# LUEN THAI HOLDINGS LIMITED

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

**(Stock Code: 311)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

**GROUP FINANCIAL HIGHLIGHTS**

| | **Six months ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) (Restated) |
| Revenue | **473,610** | 521,424 |
| Operating profit | **13,667** | 9,561 |
| Profit attributable to owners of the Company | **8,362** | 7,358 |
| Profit margin (ratio of profit attributable to owners of the Company to revenue) | **1.8%** | 1.4% |
| Basic EPS *(US cents)* | **0.81** | 0.71 |

The board of directors (the "Board") of Luen Thai Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated result of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the six months ended 30 June 2016.

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months period ended 30 June 2016*

| | Note | Six months ended 30 June 2016 US$'000 (Unaudited) | 2015 US$'000 (Unaudited) (Restated) *Note 12* |
|---|---|---|---|
| Revenue | 3 | **473,610** | 521,424 |
| Cost of sales | | **(392,748)** | (443,143) |
| **Gross profit** | | **80,862** | 78,281 |
| Other (losses)/gains, net | | **(970)** | 147 |
| Other income — rental income | | **673** | 621 |
| Selling and distribution expenses | | **(2,489)** | (1,703) |
| General and administrative expenses | | **(64,409)** | (67,785) |
| **Operating profit** | 4 | **13,667** | 9,561 |
| Finance income | | **1,288** | 1,590 |
| Finance costs | | **(1,050)** | (1,138) |
| Finance income, net | 5 | **238** | 452 |
| Share of gain/(loss) of an associated company | | **12** | (7) |
| Share of losses of joint ventures | | **(3,323)** | (1,043) |
| **Profit before income tax** | | **10,594** | 8,963 |
| Income tax expense | 6 | **(2,302)** | (1,204) |
| **Profit for the period** | | **8,292** | 7,759 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **8,362** | 7,358 |
| Non-controlling interests | | **(70)** | 401 |
| | | **8,292** | 7,759 |
| **Earnings per share attributable to owners of the Company** *(expressed in US cents per share)* | | | |
| — Basic and diluted | 7 | **0.81** | 0.71 |
| | | ***US$'000*** | *US$'000* |
| Dividends | 8 | **5,015** | 2,203 |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the six months period ended 30 June 2016*

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Profit for the period** | **8,292** | 7,759 |
| **Other comprehensive income** | | |
| Item that may be reclassified to profit or loss: | | |
| Currency translation differences | **(1,131)** | 478 |
| **Total comprehensive income for the period** | **7,161** | 8,237 |
| **Total comprehensive income for the period attributable to:** | | |
| — Owners of the Company | **7,242** | 7,842 |
| — Non-controlling interests | **(81)** | 395 |
| | **7,161** | 8,237 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2016*

| | Note | **As at 30 June 2016 US$'000 (Unaudited)** | As at 31 December 2015 US$'000 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | | **10,439** | 10,695 |
| Property, plant and equipment | | **100,123** | 104,351 |
| Investment properties | | **5,976** | 6,504 |
| Intangible assets | | **46,215** | 47,513 |
| Interests in an associated company | | **424** | 412 |
| Interests in joint ventures | | **10,962** | 14,590 |
| Amount due from a joint venture | | **7,810** | 7,747 |
| Deferred income tax assets | | **954** | 938 |
| Other non-current assets | | **6,010** | 6,681 |
| Prepayment for acquisition of interest in a joint venture | | **3,600** | — |
| **Total non-current assets** | | **192,513** | 199,431 |
| **Current assets** | | | |
| Inventories | | **96,288** | 92,778 |
| Trade and other receivables | 9 | **220,332** | 207,436 |
| Prepaid income tax | | **7,320** | 6,080 |
| Derivative financial instruments | | **122** | 78 |
| Cash and bank balances | | **166,542** | 178,275 |
| **Total current assets** | | **490,604** | 484,647 |
| **Total assets** | | **683,117** | 684,078 |
| **EQUITY** | | | |
| **Equity attributable to the owners of the Company** | | | |
| Share capital | | **10,341** | 10,341 |
| Other reserves | 11 | **130,747** | 131,867 |
| Retained earnings | | **245,170** | 238,432 |
| | | **386,258** | 380,640 |
| Non-controlling interests | | **1,846** | 1,927 |
| **Total equity** | | **388,104** | 382,567 |

