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LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

GROUP FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Revenue	**378,151**	353,313
Operating profit	**13,268**	11,454
Profit attributable to owners of the Company	**9,038**	9,035
Profit margin (ratio of profit attributable to owners of the Company to revenue)	**2.4%**	2.6%
Basic earnings per share *(US cents)*	**0.87**	0.87

The board of directors (the "Board") of Luen Thai Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the six months ended 30 June 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months period ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Note	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Revenue	4	**378,151**	353,313
Cost of sales		**(325,200)**	(297,399)
Gross profit		**52,951**	55,914
Other gains — net		**2,499**	1,067
Selling and distribution expenses		**(1,278)**	(1,760)
General and administrative expenses		**(40,904)**	(43,767)
Operating profit	5	**13,268**	11,454
Finance income		**220**	205
Finance costs		**(1,446)**	(1,096)
Finance costs — net	6	**(1,226)**	(891)
Share of losses of joint ventures		**(1,409)**	(1,343)
Profit before income tax		**10,633**	9,220
Income tax expense	7	**(1,595)**	(306)
Profit for the period		**9,038**	8,914
Profit/(loss) attributable to:			
Owners of the Company		**9,038**	9,035
Non-controlling interests		**—**	(121)
		9,038	8,914
Earnings per share attributable to owners of the Company *(expressed in US cents per share)*			
Basic and diluted	8	**0.87**	0.87

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months period ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**9,038**	8,914
Other comprehensive loss		
Item that may be reclassified to profit or loss:		
Currency translation differences	**(1,731)**	(455)
Total comprehensive income for the period, net of income tax	**7,307**	8,459
Attributable to:		
— Owners of the Company	**7,307**	8,580
— Non-controlling interests	**—**	(121)
	7,307	8,459

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**As at 30 June 2018** **US$'000** **(Unaudited)**	As at 31 December 2017 *US$'000* (Audited)
ASSETS			
Non-current assets			
Land use rights		**5,154**	5,257
Property, plant and equipment		**85,294**	86,101
Intangible assets		**33,944**	34,074
Interests in joint ventures		**7,593**	9,139
Deferred income tax assets		**861**	873
Deposits, prepayments and other receivables	10	**3,678**	5,484
Total non-current assets		**136,524**	140,928
Current assets			
Inventories		**87,496**	65,490
Trade and other receivables	10	**146,699**	145,877
Prepaid income tax		**9,870**	9,421
Derivative financial instruments		**67**	—
Cash and bank balances		**60,964**	77,793
Restricted cash		**7,903**	4,668
Total current assets		**312,999**	303,249
Total assets		**449,523**	444,177
EQUITY			
Equity attributable to owners of the Company			
Share capital		**10,341**	10,341
Other reserves	12	**(503)**	1,228
Retained earnings		**180,061**	178,748
Total equity		**189,899**	190,317

	Note	As at 30 June 2018 US$'000 (Unaudited)	As at 31 December 2017 US$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		**15,300**	9,000
Other payables	11	**682**	711
Retirement benefit obligations		**11,045**	10,902
Deferred income tax liabilities		**2,182**	2,228
Total non-current liabilities		**29,209**	22,841
Current liabilities			
Trade and other payables	11	**145,219**	129,598
Borrowings		**79,748**	94,139
Derivative financial instruments		**—**	12
Current income tax liabilities		**5,448**	7,270
Total current liabilities		**230,415**	231,019
Total liabilities		**259,624**	253,860
Total equity and liabilities		**449,523**	444,177

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months period ended 30 June 2018

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the adoption of new and amended standards effective for the financial year ending 31 December 2018 as described below.

(a) 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 2018:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these new standards and the new accounting policies are disclosed in Note 3 below. Other new or amended standards did not have any material impact on the Group's accounting policies.

(b) New Standards and interpretation not yet adopted

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of US$23,017,000. The Group estimates that some of these relate to payments for short-term and low-value leases which will be recognized on a straight-line basis as an expense in the consolidated statement of profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

3. CHANGE IN ACCOUNTING POLICIES

The note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's condensed consolidated interim financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) HKFRS 9 Financial Instruments — Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in Note 3(b) below.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. All classes of financial assets and financial liabilities had the same carrying amounts in accordance with HKAS 39 and HKFRS 9 on 1 January 2018, the measurement categories of each material class of financial assets and liabilities were as follows:

	Measurement under Category under HKAS 39	**Measurement under Category under HKFRS 9**
Financial Assets		
Trade receivables	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Short-term bank deposits	Amortized cost	Amortized cost
Cash and cash equivalents	Amortized cost	Amortized cost
Financial assets at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss
Financial Liabilities		
Trade payables	Amortized cost	Amortized cost
Accruals and other payables	Amortized cost	Amortized cost
Financial liabilities at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss

(ii) Impairment of financial assets

The Group's significant financial assets which are subject to the new expected credit loss model include trade receivables and other receivables. The Group was required to revise its impairment methodology under HKFRS 9 for these classes of financial assets.

