The total contributions to the defined contribution retirement schemes were approximately US$4,492,000 (2018: US$4,851,000) for the year ended 31 December 2019 (Note 26(a)).

(b) Defined benefit plans

The assets of the defined benefit plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by Real Actuarial Consulting Limited, Actuarial Exponents, Inc., Key Actuarial Intelligence, Inc., and NIDA Consulting Center, Inc., qualified actuaries, annually using the projected unit credit method. The amounts recognized in the consolidated statement of financial position are determined as follows:

	2019 US$'000	2018 US$'000
Present value of unfunded obligations	**7,167**	4,765
Present value of funded obligations	**5,096**	3,290
Fair value of plan assets	**(258)**	(234)
Liabilities in the consolidated statement of financial position	**12,005**	7,821

21 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Defined benefit plans (Continued)

The movement in the present values of defined benefit obligations over the year is as follows.

	2019 US$'000	2018 US$'000
At 1 January	**8,055**	10,968
Current service cost	**965**	1,236
Interest cost	**590**	599
Curtailment/settlement loss	**—**	224
Total — included in employee benefit expenses in the year	**1,555**	2,059
Remeasurements:		
— Loss/(gain) from change in financial assumptions	**2,838**	(2,870)
— Gain on change in demographic assumptions	**(83)**	(963)
— Experience (gain)/loss	**(192)**	38
	2,563	(3,795)
Contribution paid	**(514)**	(861)
Acquisition of a subsidiary	**—**	74
Exchange difference	**604**	(390)
At 31 December	**12,263**	8,055

21 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Defined benefit plans (Continued)

The movement in the fair values of plan assets over the year is as follows.

	2019 US$'000	2018 US$'000
At 1 January	**(234)**	(244)
Interest income — included in employee benefit expenses	**(18)**	(13)
Remeasurements:		
— Gain on plan assets, excluding amounts included in interest income	**4**	9
Exchange difference	**(10)**	14
At 31 December	**(258)**	(234)

The principal actuarial assumptions used are as follows:

	2019	2018
Discount rate	**2.56%–7.00%**	2.56%–8.00%
Future salary increase rate	**3.00%–9.00%**	3.00%–9.00%

The sensitivity of the defined benefit plans to changes in the weighted principal assumptions is:

	Impact on defined benefit plan					
	2019			2018		
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	**1.0%**	**Decrease by US$1,570,000**	**Increase by US$1,905,000**	1.0%	Decrease by US$906,000	Increase by US$1,059,000
Future salary increase rate	**1.0%**	**Increase by US$1,880,000**	**Decrease by US$1,569,000**	1.0%	Increase by US$961,000	Decrease by US$780,000

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liabilities recognized within the consolidated statement of financial position.

21 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Long service payments

Provision for long service payments represents the Group's obligations for long service payments to its employees in Hong Kong on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The Group's long service payment obligations are valued by Real Actuarial Consulting Limited, an independent qualified actuary valuer.

The amounts recognized in the consolidated statement of financial position are as follows:

	2019 US$'000	2018 US$'000
Present value of unfunded obligations	**234**	292

As at 31 December 2019 and 2018, there are no funded obligations and plan assets.

The movement in the long service payments over the year is as follows.

	2019 US$'000	2018 US$'000
At 1 January	**292**	178
Current service cost	**38**	57
Interest cost	**2**	2
Total — included in employee benefit expenses (Note 26(a))	**40**	59
Re-measurements:		
— (Gain)/loss from change in financial assumptions	**(27)**	71
— Gain from change in demographic assumptions	**—**	(54)
Mandatory Provident Fund payment	**(72)**	(39)
Acquisition of a subsidiary	**—**	78
Exchange difference	**1**	(1)
At 31 December	**234**	292

21 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Long service payments (Continued)

The principal actuarial assumptions used are as follows:

	2019	2018
Discount rate	1.7%	1.8%
Future salary increase rate	3.00%	3.00%

The sensitivity of the long service payments to changes in the weighted principal assumptions is:

	Impact on long service payments					
	2019			2018		
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	Decrease by US$4,000	Increase by US$4,000	1.0%	Decrease by US$4,000	Increase by US$4,000
Future salary increase rate	1.0%	Increase by US$4,000	Decrease by US$4,000	1.0%	Increase by US$1,000	Decrease by US$1,000

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liabilities recognized within the consolidated statement of financial position.