| | Note | As at 30 June 2016 US$'000 (Unaudited) | As at 31 December 2015 US$'000 (Audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **2,385** | 2,459 |
| Other payable | 10 | **804** | 1,593 |
| Retirement benefit obligations | | **10,204** | 9,338 |
| Deferred income tax liabilities | | **5,483** | 5,519 |
| **Total non-current liabilities** | | **18,876** | 18,909 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **194,646** | 201,731 |
| Borrowings | | **72,289** | 73,469 |
| Derivative financial instruments | | **—** | 17 |
| Current income tax liabilities | | **9,202** | 7,385 |
| **Total current liabilities** | | **276,137** | 282,602 |
| **Total liabilities** | | **295,013** | 301,511 |
| **Total equity and liabilities** | | **683,117** | 684,078 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*For the six months period ended 30 June 2016*

## 1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

In the current year, management has revisited the Group's operating activities and merged casual and fashion apparel and life-style apparel as one business segment of the Group's principal activities. Management believes that the change in presentation will result in a more appropriate presentation of the financial information of the Group. The change in presentation has been accounted for retrospectively and segment information in prior period has been restated.

## 2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual statements.

**New and amended standards relevant to and adopted by the Group**

The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2016:

- HKFRS 14 "Regulatory deferral accounts"
- Amendment to HKFRS 11 "Accounting for acquisitions of interests in joint operations"
- Amendments to HKAS 16 and HKAS 38 "Clarification of acceptable methods of depreciation and amortization"
- Amendments to HKAS 16 and HKAS 41 "Agriculture: bearer plants"
- Amendment to HKAS 27 "Equity method in separate financial statements"
- Annual improvements 2012–2014 cycle
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 "Investment entities: applying the consolidation exception"
- Amendments to HKAS 1 "Disclosure initiative"

The adoption of the above new or amended standards or interpretations did not have a material impact on the Group's condensed consolidated interim financial information.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other new or amended standards or interpretations that are effective for the first time for this interim period and are relevant to the Group.

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

## 3. SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of apparels and accessories, the provision of freight forwarding and logistics services and also real estate development. Revenue consists of sales revenue from casual and fashion apparel, life-style apparel, sweaters, accessories, and income from the provision of freight forwarding and logistics services.

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.

Management considers the business from a product perspective whereby management assesses the performance of casual and fashion apparel, life-style apparel, sweaters, accessories, freight forwarding and logistics services and real estate development.

In the current period, management revisited the Group's operating activities and decided to merge casual and fashion apparel and life-style apparel as one business segment of the Group's principal activities. The Group is organised on a worldwide basis into five main business segments:

(1) Casual and fashion apparel

(2) Sweaters

(3) Accessories

(4) Freight forwarding/logistics services

(5) Real estate

The segment information provided to the executive directors for the reportable segments for the six months ended 30 June 2016 and 2015 is as follows:

| | Casual and fashion apparel | Sweaters | Accessories | Freight forwarding/ logistics services | Real estate | Total Group |
|---|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| **Six months ended 30 June 2016** | | | | | | |
| Total segment revenue | **299,336** | **29,220** | **153,023** | **11,161** | **—** | **492,740** |
| Inter-segment revenue | **—** | **—** | **(18,907)** | **(223)** | **—** | **(19,130)** |
| **Revenue (from external customers)** | **299,336** | **29,220** | **134,116** | **10,938** | **—** | **473,610** |
| **Segment profit/(loss) for the period** | **9,510** | **(2,046)** | **6,156** | **1,899** | **(2,118)** | **13,401** |
| Profit/(loss) for the period includes: | | | | | | |
| Depreciation and amortization | **(5,831)** | **(1,010)** | **(2,529)** | **(375)** | **—** | **(9,745)** |
| Share of gain of an associated company | **—** | **—** | **—** | **12** | **—** | **12** |
| Share of losses of joint ventures | **(1,371)** | **—** | **—** | **—** | **(1,952)** | **(3,323)** |
| Income tax expense | **(1,777)** | **(34)** | **(180)** | **(311)** | **—** | **(2,302)** |

