Luen Thai Holdings Limited

聯泰控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

Design | Product Development | Manufacturing | Social Compliance | Supply Chain

Interim Report 2010

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EXECUTIVE DIRECTORS

TAN Siu Lin, *Chairman*
TAN Henry, *Chief Executive Officer and President*
TAN Cho Lung Raymond
MOK Siu Wan Anne, *Chief Merchandizing Officer*
TAN Sunny, *Chief Financial Officer*

NON-EXECUTIVE DIRECTORS

TAN Willie
LU Chin Chu

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry
CHEUNG Siu Kee
SEING Nea Yie

COMPANY SECRETARY

CHIU Chi Cheung

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the interim financial information set out on pages 3 to 36, which comprises the condensed consolidated balance sheet of Luen Thai Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 August 2010

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2010

	Note	As at 30 June 2010 US$'000 (Unaudited)	As at 31 December 2009 US$'000 (Audited)
ASSETS			
Non-current assets			
Leasehold land and land use rights	5	**8,776**	8,868
Property, plant and equipment	5	**102,200**	104,970
Intangible assets	5	**65,856**	67,002
Interests in associated companies		**363**	372
Interests in jointly controlled entities		**10,070**	9,813
Deferred income tax assets		**491**	991
Other non-current assets		**4,207**	4,346
Total non-current assets		**191,963**	196,362
Current assets			
Inventories		**82,946**	62,341
Properties under development		**22,331**	20,758
Trade and bills receivables	6	**109,949**	110,001
Amounts due from related companies		**2,601**	2,702
Amounts due from associated companies and jointly controlled entities		**3,553**	5,192
Deposits, prepayments and other receivables		**22,066**	18,423
Prepaid tax		**—**	370
Pledged bank deposit		**1,346**	1,564
Cash and cash equivalents		**64,609**	107,550
Total current assets		**309,401**	328,901
Total assets		**501,364**	525,263
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	7	**9,927**	9,925
Other reserves	8	**131,972**	102,110
Retained earnings		**124,585**	122,320
		266,484	234,355
Non-controlling interests		**9,488**	21,821
Total equity		**275,972**	256,176

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2010

	Note	**As at 30 June 2010 US$'000 (Unaudited)**	As at 31 December 2009 US$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Bank borrowings	9	**25,782**	27,071
Loan from a minority shareholder of a subsidiary		**—**	3,097
Retirement benefit obligations		**2,902**	2,841
Deferred income tax liabilities		**6,815**	6,781
Consideration payable and financial liabilities	10	**—**	31,259
Total non-current liabilities		**35,499**	71,049
Current liabilities			
Trade and bills payables	11	**43,116**	50,242
Other payables and accruals		**87,081**	87,364
Amounts due to related companies		**1,886**	1,309
Amounts due to associated companies and jointly controlled entities		**973**	4,340
Borrowings	9	**48,976**	39,945
Derivative financial instruments		**746**	22
Current income tax liabilities		**7,115**	14,816
Total current liabilities		**189,893**	198,038
Total liabilities		**225,392**	269,087
Total equity and liabilities		**501,364**	525,263
Net current assets		**119,508**	130,863
Total assets less current liabilities		**311,471**	327,225

The notes on pages 10 to 36 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2010

	Note	Six months ended 30 June 2010 US$'000 (Unaudited)	2009 US$'000 (Unaudited)
Revenue	4	**335,070**	356,306
Cost of sales		**(274,029)**	(285,684)
Gross profit		**61,041**	70,622
Other losses — net	12	**(3,744)**	(60)
Selling and distribution expenses		**(7,841)**	(7,132)
General and administrative expenses		**(47,172)**	(57,238)
Operating profit	13	**2,284**	6,192
Finance income	14	**6,658**	3,286
Finance costs	14	**(768)**	(1,610)
Finance income — net	14	**5,890**	1,676
Share of losses of associated companies		**(9)**	(25)
Share of profits of jointly controlled entities		**213**	385
Profit before income tax		**8,378**	8,228
Income tax (expense)/credit	15	**(1,087)**	1,467
Profit for the period		**7,291**	9,695
Profit/(loss) attributable to:			
— equity holders of the Company		**7,501**	7,407
— non-controlling interests		**(210)**	2,288
		7,291	9,695
Earnings per share for profit attributable to the equity holders of the Company, expressed in US cents per share	16		
— basic		**0.76**	0.75
— diluted		**0.76**	0.75

The notes on pages 10 to 36 form an integral part of this condensed consolidated interim financial information.