21 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(d) Risks for defined benefit plans and long service payments

Through its defined benefit plans and long service payments, the Group is exposed to a number of risks, the most significant of which are detailed below:

(i) Changes in discount rate

A decrease in discount rate will increase plan liabilities.

(ii) Inflation risk

The Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities.

Expected contributions to defined benefit plans and provision for long service payments for the year ended 31 December 2019 are US$1,995,000 (2018: US$1,439,000).

The weighted average duration of the defined benefit obligations is 23.25 years (2018: 22.48 years).

An expected maturity analysis of undiscounted pension is as follows:

	2019 US$'000	2018 US$'000
Retirement benefits		
— No later than 1 year	**572**	600
— Later than 1 year and no later than 5 years	**2,072**	1,845
— Later than 5 years	**178,508**	165,142
	181,152	167,587

22 TRADE AND OTHER PAYABLES

	2019 US$'000	2018 US$'000
Trade and bills payables (Note a)	**60,769**	75,730
Contract liability (Note b)	**99**	400
Other payables and accruals (Note c)	**58,331**	63,546
Amounts due to related parties (Note 33)	**1,720**	3,468
	120,919	143,144
Less: Non-current	**—**	(688)
Trade and other payables, current	**120,919**	142,456

(a) Trade and bills payables

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

	2019 US$'000	2018 US$'000
0 to 30 days	**48,991**	63,284
31 to 60 days	**7,210**	7,694
61 to 90 days	**2,983**	2,441
Over 90 days	**1,585**	2,311
	60,769	75,730

22 TRADE AND OTHER PAYABLES (CONTINUED)

(a) Trade and bills payables (Continued)

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2019 US$'000	2018 US$'000
US$	**43,763**	61,797
HK$	**10,770**	5,886
RMB	**4,717**	6,213
Peso	**1,391**	1,701
Other currencies	**128**	133
	60,769	75,730

The carrying amounts of trade and bills payables approximate their fair values.

(b) Contract liability

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liability.

	2019 US$'000	2018 US$'000
Revenue recognized that was included in the contract liability balance at the beginning of the year	**400**	1,138

The contract liability represents customer deposits.

(c) Provision for claims

Other payables and accruals of the Group include provision of claims of US$1,068,000 (2018: US$2,264,000). Due to the change of customer mix and claim policy, the Group has reversed the provision made in prior years of US$1,080,000 (2018: US$4,126,000), which was included in the cost of sales in the consolidated statement of profit or loss.

23 DERIVATIVE FINANCIAL INSTRUMENTS

	2019 US$'000	2018 US$'000
Assets/(liabilities):		
Forward foreign exchange contracts (Note i)	(19)	—

Note:

(i) The notional principal amounts of the outstanding forward foreign exchange contracts as at 31 December 2019 were approximately US$2,677,000 (2018: US$688,000).

24 OTHER GAINS — NET

	2019 US$'000	2018 US$'000
Fair value losses on derivative financial instruments		
— net losses on forward foreign exchange contracts	(19)	—
Net gains on forward foreign exchange contracts	133	173
Net foreign exchange gains	917	2,027
Gain on disposal of subsidiaries (Note 38)	13,402	—
Loss from fair value remeasurement of contingent consideration of acquisition of subsidiaries (Note 34(a))	(500)	—
Gain on disposal of a joint venture (Note 12)	—	3,501
	13,933	5,701