| | Casual and fashion apparel US$'000 (Unaudited) (Restated) | Sweaters US$'000 (Unaudited) (Restated) | Accessories US$'000 (Unaudited) (Restated) | Freight forwarding/ logistics services US$'000 (Unaudited) (Restated) | Real estate US$'000 (Unaudited) (Restated) | Total Group US$'000 (Unaudited) (Restated) |
|---|---|---|---|---|---|---|
| **Six months ended 30 June 2015** | | | | | | |
| Total segment revenue | 344,679 | 32,855 | 133,479 | 11,384 | — | 522,397 |
| Inter-segment revenue | — | (600) | — | (373) | — | (973) |
| **Revenue (from external customers)** | 344,679 | 32,255 | 133,479 | 11,011 | — | 521,424 |
| **Segment profit/(loss) for the period** | 7,504 | (1,778) | 5,806 | 1,485 | 592 | 13,609 |
| Profit/(loss) for the period includes: | | | | | | |
| Reversal of provision for claims on materials | 2,641 | — | — | — | — | 2,641 |
| Depreciation and amortization | (6,576) | (1,138) | (2,337) | (456) | — | (10,507) |
| Share of loss of an associated company | — | — | — | (7) | — | (7) |
| Share of losses of joint ventures | (614) | — | — | — | (429) | (1,043) |
| Income tax expense | (785) | (269) | (5) | (145) | — | (1,204) |

Revenues 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 the management is measured in a manner consistent with that in the condensed consolidated income statement. The management assesses the performance of the operating segments based on a measure of profit before corporate expenses for the period.

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Segment profit for the period** | **13,401** | 13,609 |
| Unallocated corporate expenses *(Note)* | **(5,109)** | (5,850) |
| Profit for the period | **8,292** | 7,759 |

*Note:* Corporate expenses represent general corporate expenses such as executive salaries and other unallocated general and administrative expenses.

## 4. OPERATING PROFIT

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

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Amortization of land use rights | **161** | 164 |
| Amortization of intangible assets | **1,298** | 1,298 |
| Depreciation of property, plant and equipment | **7,907** | 8,725 |
| Depreciation of investment properties | **379** | 320 |
| Loss on disposals of property, plant and equipment | **357** | 924 |
| (Reversal of)/provision for impairment of receivables | **(28)** | 84 |
| Provision for inventory obsolescence | **217** | 465 |
| Reversal of provision for material claims | **—** | (2,641) |

## 5. FINANCE INCOME, NET

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest expense on bank loans and overdrafts | **(1,050)** | (1,138) |
| Finance costs | **(1,050)** | (1,138) |
| Interest income from bank deposits | **420** | 649 |
| Effective interest income from amount due from a joint venture | **868** | 941 |
| Finance income | **1,288** | 1,590 |
| Finance income, net | **238** | 452 |

## 6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current income tax | **2,354** | 1,334 |
| Deferred income tax credit | **(52)** | (130) |
| | **2,302** | 1,204 |

*Note:*

(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 as well as reviewing the business and operations of a Macao incorporated subsidiary on the basis of where its operations were carried out.

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 2012/13 on the basis of no 50:50 apportionment for 2000/01 to 2011/12 and no 100% offshore profit for 2012/13 with the amount of US$3,812,000.

In respect of the Macao incorporated subsidiary, the IRD has issued estimated assessments for the years of assessment 2005/06 to 2008/09 based on this subsidiary's profit before taxation with the amount of US$3,902,000.