Dividends	17	**2,253**	2,223

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Profit for the period	**7,291**	9,695
Other comprehensive income		
Currency translation differences	**102**	(470)
Total comprehensive income for the period	**7,393**	9,225
Total comprehensive income for the period attributable to:		
— equity holders of the Company	**7,475**	7,125
— non-controlling interests	**(82)**	2,100
	7,393	9,225

The notes on pages 10 to 36 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2010

	Unaudited						
	Attributable to equity holders of the Company						
	Share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2010	**9,925**	**116,998**	**(14,888)**	**122,320**	**234,355**	**21,821**	**256,176**
Profit for the period	**—**	**—**	**—**	**7,501**	**7,501**	**(210)**	**7,291**
Other comprehensive income:							
Currency translation differences	**—**	**—**	**(26)**	**—**	**(26)**	**128**	**102**
Total comprehensive income for the period ended 30 June 2010	**—**	**—**	**(26)**	**7,501**	**7,475**	**(82)**	**7,393**
Transactions with owners in their capacity as owners:							
Derecognition of financial liabilities upon termination of the put options *(Note 10)*	**—**	**—**	**27,698**	**(2,893)**	**24,805**	**—**	**24,805**
Acquisition of remaining interests in a subsidiary from a non-controlling shareholder	**—**	**—**	**2,136**	**—**	**2,136**	**(9,451)**	**(7,315)**
Exercise of share options by employees	**2**	**20**	**(6)**	**—**	**16**	**—**	**16**
Share-based payment expenses	**—**	**—**	**40**	**—**	**40**	**—**	**40**
Dividends paid	**—**	**—**	**—**	**(2,343)**	**(2,343)**	**(2,800)**	**(5,143)**
Total transactions with owners	**2**	**20**	**29,868**	**(5,236)**	**24,654**	**(12,251)**	**12,403**
Balance at 30 June 2010	**9,927**	**117,018**	**14,954**	**124,585**	**266,484**	**9,488**	**275,972**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the period ended 30 June 2010

	Unaudited						
	Attributable to equity holders of the Company						
	Share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2009	9,925	116,998	(15,658)	110,297	221,562	24,898	246,460
Profit for the period	—	—	—	7,407	7,407	2,288	9,695
Other comprehensive income:							
Currency translation differences	—	—	(282)	—	(282)	(188)	(470)
Total comprehensive income for the period ended 30 June 2009	—	—	(282)	7,407	7,125	2,100	9,225
Transactions with owners in their capacity as owners:							
Share-based payment expenses	—	—	128	—	128	—	128
Dividends paid	—	—	—	(1,439)	(1,439)	(4,000)	(5,439)
Total transactions with owners	—	—	128	(1,439)	(1,311)	(4,000)	(5,311)
Balance at 30 June 2009	9,925	116,998	(15,812)	116,265	227,376	22,998	250,374

The notes on pages 10 to 36 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Net cash (outflow)/inflow from operating activities	**(29,739)**	10,920
Net cash inflow/(outflow) from investing activities	**813**	(11,948)
Net cash outflow from financing activities	**(707)**	(13,467)
Net decrease in cash and cash equivalents	**(29,633)**	(14,495)
Cash and cash equivalents at the beginning of the period	**91,365**	106,489
Effect of foreign exchange rate changes	**(955)**	(230)
Cash and cash equivalents at end of the period	**60,777**	91,764
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**64,609**	96,776
Bank overdrafts	**(3,832)**	(1,942)
Bank deposits maturing over 3 months	**—**	(3,070)
	60,777	91,764

The notes on pages 10 to 36 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Luen Thai Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the manufacturing and trading of apparels and accessories, the provision of freight forwarding and logistics services and also the real estate development. The Group has manufacturing plants in Mainland China and the Philippines.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 5/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial information is presented in United States dollars (US$), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board of Directors on 20 August 2010.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2010 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 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES (CONTINUED)

(a) New and amended standards adopted by the Group

The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. Leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The change in accounting policy had no material impact on the Group's condensed consolidated interim financial information.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

- The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. See Note 19 for further details of transactions with non-controlling interests that were entered into in the half-year.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES (CONTINUED)

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HK(IFRIC) — Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES (CONTINUED)

(c) The following new standards, new interpretations and amendments to existing standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess HKFRS 9's full impact. The Group has not yet decided when to adopt HKFRS 9.

- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group will apply the revised HKAS 24 from 1 January 2010.

- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

- Amendments to HK(IFRIC) — Int 14, 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) — Int 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES (CONTINUED)

(c) The following new standards, new interpretations and amendments to existing standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted: (Continued)

- HK(IFRIC) — Int 19, 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

- 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters' (Amendment to HKFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted. This is not relevant to the Group, as it is an existing HKFRS preparer.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

4 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 SEGMENT INFORMATION (CONTINUED)

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.