25 EXPENSES BY NATURE

	2019 US$'000	2018 US$'000
Raw materials and consumables used	**574,604**	515,399
Changes in inventories of finished goods and work in progress	**(3,669)**	(7,102)
Employee benefit expenses (Note 26(a))	**263,974**	216,800
Losses/(gains) on disposals of property, plant and equipment — net (Note 31(a))	**416**	(29)
Auditors' remuneration		
— Audit services	**746**	1,123
— Non-audit services	**731**	297
Amortization of land use rights (Note 6)	**—**	146
Depreciation of property, plant and equipment (Note 7)	**16,291**	11,773
Depreciation and amortization of investment properties (Note 8)	**438**	330
Depreciation of right-of-use assets (Note 9)	**4,895**	—
Amortization of intangible assets (Note 10)	**716**	360
Reversal of impairment of property, plant and equipment (Note 7)	**—**	(10)
Loss allowances/(reversal of loss allowances) of trade and bills receivables (Note 3.1(b))	**341**	(17)
Reversal of provision for material claims (Note 22(c))	**(1,080)**	(4,126)
Provision for inventory obsolescence (Note 14)	**1,747**	1,750
Operating leases		
— Office premises and warehouses	**2,339**	4,883
— Plant and machinery	**342**	241
Transportation expenses	**4,564**	3,615
Communication, supplies and utilities	**27,287**	22,702
Other expenses	**54,064**	48,562
	948,746	816,697

	2019 US$'000	2018 US$'000
Cost of sales	**827,615**	723,575
Selling and distribution expenses	**3,265**	2,855
General and administrative expenses	**117,866**	90,267
	948,746	816,697

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses during the year are as follows:

	2019 US$'000	2018 US$'000
Wages, salaries and allowances	251,065	204,535
Termination benefits	6,840	5,309
Pension costs		
— Defined contribution plans (Note 21(a))	4,492	4,851
— Defined benefit plans (Note 21(b))	1,537	2,046
Long service payments (Note 21(c))	40	59
	263,974	216,800

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2018: two) directors whose emoluments are reflected in the analysis presented in Note 36. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

	2019 US$'000	2018 US$'000
Basic salaries, other allowances and benefits in kind	898	843
Discretionary bonuses	1,073	805
Pension scheme contributions	5	5
Others	238	235
	2,214	1,888

26 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Five highest paid individuals (Continued)

The emoluments of the remaining three (2018: three) highest paid individuals fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands		
US$512,821 to US$576,923 (equivalent to HK$4,000,001 to HK$4,500,000)	**—**	1
US$576,923 to US$641,026 (equivalent to HK$4,500,001 to HK$5,000,000)	**1**	—
US$641,026 to US$705,128 (equivalent to HK$5,000,001 to HK$5,500,000)	**—**	2
US$705,128 to US$769,231 (equivalent to HK$5,500,001 to HK$6,000,000)	**—**	—
US$769,231 to US$833,333 (equivalent to HK$6,000,001 to HK$6,500,000)	**2**	—
	3	3

During the year, no emoluments have been paid to any of the five highest paid individuals as an inducement to join or as compensation for loss of office.

27 FINANCE COSTS — NET

	2019 US$'000	2018 US$'000
Interest expense on lease liabilities	**(1,539)**	—
Interest expense on bank borrowings	**(5,619)**	(3,621)
Interest expense on consideration payable	**(54)**	—
Finance costs	**(7,212)**	(3,621)
Interest income from bank deposits	**441**	429
Other interest income	**166**	134
Finance income	**607**	563
Finance costs — net	**(6,605)**	(3,058)

28 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the 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 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%.

	2019 **US$'000**	2018 US$'000
Current income tax	**3,883**	3,087
(Over)/under-provision in prior years	**(13)**	7,634
Deferred income tax (Note 13)	**(708)**	(713)
Income tax expense	**3,162**	10,008

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2019 **US$'000**	2018 US$'000
Profit before income tax	**28,327**	33,311
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(1,057)**	(3,386)
Income not subject to tax	**(2,452)**	(2,198)
Expenses not deductible for tax purposes	**6,325**	6,941
Utilization of previously unrecognized tax losses	**(589)**	(136)
Tax losses for which no deferred income tax asset was recognized	**1,751**	1,090
Tax effect of taxable temporary difference not recognized — net	**(794)**	148
Tax effect of share of results of joint ventures	**(9)**	(85)
(Over)/under-provision in prior years	**(13)**	7,634
Income tax expense	**3,162**	10,008

28 INCOME TAX EXPENSE (CONTINUED)

Notes:

(i) The Inland Revenue Department ("IRD") has been reviewing the eligibility of a Hong Kong incorporated subsidiary's 50% or 100% offshore profits claim for previous years. A Macao incorporated subsidiary also reached a case settlement with the IRD during the year.