These subsidiaries have lodged objection against the above assessments by the statutory deadlines and, pending settlement of the objections, they have paid a total sum of US$7,088,000 (31 December 2015: US$5,721,000) in the form of tax reserve certificates in respect of the tax in dispute as mentioned above and the amount paid was included in prepayments in the condensed consolidated statement of financial position as at 30 June 2016.

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 and for the Macao incorporated subsidiary to argue its entire profits are not subject to Hong Kong profits tax based on their business operations. Management considers adequate provision has been made as at 30 June 2016. In fact, any additional taxation claims in relation to periods prior to June 2004 will be indemnified and reimbursed entirely by certain shareholders of the Company in accordance with the deeds of the indemnity dated 27 June 2004 in connection with the group reorganization in contemplation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(ii) In prior year, an overseas tax authority performed a comprehensive assessment on an overseas incorporated subsidiary's tax position for the years ended 31 December 2011 and 2012 and issued a tax assessment to demand an additional tax payment of US$3,585,000. This subsidiary has lodged an objection letter to this overseas tax authority. Management believes that it has grounds to defend its tax position since there are various interpretations of tax rules in that country and this tax authority did not provide a clear calculation basis for the additional tax payment. As a result, no additional tax provision was made as at 30 June 2016 (31 December 2015: Nil).

Moreover, pursuant to the deeds of undertaking dated 11 March 2013 in connection with the acquisition of this subsidiary's parent company in 2013 (the "Acquisition"), any additional taxation resulting from the subsidiary in relation to periods prior to the Acquisition will be indemnified and reimbursed entirely by its former shareholders.

(iii) During the period, a PRC tax authority performed a transfer pricing audit on a PRC incorporated subsidiary's tax position for the years ended 31 December 2006 to 2014 and issued an initial tax assessment proposal with an additional tax payment of US$2,153,000. The subsidiary has lodged an objection letter to the PRC tax authority. Management believes that it has grounds to defend its tax position and negotiate with the PRC tax authority as the proposal is not regarded as a final tax assessment. Management considers the provision is adequate as at 30 June 2016.

## 7. EARNINGS PER SHARE

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 period.

### (a) Basic

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to owners of the Company | **8,362** | 7,358 |
| Weighted average number of ordinary shares in issue *(thousands)* | **1,034,113** | 1,034,113 |
| Basic earnings per share *(US cents per share)* | **0.81** | 0.71 |

### (b) Diluted

Diluted earnings per share for the six months ended 30 June 2016 and 2015 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

## 8. DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interim dividend — US0.485 cent or equivalent to HK3.76 cents (2015: US0.213 cent) per ordinary share | **5,015** | 2,203 |

The interim dividend of US0.485 cent per share (2015: US0.213 cent per share) was proposed by the Board of Directors on 29 August 2016. This condensed consolidated interim financial information does not reflect this dividend payable.

## 9. TRADE AND OTHER RECEIVABLES

| | **As at 30 June 2016** | As at 31 December 2015 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Audited) |
| Trade and bill receivables, net | **165,565** | 162,004 |
| Deposits, prepayments and other receivables | **24,033** | 19,103 |
| Amounts due from related companies | **3,305** | 2,001 |
| Amounts due from joint ventures | **27,429** | 24,328 |
| | **220,332** | 207,436 |

| | As at 30 June 2016 US$'000 (Unaudited) | As at 31 December 2015 US$'000 (Audited) |
|---|---|---|
| Trade and bill receivables | **166,101** | 164,257 |
| Less: provision for impairment | **(536)** | (2,253) |
| Trade and bill receivables, net | **165,565** | 162,004 |