While cash and cash equivalents and short-term bank deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For other receivables, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit losses which is close to zero.

For trade receivables, the Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses 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 adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

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.

(b) HKFRS 9 Financial Instruments — Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or 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 either be recorded in profit or loss or OCI.

(ii) 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.

(iii) Impairment

The impairment of financial assets has changed from the incurred loss model under HKAS 39 to the expected credit loss model under HKFRS 9. Under the new expected loss approach, it is no longer necessary for a loss event to occur before an impairment loss is recognized. Impairment is made on the expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets. The Group assesses on a forward looking basis the expected credit losses 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 recognised from initial recognition of the receivables.

(c) HKFRS 15 Revenue from Contracts with Customers — Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies.

The adoption of HKFRS 15 does not have a material impact on the Groups' results and financial positions for the current or prior periods, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognized.

(d) HKFRS 15 Revenue from Contracts with Customers — Accounting policies applied from 1 January 2018

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 delivered 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.

A receivable is recognized when the products are delivered 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.

4. SEGMENT INFORMATION

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

The executive directors have been identified as the Group's chief operating decision-maker. The executive directors have determined the operating segments based on the information reviewed by them that are used to make strategic decisions.

Due to the continued development of the Group, management has changed certain of its internal organizational structure to align more with the Group's strategic decision and market dynamics to better serve its customers. As the executive directors no longer consider the performance of business of each type separately for the casual and fashion apparel segment and sweaters segment, these two operating segments are aggregated as "apparel", during the year ended 31 December 2017. Management considers the business from a product perspective whereby management assesses the performance of apparel and accessories separately as operating segments. Certain comparative figures 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 six months ended 30 June 2018 and 2017 is as follows:

	Apparel *US$'000* (Unaudited)	Accessories *US$'000* (Unaudited)	Total Group *US$'000* (Unaudited)
Six months ended 30 June 2018			
Total segment revenue	**238,350**	**139,801**	**378,151**
Inter-segment revenue	**—**	**—**	**—**
Revenue (from external customers)	**238,350**	**139,801**	**378,151**
Timing of revenue recognition			
At a point in time	**238,350**	**139,799**	**378,149**
Over time	**—**	**2**	**2**
	238,350	**139,801**	**378,151**
Segment profit for the period	**7,610**	**6,918**	**14,528**
Profit for the period includes:			
Depreciation and amortization	**(4,038)**	**(1,844)**	**(5,882)**
Share of losses of joint ventures	**(1,409)**	**—**	**(1,409)**
Income tax expense	**(1,314)**	**(281)**	**(1,595)**

	Apparel *US$'000* (Unaudited) (Restated)	Accessories *US$'000* (Unaudited)	Total Group *US$'000* (Unaudited)
Six months ended 30 June 2017			
Total segment revenue	250,326	102,987	353,313
Inter-segment revenue	—	—	—
Revenue (from external customers)	250,326	102,987	353,313
Timing of revenue recognition			
At a point in time	249,877	102,987	352,864
Over time	449	—	449
	250,326	102,987	353,313
Segment profit for the period	10,752	4,295	15,047
Profit for the period includes:			
Depreciation and amortization	(3,826)	(1,738)	(5,564)
Share of losses of joint ventures	(1,343)	—	(1,343)
Income tax expense	(138)	(168)	(306)

Revenues between segments are carried out in accordance with the terms mutually agreed between the respective parties and are equivalent to those that prevail in arm's length transactions. The revenue from external parties is derived from numerous external customers and the revenue reported to management is measured in a manner consistent with that in the condensed consolidated statement of profit or loss. Management assesses the performance of the operating segments based on a measure of profit before corporate expenses for the period.