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$3,663,000 (equivalent to approximately HK$28,570,000) in the form of tax reserve certificates in respect of the tax in dispute up to and including the year of assessment 2012/13.

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

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

(ii) During the years ended 31 December 2019 and 2018, an overseas tax authority performed tax assessments on overseas incorporated subsidiaries' tax position for the years ended 31 December 2016, 2017 and 2018 and certain periods during the years ended 31 December 2016, 2017, 2018 and 2019, and issued tax assessments/revised tax assessments to demand additional tax payment of US$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 2019 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 (2018: US$5,504,000). 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.

29 EARNINGS PER SHARE

(a) Basic

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

	2019	2018
Profit attributable to owners of the Company (US$'000)	25,165	23,303
Weighted average number of ordinary shares in issue (thousands)	1,034,113	1,034,113
Basic earnings per share (US cents per share)	2.4	2.3

(b) Diluted

Diluted earnings per share for the years ended 31 December 2019 and 2018 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years.

30 DIVIDENDS

(a) Dividends recognized during the reporting period

	2019 US$'000	2018 US$'000
Interim dividend paid of US0.190 cent or equivalent to HK1.49 cents (2018: US0.262 cent) per ordinary share	1,965	2,709
Final dividend of US0.414 cent or equivalent to HK3.24 cents (2017: US0.747 cent) per ordinary share for the year ended 31 December 2018	4,281	7,724
	6,246	10,433

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

At a meeting held on 27 March 2020, the Board of Directors does not recommend a final dividend.

	2019 US$'000	2018 US$'000
Proposed final dividend of Nil cent (2018: US0.414 cent) per ordinary share	—	4,281

31 CASH FLOW INFORMATION

(a) Cash generated from operating activities

	2019 US$'000	2018 US$'000
Profit before income tax	28,327	33,311
Adjustments for:		
Share of losses of joint ventures (Note 12)	44	3,635
Finance costs (Note 27)	7,212	3,621
Finance income (Note 27)	(607)	(563)
Fair value losses on derivative financial instruments (Note 24)	19	—
Amortization of intangible assets (Note 10)	716	360
Amortization of land use rights (Note 6)	—	146
Depreciation of property, plant and equipment (Note 7)	16,291	11,773
Depreciation and amortization of investment properties (Note 8)	438	330
Depreciation of right-of-use assets (Note 9)	4,895	—
Loss allowances/(reversal of loss allowances) of trade and bills receivables (Note 3.1(b))	341	(17)
Provision for inventory obsolescence (Note 14)	1,747	1,750
Losses/(gains) on disposals of property, plant and equipment — net (Note 25)	416	(29)
Gain on disposal of subsidiaries (Note 24)	(13,402)	—
Loss from fair value remeasurement of contingent consideration of acquisition of subsidiaries (Note 24)	500	—
Gain on disposal of a joint venture (Note 24)	—	(3,501)
Reversal of impairment on fixed assets (Note 7)	—	(10)
Operating profit before working capital changes	46,937	50,806
Changes in working capital (excluding the effects of currency translation on consolidation):		
Inventories	(13,864)	(4,818)
Trade and other receivables	(2,849)	949
Trade and other payables	(21,554)	(13,171)
Derivative financial instruments	—	(12)
Retirement benefit obligations	1,754	(900)
Restricted cash	3,142	1,299
Cash generated from operations	13,566	34,153

31 CASH FLOW INFORMATION (CONTINUED)

(a) Cash generated from operating activities (Continued)

In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	2019 US$'000	2018 US$'000
Net book amount (Note 7)	1,751	699
(Losses)/gains on disposals of property, plant and equipment — net (Note 25)	(416)	29
Proceeds from disposals of property, plant and equipment	1,335	728

(b) Significant non-cash transaction

During the year ended 31 December 2019, a prepaid tax certificate of US$5,935,000 made in prior year and included in prepaid income tax in the consolidated statement of financial position was utilized to settle the income tax liabilities of a Macao incorporated subsidiary (Note 28(i)).