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

The Group normally grants credit terms to its customers up to 120 days. The ageing analysis by due date of trade and bill receivables net of provision for impairment is as follows:

| | As at 30 June 2016 US$'000 (Unaudited) | As at 31 December 2015 US$'000 (Audited) |
|---|---|---|
| Current | **135,859** | 121,427 |
| 1 to 30 days | **15,521** | 24,945 |
| 31 to 60 days | **7,984** | 8,304 |
| 61 to 90 days | **1,517** | 1,634 |
| 91 to 120 days | **100** | 889 |
| Over 120 days | **4,584** | 4,805 |
| Amounts past due but not impaired | **29,706** | 40,577 |
| | **165,565** | 162,004 |

The impairment provision was approximately US$536,000 as at 30 June 2016 (31 December 2015: US$2,253,000). The provision made during the period has been included in general and administrative expenses in condensed consolidated income statement.

Except for an amount due from a joint venture of US$16,104,000 (31 December 2015: US$15,562,000) which is non-trade in nature and interest-bearing, amounts due from related parties and joint ventures are unsecured, interest-free, repayable on demand and of trade in nature. They are neither past due nor impaired and have no past default history.

## 10. TRADE AND OTHER PAYABLES

| | **As at 30 June 2016** *US$'000* **(Unaudited)** | As at 31 December 2015 *US$'000* (Audited) |
|---|---|---|
| Trade and bills payable | **85,400** | 94,046 |
| Other payables and accruals | **103,836** | 103,919 |
| Amounts due to related companies | **1,038** | 2,124 |
| Amounts due to joint ventures | **5,176** | 3,235 |
| | **195,450** | 203,324 |
| Less: non-current | **(804)** | (1,593) |
| Trade and other payables, current | **194,646** | 201,731 |

At 30 June 2016 and 31 December 2015, the ageing analysis of the trade and bills payable based on invoice date are as follows:

| | **As at 30 June 2016** *US$'000* **(Unaudited)** | As at 31 December 2015 *US$'000* (Audited) |
|---|---|---|
| 0 to 30 days | **77,457** | 77,666 |
| 31 to 60 days | **1,856** | 6,590 |
| 61 to 90 days | **1,675** | 2,374 |
| Over 90 days | **4,412** | 7,416 |
| | **85,400** | 94,046 |

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

## 11. OTHER RESERVES

| | **Share premium** *US$'000* **(Unaudited)** | **Capital reserve (Note (i))** *US$'000* **(Unaudited)** | **Other capital reserves (Note (ii))** *US$'000* **(Unaudited)** | **Employment benefit reserve** *US$'000* **(Unaudited)** | **Exchange reserve** *US$'000* **(Unaudited)** | **Total** *US$'000* **(Unaudited)** |
|---|---|---|---|---|---|---|
| **As at 1 January 2016** | **124,039** | **7,891** | **(4,799)** | **(40)** | **4,776** | **131,867** |
| **Currency translation differences** | **—** | **—** | **—** | **—** | **(1,120)** | **(1,120)** |
| **As at 30 June 2016** | **124,039** | **7,891** | **(4,799)** | **(40)** | **3,656** | **130,747** |
| As at 1 January 2015 | 124,039 | 11,722 | (4,799) | (717) | 5,507 | 135,752 |
| Acquisition of additional interest in a subsidiary | — | — | (3,831) | — | — | (3,831) |
| Currency translation differences | — | — | — | — | 484 | 484 |
| As at 30 June 2015 | 124,039 | 11,722 | (8,630) | (717) | 5,991 | 132,405 |

*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 Offerings ("IPO") reorganization and the nominal value of the Company's shares issued in exchange thereof.

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

## 12. COMPARATIVE FIGURES

Certain comparative figures related to rental income of US$621,000 have been reclassified from revenue to other income to conform to the current period's presentation since the rental income is not derived from the Group's principal activities. There was no impact on profit for the period and earnings per share for the period ended 30 June 2016 and 2015. Condensed consolidated statement of financial position was not affected by this reclassification and no condensed consolidated statement of financial position as at 1 January 2015 was presented.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results of Operations and Overview

During the period under review, the sluggish recovery of the world economy and the weak consumer sentiment were continuously clouded by various uncertainties, risks and threats such as terrorist acts and Brexit, hence the Group's revenue decreased by 9.2% to approximately US$473,610,000.