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2010 is as follows:

	Casual and fashion apparel US$'000 (Unaudited)	Life-style apparel US$'000 (Unaudited)	Sweater US$'000 (Unaudited)	Accessories US$'000 (Unaudited)	Freight forwarding/ logistics services US$'000 (Unaudited)	Real estate US$'000 (Unaudited)	Total Group US$'000 (Unaudited)
Six months ended 30 June 2010							
Total segment revenue	239,670	86,217	35,886	60,412	8,389	–	430,574
Inter-segment revenue	(93,182)	(482)	(1,241)	(182)	(417)	–	(95,504)
Revenue (From external customers)	146,488	85,735	34,645	60,230	7,972	–	335,070
Segment profit/(loss) for the period	6,547	949	(711)	(1,748)	570	(800)	4,807
Profit/(loss) for the period includes:							
Depreciation and amortization	(5,453)	(1,213)	(412)	(2,284)	(420)	(472)	(10,254)
Share of losses of associated companies	–	–	–	–	(9)	–	(9)
Share of profits from jointly controlled entities	213	–	–	–	–	–	213
Income tax expense	(579)	(262)	(40)	(143)	(63)	–	(1,087)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 SEGMENT INFORMATION (CONTINUED)

	Casual and fashion apparel US$'000 (Unaudited)	Life-style apparel US$'000 (Unaudited)	Sweater US$'000 (Unaudited)	Accessories US$'000 (Unaudited)	Freight forwarding/ logistics services US$'000 (Unaudited)	Real estate US$'000 (Unaudited)	Total Group US$'000 (Unaudited)
Six months ended 30 June 2009							
Total segment revenue	165,904	100,713	33,101	48,805	8,103	–	356,626
Inter-segment revenue	–	–	–	–	(320)	–	(320)
Revenue (From external customers)	165,904	100,713	33,101	48,805	7,783	–	356,306
Segment profit/(loss) for the period	9,940	5,859	73	(2,325)	1,237	(507)	14,277
Profit/(loss) for the period includes:							
Depreciation and amortization	(6,472)	(1,272)	(510)	(2,776)	(446)	–	(11,476)
Share of losses from associated companies	–	–	–	–	(25)	–	(25)
Share of profits/(losses) from jointly controlled entities	401	(16)	–	–	–	–	385
Income tax (expense)/credit	(901)	2,238	(125)	(288)	543	–	1,467

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, impairment losses of property, plant and equipment, change in estimates of financial liabilities and the amortized interest costs of the financial liabilities for the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 SEGMENT INFORMATION (CONTINUED)

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

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Segment profit for the period	**4,807**	14,277
Corporate expenses	**(3,969)**	(3,808)
Impairment loss for property, plant and equipment	**—**	(3,087)
Change in estimates of financial liabilities — net	**6,453**	2,914
Interest expense on financial liabilities carried at amortized cost	**—**	(601)
Profit for the period	**7,291**	9,695

Reportable segment's assets are reconciled to total assets as at 30 June 2010 as follows:

	Casual and fashion apparel US$'000 (Unaudited)	Life-style apparel US$'000 (Unaudited)	Sweater US$'000 (Unaudited)	Accessories US$'000 (Unaudited)	Freight forwarding/ logistics services US$'000 (Unaudited)	Real estate US$'000 (Unaudited)	Total Group US$'000 (Unaudited)
As at 30 June 2010							
Segment assets	211,620	71,771	64,871	80,387	31,341	30,450	490,440
Other segment assets							
Interests in associated companies	8	–	–	–	355	–	363
Interests in jointly controlled entities	10,070	–	–	–	–	–	10,070
	221,698	71,771	64,871	80,387	31,696	30,450	500,873
Unallocated:							
Deferred income tax assets							491
Total assets per balance sheet							501,364

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 SEGMENT INFORMATION (CONTINUED)

Reportable segment's assets are reconciled to total assets as at 31 December 2009 as follows:

	Casual and fashion apparel US$'000 (Audited)	Life-style apparel US$'000 (Audited)	Sweater US$'000 (Audited)	Accessories US$'000 (Audited)	Freight forwarding/ logistics services US$'000 (Audited)	Real estate US$'000 (Audited)	Total Group US$'000 (Audited)
As at 31 December 2009							
Segment assets	231,614	81,058	54,390	86,252	29,370	31,033	513,717
Other segment assets							
Interests in associated companies	8	—	—	—	364	—	372
Interests in jointly controlled entities	9,813	—	—	—	—	—	9,813
	241,435	81,058	54,390	86,252	29,734	31,033	523,902
Unallocated:							
Deferred income tax assets							991
Prepaid tax							370
Total assets per balance sheet							525,263