(c) Reconciliation of liabilities arising from financing activities

	Borrowings — current US$'000	Borrowings — non-current US$'000	Lease liabilities US$'000	Contingent consideration of acquisition of subsidiaries (Note) US$'000	Total US$'000
At 1 January 2019	122,243	25,100	—	3,069	150,412
Adoption of HKFRS 16	—	—	13,894	—	13,894
Cashflows	24,684	(4,900)	(3,233)	(3,623)	12,928
Addition	—	—	22,218	—	22,218
Disposal of subsidiaries	—	—	(939)	—	(939)
Interest expense on final consideration payable (Note 27)	—	—	—	54	54
Loss from fair value remeasurement of contingent consideration of acquisition of subsidiaries (Note 24)	—	—	—	500	500
Exchange difference	—	—	427	—	427
At 31 December 2019	146,927	20,200	32,367	—	199,494

31 CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Borrowings — current US$'000	Borrowings — non-current US$'000	Consideration payables for acquisitions of additional interests in subsidiaries (Note) US$'000	Contingent consideration of acquisition of subsidiaries (Note) US$'000	Total US$'000
At 1 January 2018	94,139	9,000	1,648	—	104,787
Cashflows	(3,051)	16,100	(1,656)	—	11,393
Acquisition of subsidiaries (Note 34)	31,155	—	—	3,069	34,224
Other non-cash movement	—	—	8	—	8
At 31 December 2018	122,243	25,100	—	3,069	150,412

Note: Final consideration payables for acquisition of subsidiaries and consideration payables for the acquisitions of additional interests in subsidiaries were included in trade and other payables in the consolidated statement of financial position.

32 COMMITMENTS

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities are payments of the acquisition of subsidiaries of US$3,240,000 (2018: nil).

(b) Operating lease commitments — as lessee

The Group leases various land and buildings, property, plant and equipment under non-cancellable operating lease agreements. The lease terms are between 1 and 20 years and majority of lease agreements are renewable at the end of the lease period at market rate.

From 1 January 2019, the Group has recognized right-of-use assets for these leases, except for short-term and low-value leases, see Note 2.2 and Note 9 for further information.

	2018 US$'000
Land and buildings	
— No later than 1 year	4,497
— Later than 1 year and no later than 5 years	6,632
— Later than 5 years	11,854
	22,983

	2018 US$'000
Property, plant and equipment	
— No later than 1 year	58

The Company has no other material commitments as at 31 December 2019 and 2018.

33 RELATED-PARTY TRANSACTIONS

The directors regard the immediate holding company of the Company to be the Shangtex (Hong Kong) Limited, a company incorporated in Hong Kong, and the ultimate holding company of the Company to be Shangtex Holding Co., Ltd, a company incorporated in the PRC which indirectly holds 100% interest in Shangtex (Hong Kong) Limited.

(a) Transactions with related parties

During the year, the Group had the following significant transactions with related companies and joint ventures. Related companies include companies which are beneficially owned or controlled by certain directors of the Company, individually, jointly or collectively, or together with their close family members, and companies which are related companies of the immediate or ultimate holding company of the Company.

(i) Provisions of goods and services

	2019 US$'000	2018 US$'000
Rental income from		
— related companies	**5**	5
— joint ventures	**25**	25
	30	30
Service income from		
— joint ventures	**947**	570
Recharge of material costs and other expenses to		
— related companies	**312**	399
— joint ventures	**13,410**	16,699
	13,722	17,098
Sales of apparels, textile products and accessories to		
— related companies	**30,083**	22,182
— joint ventures	**15**	10
	30,098	22,192
Technology support and services from related companies	**137**	200

33 RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (Continued)

(ii) Purchases of goods and services

	2019 US$'000	2018 US$'000
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	**2,730**	871
Professional and technological support service fees to related companies	**1,920**	1,920
Subcontracting expenses to		
— related companies	**4,085**	—
— joint ventures	**21,312**	13,278
	25,397	13,278
Freight forwarding and logistics services charged by		
— related companies	**2,454**	2,993
— joint ventures	**451**	452
	2,905	3,445
Recharge of material costs and other expenses by		
— related companies	**1,014**	1,013
— joint ventures	**2**	3
	1,016	1,016
Purchases of materials from		
— related companies	**250**	437
— joint ventures	**13,518**	19,170
	13,768	19,607
Other services fee charged by joint ventures	**—**	1,735

The above related-party transactions were carried out in accordance with the terms mutually agreed between the respective parties.