Despite the decrease in revenue, the overall gross profit margin of the Group improved from 15.0% to 17.1%. In line with the improvement in gross profit margin, the profit attributable to owners of the Company for the period under review also increased by approximately 13.6% to approximately US$8,362,000. These increases were mainly attributable to the improving performance of the Causal and Fashion Apparel Division.

### Segmental Review

The Apparel business and the Accessories business continued to be the main sources of the Group's revenue for the six months ended 30 June 2016, which accounted for approximately 69.4% and 28.3% respectively of the Group's total revenue for the period under review.

*Apparel Supply Chain Management Services*

The Casual and Fashion Apparel Division (including the previous Life-style Apparel Division) generated a segment profit of approximately US$9,510,000 which is an increase by approximately US$2,006,000 when compared with the last corresponding period. Such increase was mainly attributable to the improving performance of Ocean Sky Global (S) Pte. Ltd. and its subsidiaries (collectively, the "Ocean Sky Group") as a result of stringent cost controls and the reduction of non-profitable orders in Cambodia.

The Sweaters Division has reported a loss of approximately US$2,046,000 in the first half of 2016 due primarily to the seasonal nature of its business. The loss for the period represents an increase of approximately 15.1% as compared to the same period last year.

*Accessories Supply Chain Management Services*

For the first half of 2016, the Accessories Division has reported a segment profit of approximately US$6,156,000, representing an increase of approximately US$350,000 when compared to the same period last year. The increase was a net effect of improving the production efficiency of bags production in the Philippines with an offsetting effect on the start-up losses of computer bags in Cambodia.

*Real Estate*

Real Estate Division represents our real estate project jointly operated with Sunshine 100 Real Estate Group Co., Limited ("Sunshine 100") in Qingyuan, China (the "Qingyuan Project"). For the period under review, the Real Estate Division has reported a segment loss of approximately US$2,118,000, representing a decrease of approximately US$2,710,000, as compared to a segment profit of approximately US$592,000 for the same period in last year. The decline in the segment result is mainly due to the sales of the real estate units skewed towards the second half of 2016 coupled with the impact of devaluation of RMB during the period under review.

*Logistics*

The Group's freight forwarding and logistics services recorded a segment profit of approximately US$1,899,000 for the period under review, representing an increase of approximately US$414,000 over the same period in 2015.

**Markets**

Geographically, Europe and the USA remained our key export markets for the period under review despite the economic downturn in Europe. The total revenue derived from customers in Europe and the USA collectively accounted for approximately 72.1% of the Group's total revenue in the first half of 2016.

The Group's revenue from the Asia market (mainly the PRC and Japan) decreased from approximately US$90,803,000 to approximately US$68,795,000, which accounted for approximately 14.5% of the Group's total revenue in the first half of 2016.

**Acquisitions and Joint Ventures**

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

As disclosed in the Company's announcement dated 24 May 2016, the Company, through Sunny Force Limited ("Sunny Force"), a wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement ("SPA") with Smart Shirts Limited ("Smart Shirts"), Thien Nam Investment and Development Joint Stock Company ("Thien Nam") and Ms. Tran Yen Linh ("Ms. Linh"). In accordance with the SPA, Sunny Force would acquire approximately 16.66% equity interest in Thien Nam Sunrise Textile Joint Stock Company ("TNS") for the cash consideration of the VND equivalent of USD 4,500,000 based on the exchange rate (average of buy and sell rates) between USD and VND issued by the Vietcombank on the date of the SPA.

Immediately prior to the signing of the SPA, TNS was owned as to approximately 33.34%, 28.89%, 4.44%, 4.44%and 28.89% by Sunny Force, Thien Nam, Itochu Textile Prominent (Asia) Co. Ltd ("Itochu"), Ms. Linh and Smart Shirts respectively. Upon Completion, TNS will be owned as to approximately 50%, 4.44% and 45.56% by Sunny Force, Itochu and Smart Shirts respectively.