Total assets are allocated based on the operations of the segments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 LEASEHOLD LAND AND LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Intangible assets					
	Goodwill US$'000 (Unaudited)	Customer relationship US$'000 (Unaudited)	Total intangible assets US$'000 (Unaudited)	Property, plant and equipment US$'000 (Unaudited)	Leasehold land and land use rights US$'000 (Unaudited)	Total US$'000 (Unaudited)
Six months ended 30 June 2010						
Opening net book amount as at 1 January 2010	**44,925**	**22,077**	**67,002**	**104,970**	**8,868**	**180,840**
Additions	**—**	**—**	**—**	**5,880**	**—**	**5,880**
Disposals	**—**	**—**	**—**	**(736)**	**—**	**(736)**
Depreciation and amortization	**—**	**(1,146)**	**(1,146)**	**(9,001)**	**(107)**	**(10,254)**
Exchange differences	**—**	**—**	**—**	**1,087**	**15**	**1,102**
Closing net book amount as at 30 June 2010	**44,925**	**20,931**	**65,856**	**102,200**	**8,776**	**176,832**
Six months ended 30 June 2009						
Opening net book amount as at 1 January 2009	44,502	24,368	68,870	117,679	10,644	197,193
Additions	—	—	—	4,123	—	4,123
Disposals	—	—	—	(744)	—	(744)
Transfer to property under development	—	—	—	—	(1,282)	(1,282)
Depreciation and amortization	—	(1,145)	(1,145)	(10,209)	(122)	(11,476)
Impairment losses of property, plant and equipment	—	—	—	(3,087)	—	(3,087)
Exchange differences	—	—	—	755	(270)	485
Closing net book amount as at 30 June 2009	44,502	23,223	67,725	108,517	8,970	185,212

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 TRADE AND BILLS RECEIVABLES

	As at 30 June 2010 US$'000 (Unaudited)	As at 31 December 2009 US$'000 (Audited)
Trade and bills receivables	**110,779**	111,322
Less: provision for impairment of receivables	**(830)**	(1,321)
Trade and bills receivables — net	**109,949**	110,001

The Group normally grants credit terms to its customers ranging from 30 to 90 days. The ageing analysis by due date of trade debtors net of provision for impairment is as follows:

	As at 30 June 2010 US$'000 (Unaudited)	As at 31 December 2009 US$'000 (Audited)
Current	**81,776**	75,905
1 to 30 days	**16,255**	23,876
31 to 60 days	**4,329**	4,218
61 to 90 days	**3,493**	2,234
Over 90 days	**4,096**	3,768
Amounts past due but not impaired	**28,173**	34,096
	109,949	110,001

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 SHARE CAPITAL

	Number of shares '000 (Unaudited)	Nominal value US$'000 (Unaudited)
Authorized — ordinary shares of US$0.01 each		
At 31 December 2009 and 30 June 2010	1,500,000	15,000
Issued and fully paid — ordinary shares of US$0.01 each		
At 1 January 2009 and 30 June 2009	992,500	9,925
At 1 January 2010	992,500	9,925
Exercise of share options by employees	166	2
At 30 June 2010	**992,666**	**9,927**

Employee share option scheme: options exercised during the period to 30 June 2010 resulted in 166,000 shares being issued (30 June 2009: Nil), with exercise proceeds of US$15,000 (30 June 2009: Nil). The related weighted average price at the time of exercise was US$0.87 (30 June 2009: US$0.46) per share.

Share option

The Company has adopted a share option scheme (the "Scheme") which is effective for a period of 10 years commencing 27 June 2004 pursuant to a written resolution of the then sole shareholder of the Company on 27 June 2004.

Under the Scheme, the Company may grant options to selected full-time employees and directors of the Company and its 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 SHARE CAPITAL (CONTINUED)

Share option (Continued)

The total number of shares in respect of which options may be granted under the 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 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.

Movements in the number of share options are as follows:

			Number of shares				
Date of grant	**Exercise period**	**Subscription price per share**	**Beginning of period '000**	**Granted '000**	**Forfeited '000**	**Exercised '000**	**End of period '000**
26 January 2006	From 26 January 2007 to 25 January 2011	HK$2.52	6,105	–	(57)	–	6,048
10 November 2006	From 10 November 2007 to 9 November 2011	HK$1.28	6,589	–	(51)	–	6,538
21 April 2008	From 21 April 2009 to 20 April 2013	HK$0.71	12,600	–	(134)	(166)	12,300
			25,294	–	(242)	(166)	24,886

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 OTHER RESERVES

	Share premium US$'000 (Unaudited)	Capital reserve (Note (i)) US$'000 (Unaudited)	Other capital reserve (Note (ii)) US$'000 (Unaudited)	Share based payment US$'000 (Unaudited)	Exchange reserve US$'000 (Unaudited)	Total US$'000 (Unaudited)
As at 1 January 2010	**116,998**	**11,722**	**(34,633)**	**1,730**	**6,293**	**102,110**
Currency translation differences	**—**	**—**	**—**	**—**	**(26)**	**(26)**
Derecognition of financial liabilities upon termination of the put options	**—**	**—**	**27,698**	**—**	**—**	**27,698**
Acquisition of remaining interests in a subsidiary from a non-controlling shareholder	**—**	**—**	**2,136**	**—**	**—**	**2,136**
Exercise of share options by employees	**20**	**—**	**—**	**(6)**	**—**	**14**
Share-based payment expenses	**—**	**—**	**—**	**40**	**—**	**40**
As at 30 June 2010	**117,018**	**11,722**	**(4,799)**	**1,764**	**6,267**	**131,972**
As at 1 January 2009	116,998	11,722	(35,572)	1,527	6,665	101,340
Currency translation differences	—	—	—	—	(282)	(282)
Share-based payment expenses	—	—	—	128	—	128
As at 30 June 2009	116,998	11,722	(35,572)	1,655	6,383	101,186