33 RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Year-end balances arising from sales/purchases of goods/services

	2019 US$'000	2018 US$'000
Amounts due from related parties (Note 16)		
— Joint ventures	**2,274**	4,579
— Related companies	**2,916**	885
	5,190	5,464
Amounts due to related parties (Note 22)		
— Joint ventures	**—**	2,445
— Related companies	**1,720**	1,023
	1,720	3,468

The amounts due from joint ventures and related parties arise mainly from trade transactions. They are unsecured, interest-free and repayable on demand.

Information about the impairment of the balances can be found in Note 3.1(b)(ii).

The amounts due to related parties are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate their fair values and are denominated in US$.

(c) Key management compensation

	2019 US$'000	2018 US$'000
Basic salaries and allowance	**3,140**	2,922
Bonus	**2,945**	2,044
Pension scheme contributions	**24**	22
	6,109	4,988

(d) Banking facilities

As at 31 December 2019, certain banking facilities of the Group to the extent of US$382,914,000 (2018: US$371,770,000) were supported by corporate guarantees given by the Company.

34 BUSINESS COMBINATION

(a) Summary of acquisition

On 31 October 2018, Sunny Force Limited, a subsidiary of the Company, acquired 100% of the issued share capital of Universal Elite Holdings Limited, a manufacturer of accessories products. The acquisition has diversified the Group's accessories business, expanded and supplemented customer base and enhanced market penetration.

As at 31 December 2018, details of the purchase consideration, the fair value of net assets acquired and goodwill are as follows:

	US$'000
Purchase consideration	
Cash paid	21,000
Consideration payable	1,623
Contingent consideration	1,446
Total purchase consideration	24,069

On 20 December 2019, a final consideration of US$3,623,000 was paid, resulting in a loss from fair value remeasurement of contingent consideration of acquisition of subsidiaries which are recognized in "other gains — net".

	US$'000
Final consideration paid	3,623
Consideration payable	(1,623)
Contingent consideration	(1,500)
Loss from fair value remeasurement of contingent consideration of acquisition of subsidiaries (Note 24)	500

34 BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (Continued)

The fair value of the assets and liabilities recognized as at 31 October 2018 as a result of the acquisition are as follows:

	US$'000
Cash and cash equivalents	8,074
Trade and other receivables	10,316
Inventories	19,300
Property, plant and equipment	26,354
Land use right	3,449
Intangible assets: customer relationships	5,000
Indemnification asset	5,504
Trade and other payables	(21,762)
Current income tax liabilities	(2,167)
Bank borrowings	(31,155)
Contingent liability	(5,504)
Deferred tax liability	(1,556)
Post-employment benefit obligations	(152)
Net identifiable assets acquired	15,701
Add: goodwill	8,368
Net assets acquired	24,069

The goodwill is attributable to a number of factors, among others, including the expected synergies arisen from the business combination. It will not be deductible for tax purposes.

34 BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (Continued)

(i) Acquired receivables

The fair value of acquired trade receivables is US$9,153,000. The gross contractual amount for trade receivables is US$9,248,000, of which US$95,000 is expected to be uncollectible.

(ii) Revenue and profit contribution

The acquired business contributed revenues of US$23,256,000 and net profit of US$1,697,000 to the Group for the period from 1 November to 31 December 2018. If the acquisition had occurred on 1 January 2018, consolidated pro-forma revenue and profit for the year ended 31 December 2018 would have been US$974,019,000 and US$23,943,000 respectively.

(b) Purchase consideration — cash outflow

	US$'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration paid	21,000
Less: Balances acquired	
Cash and cash equivalents	(8,074)
Net outflow of cash — investing activities	12,926

Acquisition-related costs of US$714,000 are included in general and administrative expenses in profit or loss and in operating cash flows in the statement of cash flows for the year ended 31 December 2018.