Vietnam is a member of The Association of Southeast Asian Nations (ASEAN) and fabrics made from Vietnam is considered as ASEAN Fabrics. Apparel products manufactured in certain ASEAN countries using ASEAN Fabrics are entitled to import duties saving into Japan and the European Union. The Board believes that through investment in TNS, the Group can gain not only additional market share with the ASEAN Fabrics but also enhance the Group's responsiveness to the rapid change in the operating environment. In addition, the strategic position of the Group was strengthened with such vertical setup as TNS shall provide synergistic effect with the Group's factories in Vietnam.

**Liquidity and Financial Resources**

The financial position of the Group remained healthy. As at 30 June 2016, the total cash and bank deposits of the Group amounted to approximately US$166,542,000, representing a decrease of approximately US$11,733,000 over the balance as at 31 December 2015. The Group's total bank borrowings as at 30 June 2016 was approximately US$74,674,000, representing a decrease of approximately 1.7% as compared to approximately US$75,928,000 as at 31 December 2015.

Gearing ratio is defined as net debt (representing bank borrowings net of cash and bank balances) divided by shareholders' equity. As at 30 June 2016, the Group was in a net cash position. Hence, no gearing ratio is presented.

As at 30 June 2016, based on the scheduled repayments set out in the relevant loan agreements with banks, the maturity profile of the Group's bank borrowings spreads over five years, with approximately US$38,682,000 repayable within one year, approximately US$25,189,000 in the second year, and approximately US$10,803,000 in the third to fifth year.

**Foreign Exchange Risk Management**

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

**Future Plans and Prospect**

*Trade Preference Update*

The Office of the U.S. Trade Representative ("USTR") announced a major expansion of trade preferences on 30 June 2016. According to this latest announcement of USTR, the U.S. GSP Update for Production and Diversification and Trade Enhancement Act (commonly referred to as GSP UPDATE), travel goods such as handbags, luggage, backpacks, wallets, sports and travel bags produced by the Least Developed Beneficiary Developing Countries ("LDBDCs") as well as African Growth and Opportunity Act ("AGOA") were eligible for duty free treatment for entering into the United States since 1 July 2016.

The Philippines, being one of the principal production locations of the Group, was excluded from the trade beneficiary list of the GSP UPDATE. Such unexpected exclusion has caught our customers by surprise and it also affected the Group's production plan to a certain extent in a short term. However, such exclusion has also positive effect to our Group, as the granting of GSP UPDATE to the Philippines has merely been deferred. Since then certain customers have been taking a wait-and-see attitude. As a result, the pressure from customers to move their orders to the Philippines from China was slightly relieved. In addition, the exclusion has provided the Group with a breathing space to expand and rearrange the production capacity in the Philippines.

On the other hand, Cambodia becomes the only country in Asia with duty advantage for importation of travel goods into the USA, and we believe our accessories customers may reconsider their sourcing strategies. As the Group has revamped certain of its Cambodia production capacities for the production of bags, we trust some of our accessories customers would be more willing to place orders with us in Cambodia. The Board has also committed to transform the remaining part of the original apparel manufacturing facilities in Cambodia for producing travel goods. As at the date of this announcement, certain new customers have commenced discussion with us about placing their test orders in our Cambodia production plants.

*Retail Operation*

As stated in the 2015 annual report, the Group commenced its new retail business in October 2015. A flagship store was established in Shanghai in the retailing of certain apparel and footwear products bearing a licensed trademark. This new retail business of the Group was still in a preliminary investment stage and has incurred start-up losses of approximately US$1,951,000 and the results of it are grouped under the Causal and Fashion Apparel Division. While this business is relatively immaterial to the Group at the moment, the Board expects that the new retail business arm possesses significant potential for growth in future.