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 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 BANK BORROWINGS

	As at 30 June 2010 US$'000 (Unaudited)	As at 31 December 2009 US$'000 (Audited)
Non-current		
Bank loan	**25,782**	27,071
Current		
Bank overdrafts	**3,832**	3,623
Trust receipt bank loans	**31,719**	24,124
Short-term bank loans	**7,092**	6,010
Current portion of long-term bank loans	**6,333**	6,188
	48,976	39,945
Total borrowings	**74,758**	67,016

Movement in bank borrowings is analyzed as follows:

	Six months ended 30 June	
	2010 US$'000 (Unaudited)	2009 US$'000 (Unaudited)
At 1 January	**67,016**	83,540
Additions	**41,317**	32,983
Repayments of borrowings	**(33,575)**	(46,826)
At 30 June	**74,758**	69,697

As at 30 June 2010, certain banking facilities of the Group were secured by a personal guarantee given by a previous minority shareholder of a subsidiary.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 CONSIDERATION PAYABLE AND FINANCIAL LIABILITIES

The repayment schedule of consideration payable and financial liabilities is as follows:

	As at 30 June 2010 US$'000 (Unaudited)	As at 31 December 2009 US$'000 (Audited)
Consideration payable:		
— Within 1 year	**—**	397
Financial liabilities:		
— Within 1 year	**1,264**	1,264
— Between 2 and 5 years	**—**	33,885
	1,264	35,546
Less: Amount representing interest element	**—**	(2,626)
Present value of the consideration payable and financial liabilities	**1,264**	32,920
Less: Current portion included in other payables and accruals	**(1,264)**	(1,661)
	—	31,259

During the period, the option deeds in relation to the acquisition of the remaining equity interests in On Time International Limited ("On Time") and Trinew Limited ("Trinew") were terminated. The financial liabilities in relation to the put options granted to the vendors of On Time and Trinew were re-measured to an amount of approximately US$24,805,000 upon the termination of these options. These options were then derecognized against equity during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11 TRADE AND BILLS PAYABLES

At 30 June 2010, the ageing analysis of the trade and bills payables is as follows:

	As at 30 June 2010 US$'000 (Unaudited)	As at 31 December 2009 US$'000 (Audited)
0 to 30 days	**35,037**	41,564
31 to 60 days	**2,481**	2,010
61 to 90 days	**1,540**	1,548
Over 90 days	**4,058**	5,120
	43,116	50,242

12 OTHER LOSSES — NET

	Six months ended 30 June	
	2010 US$'000 (Unaudited)	2009 US$'000 (Unaudited)
Net fair value losses on derivative financial instruments	**(179)**	(646)
Net gains in foreign exchange forward contracts and interest rate swap	**46**	449
Net foreign exchange (losses)/gains	**(3,611)**	137
	(3,744)	(60)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 OPERATING PROFIT

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

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Amortization of leasehold land and land use rights	**107**	122
Amortization of intangible assets	**1,146**	1,145
Depreciation of property, plant and equipment	**9,001**	10,209
Reversal of impairment of receivables	**(491)**	(260)
Provision for inventory obsolescence	**125**	201
Impairment losses on property, plant and equipment	**–**	3,087
Impairment of reimbursement receivables *(Note i)*	**–**	1,780

Note:

(i) A minority shareholder of a subsidiary has indemnified the Group for the Group's share of any losses and expenses incurred by the subsidiary in connection with any taxation claim carried out before the date of acquisition of the subsidiary. In prior years, the Group has recognized reimbursement receivable of US$1,780,000 from such minority shareholder in connection with the taxation claim. During the period ended 30 June 2009, the subsidiary has derecognized the related tax provision of US$2,967,000 (see note 15(i)). In this connection, the Group wrote-off the corresponding reimbursement receivables of US$1,780,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Interest expense on bank loans and overdrafts	**(768)**	(1,009)
Interest expense on financial liabilities carried at amortized costs	**—**	(601)
Finance costs	**(768)**	(1,610)
Interest income	**205**	372
Change in estimates of financial liabilities — net *(Note)*	**6,453**	2,914
Finance income	**6,658**	3,286
Net finance income	**5,890**	1,676

Note:

The net effect of the change in estimates related to the financial liabilities in connection with the put options granted to the vendors of the non-controlling interests of certain subsidiaries, which were terminated during the period (see note 10).

Such change in estimates represented the changes in estimated final redemption amount.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 INCOME TAX EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Current income tax	**553**	2,216
Over-provision in prior years	**—**	(3,510)
Deferred income tax	**534**	(173)
	1,087	(1,467)

Notes:

(i) In prior years, certain overseas subsidiaries had made provision for tax liabilities based on their estimated taxable profits arising from their respective operating countries outside Hong Kong. The directors have undertaken a review of the Group's tax provisions as at 30 June 2009 and have determined that a provision for tax of US$3,510,000 would no longer be required and should be derecognized. Consequently, the amount of US$3,510,000 was taken to the condensed consolidated income statement for the period ended 30 June 2009.