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

		2019 US$'000	2018 US$'000
ASSETS			
Non-current asset			
Investments in subsidiaries		**71,564**	71,564
Current assets			
Amounts due from subsidiaries		**22,042**	23,929
Deposits, prepayments and other current assets		**42**	36
Cash and bank balances		**181**	98
Total current assets		**22,265**	24,063
Total assets		**93,829**	95,627
EQUITY			
Equity attributable to owners of the Company			
Share capital		**10,341**	10,341
Other reserves	(a)	**71,564**	71,564
Retained earnings	(a)	**11,024**	12,514
Total equity		**92,929**	94,419
LIABILITIES			
Current liabilities			
Other payables and accruals		**768**	1,192
Amounts due to fellow subsidiaries		**132**	16
Total liabilities		**900**	1,208
Total equity and liabilities		**93,829**	95,627

The statement of financial position of the Company has been approved by the Board of Directors on 27 March 2020 and has been signed on behalf.

Tan Cho Lung, Raymond
Director

Qu Zhiming
Director

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company

	Retained earnings US$'000	Other reserves US$'000	Total US$'000
At 1 January 2018	7,832	71,564	79,396
Profit for the year	15,115	—	15,115
Dividends paid	(10,433)	—	(10,433)
At 31 December 2018	12,514	71,564	84,078
At 1 January 2019	**12,514**	**71,564**	**84,078**
Profit for the year	**4,756**	**—**	**4,756**
Dividends paid	**(6,246)**	**—**	**(6,246)**
At 31 December 2019	**11,024**	**71,564**	**82,588**

36 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2019 is set out below:

Name of director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (Note i) US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive directors						
Mr. Shen Yaoqing *(Chairman)*	**467**	**—**	**—**	**—**	**—**	**467**
Mr. Tan Cho Lung, Raymond *(Chief Executive Officer)*	**—**	**467**	**820**	**—**	**2**	**1,289**
Mr. Qu Zhiming	**420**	**—**	**—**	**—**	**—**	**420**
Ms. Mok Siu Wan, Anne	**19**	**467**	**646**	**—**	**—**	**1,132**
Dr. Tan Siu Lin	**113**	**—**	**—**	**—**	**—**	**113**
Non-executive director						
Mr. Huang Jie	**31**	**—**	**—**	**—**	**—**	**31**
Independent non-executive directors						
Mr. Chan Henry	**31**	**—**	**—**	**—**	**—**	**31**
Mr. Cheung Siu Kee (Note iii)	**9**	**—**	**—**	**—**	**—**	**9**
Mr. Seing Nea Yie	**31**	**—**	**—**	**—**	**—**	**31**
Dr. Wang Ching (Note ii)	**22**	**—**	**—**	**—**	**—**	**22**
Total	**1,143**	**934**	**1,466**	**—**	**2**	**3,545**

36 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and senior management's emoluments (Continued)

The remuneration of every director for the year ended 31 December 2018 is set out below:

Name of director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Other benefits (Note i) US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive directors						
Mr. Shen Yaoqing *(Chairman)*	467	—	—	—	—	467
Mr. Tan Cho Lung, Raymond *(Chief Executive Officer)*	—	467	515	—	2	984
Mr. Qu Zhiming	420	—	—	—	—	420
Ms. Mok Siu Wan, Anne	19	467	508	—	—	994
Dr. Tan Siu Lin	—	113	—	—	—	113
Non-executive director						
Mr. Huang Jie	31	—	—	—	—	31
Independent non-executive directors						
Mr. Chan Henry	31	—	—	—	—	31
Mr. Cheung Siu Kee (Note iii)	31	—	—	—	—	31
Mr. Seing Nea Yie	31	—	—	—	—	31
Total	1,030	1,047	1,023	—	2	3,102

	2019 US$'000	2018 US$'000
Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the company or its subsidiary undertaking	**1,143**	1,141
Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the company or its subsidiary undertaking	**2,402**	1,961
	3,545	3,102

Notes:

(i) Other benefits mainly include share options and other allowances.

(ii) Appointed on 8 April 2019.

(iii) Resigned on 15 April 2019.