*Challenging Operating Environment*

Looking forward, the operating environment of the manufacturing industry would remain tough. Most of our customers are struggling as the growth of online stores has threatened its traditional brick & mortar business model. The average selling prices of apparel and accessories products are in a decreasing trend due to the challenge arising from online shopping. Brands are under significant pressure of cost cutting as a result of this challenge from e-commerce. In order to reduce costs and inventory, brands are looking at shorter lead time and lower cost of production. As a manufacturer, investment in vertical setup, smart factory and performance fabric could be a possible solution to these challenges. The Group will persistently pursue new growth drivers through development of new customers in particular for the production of bags. As for the apparel manufacturing, the Group intends to invest in a printing factory in the Philippines which can shorten our delivery lead time and hence enhance the Group's competitiveness in certain print related apparel production.

**Contingent Liabilities**

As at 30 June 2016, the Group did not have any material contingent liabilities.

**Human Resources, Social Responsibilities and Corporate Citizenship**

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

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

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares for the period under review.

## CORPORATE GOVERNANCE PRACTICES

Throughout the six-month period ended 30 June 2016, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in the Appendix 14 of the Listing Rules. The Board Diversity Policy is published on the website of the Company for public information.

Luen Thai acknowledges the need and importance of corporate governance as one of the key elements in creating shareholders' value. It is committed to ensuring high standards of corporate governance in the interests of shareholders and taking care to identify practices designed to achieve effective oversight, transparency and ethical behavior. As at the date of this interim results announcement, the Company has formed the following committees at the Board level:

Audit Committee: The Audit Committee was set up to provide advice and recommendations to the Board. All committee members are independent non-executive Directors namely: Mr. Chan Henry, Mr. Cheung Siu Kee and Mr. Seing Nea Yie as the Committee Chairman. Each committee member possesses appropriate finance and/or industry expertise to advise the Board.

Remuneration Committee: The Remuneration Committee was set up with the responsibility of recommending to the Board the remuneration policy for all Directors and the senior management. Dr. Tan Henry and the three independent non-executive Directors of the Company namely: Mr. Chan Henry, Mr. Cheung Siu Kee, and Mr. Seing Nea Yie as the Committee Chairman, comprise the Remuneration Committee.

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

Bank Facility Committee: The Bank Facility Committee was set up in December 2005 to review and approve any banking facility of the Group, to ensure that each facility is in the best commercial interest of the Group as a whole. The Bank Facility Committee comprises two members, namely Dr. Tan Siu Lin and Dr. Tan Henry, with Dr. Tan Siu Lin as the Chairman.

Corporate governance practices of the Company during the six-month period ended 30 June 2016 are in line with those practices set out in the Corporate Governance Report in the Company's 2015 Annual Report.

## MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). After having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standards as set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 30 June 2016.

## REVIEW OF INTERIM RESULTS

The Group's unaudited interim financial information has been reviewed by the Company's audit committee. Such unaudited interim financial information has also been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2016 Interim Report.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK3.76 cents per share (2015: HK1.65 cents) for the six months ended 30 June 2016 to be payable to shareholders whose names appear on the Register of Members of the Company on 6 October 2016.

The interim dividend will be paid on or around 21 October 2016.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4 October 2016 to 6 October 2016, both days inclusive, during which period no transfer of shares will be registered. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 3 October 2016 to qualify for the interim dividend mentioned above.

## DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

Information required to be disclosed pursuant to paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk) in due course.

By order of the Board
**Tan Henry**
*Chief Executive Officer*

Hong Kong, 29 August 2016

*As at the date of this announcement, the Board comprises Dr. Tan Siu Lin, Dr. Tan Henry, Mr. Tan Cho Lung, Raymond and Ms. Mok Siu Wan, Anne as executive Directors; Mr. Tan Willie and Mr. Lu Chin Chu as non-executive Directors; Mr. Chan Henry, Mr. Cheung Siu Kee and Mr. Seing Nea Yie as independent non-executive Directors.*