(ii) In prior years, a Hong Kong subsidiary received notices of additional assessments/assessments from the Hong Kong Inland Revenue department (the "IRD") for the years of assessment 2000/01 to 2007/08 demanding for tax totalling US$3,843,000 in respect of certain income, which the directors have regarded as not be subject to Hong Kong Profits Tax. The directors have thoroughly revisited the situations and have concluded that the subsidiary has grounds to defend that the relevant profits are not subject to Hong Kong Profits Tax. In these circumstances, the directors have filed objections to these additional assessments/assessments and consider that sufficient tax provision has been made in the financial statements. The subsidiary company has paid the amount of US$3,453,000 in the form of Tax Reserve Certificates. The Tax Reserve Certificates amount paid was included in prepayments in the condensed consolidated balance sheet as at 30 June 2010.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

Notes: (Continued)

(iii) In prior years, two other subsidiaries were under tax audit conducted by the IRD and have received additional assessments from years of assessments 2000/01 to 2008/09, demanding tax totalling US$8,584,000. Some of these assessments are protective assessments issued before the expiry of the statutory time-barred period pending the result of the tax audit. These subsidiaries have lodged objections to these assessments. The directors consider that sufficient tax provision has been made in the condensed consolidated interim financial information in this regard.

16 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company	**7,501**	7,407
Weighted average number of ordinary shares in issue (thousands)	**992,559**	992,500
Basic earnings per share (US cents per share)	**0.76**	0.75

There was no dilutive effect on earnings per share for both the periods ended 30 June 2010 and 2009 since all outstanding share options were anti-dilutive.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 DIVIDENDS

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Interim dividend — US0.227 cent or equivalent to HK1.764 cents (2009: US0.224 cent) per ordinary share	**2,253**	2,223

The interim dividend of US0.227 cent per share (2009: US0.224 cent per share) was proposed by the Board of Directors on 20 August 2010. This condensed consolidated interim financial information does not reflect this dividend payable.

18 CAPITAL COMMITMENTS

	As at 30 June 2010	As at 31 December 2009
	US$'000	US$'000
	(Unaudited)	(Audited)
Contracted but not provided for		
— Property, plant and equipment	**89**	851
— Properties under development	**31,932**	32,441
	32,021	33,292

19 TRANSACTIONS WITH NON-CONTROLLING INTEREST

On 14 June 2010, the Group acquired the remaining 40% equity interest in Trinew at a cash consideration of US$7,315,000 from a non-controlling shareholder. The carrying amount of the non-controlling interest in Trinew at the date of acquisition was US$9,451,000. The Group has recognized the excess of non-controlling interest acquired over the acquisition cost of US$2,136,000 against equity. In addition, the call and put options that were granted in previous years in relation to the acquisition of such remaining equity interests were terminated (see note 10).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 RELATED-PARTY TRANSACTIONS

Capital Glory Limited, a company incorporated in the British Virgin Islands, owns 61.89% interest in the Company's shares. The Directors regard the ultimate holding company of the Company to be Helmsley Enterprises Limited, a company incorporated in Bahamas. The ultimate controlling party of the Group is Mr. Tan Siu Lin and his close family members.

(a) Transactions with related parties

During the period, the Group had the following significant transactions with related companies, associated companies and jointly controlled entities. Related companies are companies which are beneficially owned, or controlled, by Mr. Tan Siu Lin, Mr. Tan Henry, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny, Executive Directors of the Company, individually, jointly or collectively, or together with their close family members (collectively referred to as the "Tan's Family").

(i) Provision of goods and services

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Management fee income from		
— related companies	**83**	—
— a jointly controlled entity	**73**	239
	156	239
Commission income from related companies	**340**	945
Freight forwarding and logistics service income from		
— related companies	**199**	157
— jointly controlled entities	**125**	21
	324	178

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (Continued)

(i) Provision of goods and services (Continued)

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Rental income from related companies	**73**	84
Subcontracting income from a jointly controlled entity	**1,300**	867
Service income from related companies	**102**	—
Advance payment to		
— related companies	**86**	66
— a jointly controlled entity	**352**	—
	438	66
Recharge of material costs and other expenses from		
— related companies	**2,372**	1,279
— jointly controlled entities	**5,279**	2,152
	7,651	3,431

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (Continued)

(ii) Purchases of goods and services

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	**794**	792
Travelling related service fees charged by related companies	**85**	337
Professional and technological support service fees to related companies	**1,153**	1,144
Subcontracting fee charged by jointly controlled entities	**5,958**	1,731
Commission expense charged by jointly controlled entities	**979**	625
Recharge of material costs and other expenses		
— related companies	**299**	366
— jointly controlled entities	**2,138**	1,267
	2,437	1,633
Purchase of materials from a related company	**4,650**	1,118

The above related party transactions were carried out in accordance with the terms mutually agreed by the respective parties.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Key management compensation

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Salaries and allowances	**4,360**	4,109
Others	**500**	527
	4,860	4,636

(c) Banking facilities

As at 30 June 2010, certain banking facilities of the Group were secured by corporate guarantees given by the Company.