36 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and senior management's emoluments (Continued)

During the year ended 31 December 2019, none of the directors of the Company waived any emoluments paid or payable by the Group during the year (2018: Nil) and there were no amounts paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

(b) Directors' retirement benefits and termination benefits

During the year ended 31 December 2019, none of the directors received or will receive any retirement benefits or termination benefits during the financial year (2018: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2019, the Company did not pay consideration to any third parties for making available directors' services (2018: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and controlled entities with such directors

As at 31 December 2019, there are no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors (2018: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the financial year (2018: Nil).

37 EVENTS AFTER THE REPORTING PERIOD

(a) On 3 October 2019, Eastern City Industries Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Wei Chiu-Yen and Wang Feng-Te and Mingtex Fashion Company Limited to acquire 100% issued shares of the JCK (Myanmar) International Company Limited ("JCK"), a company incorporated in the Myanmar, and the Advance Share Capital of JCK, at a consideration of US$4,850,000. A part payment of consideration of US$4,365,000 was paid during the year ended 31 December 2019.

The transaction was completed on 22 January 2020, upon which JCK becomes a wholly-owned subsidiary of the Company.

37 EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(b) On 6 November 2019, On Time International Limited ("On Time"), a wholly-owned subsidiary of the Company, Narendra Goenka, Neeraj Goenka, Arunkumar S. Goenka and Shailesh S. Goenka (the "Indian Parties"), Texport Industries Private Limited ("Texport"), a company incorporated in India, and Unit 15 Apparels LLP, a limited liability partnership incorporated in the India, entered into an agreement. The agreement relates to the investment of On Time and the Indian Parties into Unit 15 Apparels LLP and the operation of Unit 15 Apparels LLP. Unit 15 Apparels LLP will carry out the business of manufacturing garments for customers in India and foreign markets and to service order from customers.

On Time invested approximately US$2,755,000 in Unit 15 Apparels LLP, holding 51% of the issued shares of the company. The transaction was completed on 1 February 2020, upon which Unit 15 Apparels LLP becomes a non-wholly-owned subsidiary of the Company.

On 6 November 2019, Unit 15 Apparels LLP entered an asset transfer agreement with Texport to acquire land, factory and certain plant and equipment from Texport with a consideration of US$4,997,000. The transaction was completed on 1 February 2020.

(c) After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorized for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

38 DISPOSAL OF SUBSIDIARIES

On 13 December 2019, the Group entered into an agreement with an independent third party to dispose certain of its subsidiaries. The disposed subsidiaries were engaged in the investment holdings, manufacturing and trading of accessories and leasing of the properties. The transaction was completed on 18 December 2019. Upon completion of the disposal, the principal business of the Group will continue to be manufacturing and trading of apparels and accessories.

	US$'000
Considerations	24,342
Net liabilities disposed of	11,718
Settlement of inter-group balances (Note)	(20,371)
Termination expenses	(2,803)
Transaction costs	(192)
	12,694
Release of exchange reserve upon disposal of subsidiaries (Note 19)	708
Gain on disposal of subsidiaries (Note 24)	13,402

Note: Pursuant to the sales and purchase agreement, the consideration of approximately US$24,342,000 was used to settle balances between the Group and the subsidiaries to be disposed of amounting to US$20,371,000.

FIVE YEAR FINANCIAL SUMMARY

	2015	2016	2017	2018	**2019**
Financial highlights (US$'000)					
Total assets	684,078	641,867	444,177	520,334	**563,129**
Total liabilities	301,511	363,271	253,860	316,347	**344,436**
Bank borrowings	75,928	70,184	103,139	147,343	**167,127**
Capital and reserves attributable to the owners of the Company	380,640	277,888	190,317	203,987	**218,693**
Working capital	202,045	172,101	72,230	63,310	**65,132**
Revenue	1,113,451	992,807	768,417	851,000	**969,789**
Profit attributable to the owners of the Company	12,769	18,472	21,905	23,303	**25,165**
Key ratios					
Current ratio	1.71	1.49	1.31	1.23	**1.23**
Gross profit margin	15.3%	17.2%	15.4%	15.0%	**14.7%**
Profit margin attributable to the owners of the Company	1.1%	1.9%	2.9%	2.7%	**2.6%**

Notes:

(i) The financial summary of the Group is for information only and does not form part of the audited consolidated financial statements.

(ii) Revenue and cost of sales of discounted operations are included in the calculation of the financial ratios in the table above, if applicable.