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

	Six months ended 30 June	
	2018 ***US$'000*** **(Unaudited)**	2017 *US$'000* (Unaudited)
Segment profit for the period	**14,528**	15,047
Corporate expenses *(Note)*	**(5,490)**	(6,133)
Profit for the period	**9,038**	8,914

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

5. OPERATING PROFIT

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

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Amortization of land use rights	**85**	83
Amortization of intangible assets	**130**	219
Depreciation of property, plant and equipment	**5,667**	5,262
Gains on disposals of property, plant and equipment	**(143)**	(76)
Provision for impairment of receivables	**76**	42
Provision for/(reversal of) inventory obsolescence	**248**	(191)
(Reversal of)/provision for material claims	**(938)**	23

6. FINANCE COSTS — NET

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Interest expense on bank loans and overdrafts	**(1,446)**	(1,096)
Finance costs	**(1,446)**	(1,096)
Interest income from bank deposits	**152**	205
Effective interest income from amount due from a joint venture	**68**	—
Finance income	**220**	205
Finance costs — net	**(1,226)**	(891)

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Current income tax	**1,630**	306
Deferred income tax	**(35)**	—
	1,595	306

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 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 2011/12 based on this subsidiary's profit before taxation with the amount of US$11,703,000.

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$9,621,000 (31 December 2017: US$8,162,000) in the form of tax reserve certificates in respect of the tax in dispute up to and including the year of assessment 2012/13 for the Hong Kong incorporated subsidiary, and for the years of assessment 2005/06 to 2011/12 for the Macao incorporated subsidiary and the amount paid was included in prepayments in the condensed consolidated statement of financial position as at 30 June 2018.

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. 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 years and during the period, an overseas tax authority performed tax assessments on overseas incorporated subsidiaries' tax positions for the year ended 31 December 2016 and certain periods during the years ended 31 December 2014, 2015, 2016 and 2017 and issued tax assessments/revised tax assessments to demand additional tax payment of US$1,477,000. 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 is adequate as at 30 June 2018.

Moreover, pursuant to the deeds of undertaking dated 11 March 2013 in connection with the acquisition of the parent company of these subsidiaries in 2013 (the "Acquisition"), any additional taxation resulting from the subsidiaries in relation to periods prior to the Acquisition has been/will be indemnified and reimbursed entirely by their former shareholders.

(iii) In prior years and 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. During the period, the authority issued the updated adjustment notice with an additional tax payment and interest on the additional tax of US$950,000, which the Group has provided for as at 30 June 2018.

8. 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 period.

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company	**9,038**	9,035
Weighted average number of ordinary shares in issue *(thousands)*	**1,034,113**	1,034,113
Basic earnings per share *(US cents per share)*	**0.87**	0.87

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2018 and 2017 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

9. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Interim dividend — US0.262 cent or equivalent to HK2.04 cents (2017: US0.524 cent) per ordinary share	**2,709**	5,419
Special dividend paid in relation to the general offer of US9.665 cents or equivalent to HK74.9 cents per ordinary share	**—**	99,942
	2,709	105,361

The interim dividend of US0.262 cent per share (2017: US0.524 cent per share) was declared by the Board of Directors on 29 August 2018. This condensed consolidated interim financial information does not reflect this dividend payable.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 *US$'000* (Unaudited)	As at 31 December 2017 *US$'000* (Audited)
Current portion		
Trade and bills receivables — net	**116,637**	124,562
Deposits, prepayments and other receivables	**20,328**	16,015
Amounts due from related parties	**9,734**	5,300
	146,699	145,877
Non-current portion		
Prepayments for purchases of property, plant and equipment	**—**	1,433
Deposits	**1,827**	1,757
Others	**1,851**	2,294
	3,678	5,484

	As at 30 June 2018 *US$'000* (Unaudited)	As at 31 December 2017 *US$'000* (Audited)
Trade and bills receivables	**116,870**	124,796
Less: provision for impairment	**(233)**	(234)
Trade and bills receivables — net	**116,637**	124,562

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

	As at 30 June 2018 ***US$'000*** **(Unaudited)**	As at 31 December 2017 *US$'000* (Audited)
0 to 30 days	**70,252**	63,050
31 to 60 days	**28,856**	37,845
61 to 90 days	**10,470**	14,147
91 to 120 days	**4,755**	5,286
Over 120 days	**2,537**	4,468
	116,870	124,796

11. TRADE AND OTHER PAYABLES

	As at 30 June 2018 ***US$'000*** **(Unaudited)**	As at 31 December 2017 *US$'000* (Audited)
Trade and bills payable	**86,496**	60,509
Other payables and accruals	**58,103**	68,439
Amounts due to related parties	**1,302**	1,361
	145,901	130,309
Less: non-current	**(682)**	(711)
Trade and other payables, current	**145,219**	129,598

As at 30 June 2018 and 31 December 2017, the ageing analysis of the trade and bills payable based on invoice date is as follows:

	As at 30 June 2018 *US$'000* **(Unaudited)**	As at 31 December 2017 *US$'000* (Audited)
0 to 30 days	**78,696**	54,227
31 to 60 days	**4,804**	3,206
61 to 90 days	**1,708**	1,746
Over 90 days	**1,288**	1,330
	86,496	60,509

12. OTHER RESERVES

	Share premium *US$'000* (Unaudited)	**Capital reserve** *US$'000* (Unaudited)	**Other capital reserves** *US$'000* (Unaudited)	**Employment benefit reserve** *US$'000* (Unaudited)	**Exchange reserve** *US$'000* (Unaudited)	**Total** *US$'000* (Unaudited)
As at 1 January 2018	**—**	**7,891**	**(4,466)**	**1,144**	**(3,341)**	**1,228**
Currency translation differences	**—**	**—**	**—**	**(32)**	**(1,699)**	**(1,731)**
As at 30 June 2018	**—**	**7,891**	**(4,466)**	**1,112**	**(5,040)**	**(503)**
As at 1 January 2017	14,623	7,891	(4,799)	1,164	(1,730)	17,149
Special dividend paid in relation to the general offer	(14,623)	—	—	—	—	(14,623)
Currency translation differences	—	—	—	52	(507)	(455)
As at 30 June 2017	—	7,891	(4,799)	1,216	(2,237)	2,071

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations and Overview

During the six months ended 30 June 2018, the global economy continued to recover at a steady pace such as steady decline of the unemployment rate in the United States of America ("USA") and the satisfactory growth rate of gross domestic product in the People's Republic of China ("PRC"). In spite of such relatively more favourable business environment, the OEM business remained challenging.

The labour cost in the manufacturing industry kept surging, particularly more serious in Southeast Asia, it will continue to be the case with the trade disputes between the USA and the PRC and production out of China. Other than increasing labour cost, the rapid increase in material cost also continued to exert pressure on our customers and the Group. In addition, brand owners and retailers were inclined to maintain low inventory level due to the popularity of online shopping and rapid changes in consumer preference, the demand for prompt replenishment of smaller quantity of orders added severe pressure on our profit margin.

Given the implementation of various measures by the management, the Group recorded revenue amounted to approximately US$378,151,000 for the six months ended 30 June 2018, representing an increase of 7.0% compared with the previous corresponding period of US$353,313,000. The slight increase in revenue was mainly due to the considerable increase in revenue derived from the Accessories Division, which offset with the decline in sales of apparel.

For the period ended 30 June 2018, the gross profit of the Group decreased by approximately US$2,963,000 to approximately US$52,951,000. Despite the decreased in gross profit, the net profit attributable to owners of the Company increased marginally by 0.03% to US$9,038,000 due to the robust performance of the Accessories Division. Performance of the Group's business is covered in more detail under the "Segmental Review" section below.

Segmental Review

Apparel and Accessories business accounted for approximately 63.0% and 37.0% respectively of the Group's total revenue for the period under review.

Apparel

For the first half of 2018, revenue generated from the Apparel Division (including the previous Sweater Division) was approximately US$238,350,000. As compared to the corresponding period last year, it decreased by approximately US$11,976,000 or 4.8%. The Apparel Division continued to be affected by the weakening demand from its brand customers.

The segment profit of the Apparel Division amounted to US$7,610,000, representing a decrease of approximately 29.2% or US$3,142,000 as compared to the same period of 2017. Such decline was mainly attributable to the combined effects of a number of factors, including a decrease in gross profit margin and certain restructuring and reorganization for enhancement of overall cost-effectiveness and efficiency within the Apparel Division.

Accessories

Due to management's effort in seeking new customers and completion of the establishment of bag business in Cambodia, total revenue of the Accessories Division contributed to the Group during the review period increased by approximately 35.7% to approximately US$139,801,000. The Accessories Division has reported a segment profit of US$6,918,000, representing an increase of approximately US$2,623,000 when compared with corresponding period last year. The increase in segment profit was mainly due to (i) strong growth momentum of order inflows from certain existing major customers (ii) the Cambodia's production facilities was successfully revamped for bags production; and (iii) travel goods and bags manufactured in our major production facilities in the Philippines and Cambodia were able to enjoy tax exemptions under different Generalized System of Preferences ("GSP") arrangements and free trade agreements to certain countries. Details of the GSP arrangements and free trade agreements are set out in the "Trade Preference Programs and Trade War" section of this announcement.

Markets

Geographically, Europe and the USA remained our key export markets for the period under review. The total revenue derived from customers in Europe and the USA collectively accounted for approximately 73.8% of the Group's total revenue in the first half of 2018.