The Company also provided corporate guarantees to the extent of US$11,613,000, equivalent to HK$90,000,000 (2009: US$11,613,000, equivalent to HK$90,000,000) to Yuen Thai Industrial Co. Ltd., a jointly controlled entity of the Group.

(d) Amounts due from/(to) related companies, associated companies and jointly controlled entities

As at 30 June 2010, the outstanding balances with the related companies, associated companies and jointly controlled entities are unsecured, interest-free and repayable on demand.

The credit quality of these balances that are neither past due nor impaired can be assessed by reference to historical information about counter party default rates. None of them have defaults and been renegotiated in the past.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 CONTINGENT LIABILITIES AND LITIGATION

The Group is involved in various labour lawsuits and claims arising from the normal course of business. The directors believe that the Group has substantial legal and factual bases for their position and are of the opinion that losses arising from these lawsuits, if any, will not have a material adverse impact on the results of the operations or the financial position of the Group. Accordingly, no provision for such liabilities has been made in the condensed consolidated interim financial information.

22 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

(a) Details of the interim dividend proposed are given in Note 17.

(b) On 9 July 2010, the Group entered into an agreement to acquire 100% interest in Glory Silk International Limited ("Glory"), Gold Chain Enterprises Limited ("Gold") and Texcorp Investments Limited ("Texcorp") (altogether "A.M.I Group") at a cash consideration of HK$13,000,000 (equivalent to US$1,677,000) plus an amount equals to the net working capital of A.M.I Group from two parties namely Kardon International Worldwide Limited ("Kardon"), a related company and Linktop Enterprises Limited, a third party. Kardon is a company which has 42% equity interest in A.M.I Group and it is indirectly owned by Mr. Tan Siu Lin, a director of the Company. A.M.I Group is principally engaged in the manufacturing of garment and textile products in Indonesia. The Group is still in the progress of ascertaining the fair value of the assets and liabilities at the acquisition date and it is impracticable to disclose their respective amounts at the current stage.

The board of directors (the "Board" or "Directors") of Luen Thai Holdings Limited (the "Company") is pleased to present the interim report together with the unaudited condensed consolidated financial information of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the six months ended 30 June 2010. The Group's unaudited interim financial information has been reviewed by the Company's audit committee, and has also been reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations and Overview

The Group recorded revenue of approximately US$335,070,000 for the six-month period ended 30 June 2010, representing a 6.0% decrease when compared to the same period in 2009. The decrease in revenue was mainly due to the currency translation differences as a result of the depreciation of Euro and contraction in demand of certain customers.

During the period under review, the operating environment remained challenging due to the significant increase in the cotton price, the increase in the minimum wage in the mainland China and the depreciation of Euro. All of these factors have negatively impacted our profit margin for the period ended 30 June 2010. The increase in price of raw materials was evidenced by the increase in the China Cotton Index which showed a more than 30% increase in cotton price for the first six months ended 30 June 2010. The increase in minimum wage in the mainland China was approximately 20% during the second quarter of 2010 which had a direct negative hit to our gross margin. As a result, Luen Thai's overall gross profit for the six months ended 30 June 2010 decreased to approximately US$61,041,000 as compared to US$70,622,000 for the same period in 2009.

Despite this environment, the Group has continued to implement cost control initiatives as reflected by the decrease in the Group's general and administrative expenses.

The significant increase in finance income during the period under review was mainly due to the de-recognition of financial liabilities as a result of the termination of an option deed entered into with one of the Group's joint venture partners back in 2006 relating to the joint venture business in On Time International Limited, a 60%-owned subsidiary of the Group. Details of such termination of option deed were stated in the Company's announcement dated 24 May 2010. The Board believes that the cancellation of the option deed would ensure the stable management structure, which is conducive to the long term development of the joint venture business.

The profit attributable to equity holders of the Company for the six months ended 30 June 2010 showed a slight increase of 1.3% to approximately US$7,501,000 when compared to that recorded for the same period last year.

Segmental Review

Apparel and accessories businesses remain the major sources of the Group's revenue for the six months ended 30 June 2010, which accounted for approximately 97.6% of the Group's total revenue for the period.

Ladies wear business within the Casual and Fashion Apparel Division has continued to record a strong revenue and profit for the period under review. However, the decrease in segment profit of the Casual and Fashion Apparel Division was due mainly to the decrease in orders from one major customer in Japan but the management expects the order will become stable starting from the fourth quarter of 2010. The Life-style apparel business has negatively been affected by the depreciation of Euro for the period under review, resulting in a decrease in net profit for that business. The Sweater Division has reported a loss in the first half of 2010 mainly due to the increase in raw material costs which has not been able to pass to the customers.