The Group's revenue from the Asia market (mainly the PRC and Japan) was approximately US$57,597,000, which accounted for approximately 15.2% of the Group's total revenue in the first half of 2018.

Liquidity and Financial Resource

The financial position of the Group remained healthy. As at 30 June 2018, the total cash and bank deposits of the Group amounted to approximately US$68,867,000, representing a decrease of approximately US$13,594,000 over the balance as at 31 December 2017. The Group's total bank borrowings as at 30 June 2018 was approximately US$95,048,000, representing a decrease of approximately 7.8% as compared to approximately US$103,139,000 as at 31 December 2017.

Gearing ratio is defined as net debt (representing bank borrowings net of cash and bank balances) divided by shareholders' equity. As at 30 June 2018, the gearing ratio of the Group was approximately 13.8%.

As at 30 June 2018, 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$79,748,000 repayable within one year, approximately US$1,700,000 repayable in the second year and approximately US$13,600,000 repayable in the third to fifth year.

Foreign Exchange Risk Management

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

Future Plans and Prospect

Looking forward, though the global economy is steadily improving, the road to full recovery remain difficult. The economic momentum could be derailed by the trade tensions between the USA and the PRC, the uncertainties of Brexit and the struggling North America Free Trade Agreement negotiations. Any one of the aforementioned events might take a heavy toll on economic confidence. Meanwhile, the challenges encountered by manufacturing industries in the PRC is anticipated to continue in the foreseeable future exacerbated by increasing material costs and labour costs.

The Group will stay alert of economic constraints and emerging trade barriers that may impact on its operations and its profitability. In order to enable the Group to stay agile and flexible to adapt to the ever-changing business landscape, the production capacity will continue to be deployed outside of China. At the same time, the Group will evaluate and determine if any innovative business model can be adopted in the near future.

In addition, the management believes that Accessories business is expected to be the key growth driver of the Group and will devote more resources and effort to developing this in the future. The Group will fully utilize the advantage of those trade preference schemes which enjoyed by our major production sites in Philippines and Cambodia through expansion of production capacities in these countries.

Trade Preference Programs and Trade War

Effective from July 2017, the Philippines was eligible to enjoy the duty benefit under the U.S. GSP Update for Production and Diversification and Trade Enhancement Act (commonly referred to as the GSP UPDATE). Since then, travel goods manufactured in our major production facilities in the Philippines and Cambodia can enjoy tax exemption for exportation to the USA market. In addition, bags manufactured in the Philippines and Cambodia are also entitled to export to European Union, Japan and China with zero duty under different GSP arrangements and free trade agreements.

Due to the current trade war between the USA and the PRC, brand owners are shifting production out of the PRC to evade the additional tariff and to maintain their competitiveness. Under such circumstances, more existing and new customers will incline to place more orders in our production sites in Philippines and Cambodia which can enjoy the benefit of GSP. We believe that the future prospect of the business growth in the Philippines and Cambodia is promising.

Acquisitions and Joint Ventures

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

Luen Thai will continue to look for value-enhancing acquisition and joint venture opportunities to further expand our product range, production capacity and diversify our geographical risk.

Contingent Liabilities

As at 30 June 2018, 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 and accessories manufacturing industry.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE PRACTICES

Throughout the six-month period ended 30 June 2018, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in the Appendix 14 of the Listing Rules. The Board Diversity Policy is published on the website of the Company for public information.

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

Audit Committee: The Audit Committee has been set up to provide advice and recommendations to the Board. Mr. Huang Jie 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 Audit Committee. Each committee member possesses appropriate finance and/or industry expertise to advise the Board.

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

Financing and Banking Committee: The Financing and Banking Committee was set up in September 2017 to review and approve any banking facility of the Group, and to ensure that each facility is in the best commercial interest of the Group as a whole. The Financing and Banking Committee comprises two members, namely Mr. Tan Cho Lung, Raymond and Mr. Qu Zhiming, with Mr. Tan Cho Lung, Raymond as the Committee Chairman.

Corporate governance practices of the Company during the six-month period ended 30 June 2018 were in line with those practices set out in the Corporate Governance Report in the Company's 2017 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 2018.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim financial information has been reviewed by the Company's audit committee. Such unaudited condensed consolidated interim financial information has also been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2018 Interim Report.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.04 cents per share (2017: HK4.07 cents) for the six months ended 30 June 2018 to be payable to shareholders whose names appear on the Register of Members of the Company on 5 October 2018.

The interim dividend will be paid on or around 26 October 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 3 October 2018 to 5 October 2018, 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 2 October 2018 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 Cho Lung, Raymond
Chief Executive Officer and Executive Director

Hong Kong, 29 August 2018

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