Accessories Division has started to improve its efficiency and reduce its operating loss for the six months ended 30 June 2010 despite the increase in operating costs for the period under review.

The Real Estate Division is still in the development stage and has not recorded any revenue for the six months ended 30 June 2010.

The Group's freight forwarding and logistics services recorded a revenue of approximately US$7,972,000 for the period under review, representing an increase of 2.4% over the same period in 2009.

Markets

Geographically, Europe and the US remain our key export markets for the six-month period ended 30 June 2010. The total revenue that we generated from the Europe and US markets collectively accounted for approximately 79.8% of the Group's total revenue in the first half of 2010.

As a continued effort of diversifying our geographical reach with a particular focus on the PRC market, the Group's revenue of the PRC market increased to approximately US$21,253,000 in the first half of 2010.

Acquisitions and Joint Ventures

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

As stated in the Company's circular dated 20 May 2010, Fortune Investment Overseas Limited, a subsidiary of the Company, which owned 60% equity shares of Trinew Limited (which is the holding company of our Accessories Division), had entered into a sale and purchase agreement with Ospella International Limited, the existing joint venture partner, to acquire from it the remaining

40% shareholding interest of Trinew Limited. On 14 June 2010, the acquisition was completed and Trinew Limited has now become a wholly owned subsidiary of the Group. The management believes that the acquisition would help to streamline the operations of the Accessories Division through the implementation of the lean re-engineering strategy, which aims at cutting production costs and increasing the productivity of the Group.

As disclosed in the Company's announcement dated 9 July 2010, the Company, through its subsidiary, has entered into an agreement to acquire the entire shareholding in three target companies with operating subsidiaries in Indonesia which mainly specialize in manufacturing of sweaters and possess special manufacturing techniques for production of sweaters. The management believes that the acquisition would widen its production base outside China and would better serve the Group's customers.

Riding on the success of the acquisitions and joint ventures that we conducted in the past, the Group is committed to taking calculated risk and will continue our acquisition strategy with a view to further strengthening the Group's multi-product strategy.

Liquidity and Financial Resources

The financial position of the Group remains stable for the period under review. As at 30 June 2010, the total cash and cash equivalents of the Group approximately amounted to US$64,609,000, representing a decrease of US$42,941,000 over the balance as at 31 December 2009. The Group's total bank borrowings as at 30 June 2010 was approximately US$74,758,000, with approximately US$48,976,000 repayable within one year or on demand, approximately US$6,189,000 in the second year and approximately US$15,093,000 in the third to fifth year, and approximately US$4,500,000 over five years. As at 30 June 2010, the Group's total bank borrowing increased by 11.6% when compared to approximately US$67,016,000 at 31 December 2009.

Gearing ratio is defined as net debt (representing by bank borrowings net of cash and cash equivalents) divided by shareholders' equity. As at 30 June 2010, the gearing ratio of the Group is 0.04.

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, Chinese Yuan, and Philippine Peso. For those activities denominated in other currencies, the Group may enter into forward contracts or any other financial derivatives to hedge its receivable and payable denominated in foreign currencies to reduce the risks involved in exchange rate fluctuations.

Outlook

With the gradual stabilization of the Euro exchange rate and the cotton price, we believe the apparel market will be more stabilized in the second half of 2010.

However, the severe competition within the apparel and accessories markets will continue to dwindle the room for survival of smaller players and we shall continue to look for value-enhancing acquisition and joint venture opportunities to further expand our product range and diversify our geographical risk.

With the acquisition of the remaining shareholding interest in Trinew Limited as mentioned above, we believe that the Accessories Division would speed up the process of its customer consolidation plan which would, in turn, enhance the profitability of the Division going forward.

Contingent Liabilities and Off-Balance Sheet Obligations

The Group is involved in various labor lawsuits and claims arising from the normal course of business. The Directors believe that the Group has substantial legal and factual bases for their position and are of the opinion that losses arising from these lawsuits, if any, will not have a material adverse impact on the results of the operations or the financial position of the Group. Accordingly, no provision for such liabilities has been made in the condensed consolidated interim financial information.

Human Resources and Social Responsibilities

As at 30 June 2010, the Group has over 22,000 employees around the world. Luen Thai believes that employees are the most important and valuable asset of the Group, a critical success factor for the long-term growth and sustainability of the Group. In addition to providing a safe workplace, Luen Thai continuously strives to provide the best employee care with great emphasis on work-life balance and wellness. Luen Thai also has a long-standing commitment to diversity as demonstrated by its multi-cultural workforce. This commitment to fairness is also shown through competitive remuneration package, as well as its employee recognition and awards.

Luen Thai remains committed to corporate social responsibility by promoting transparent and ethical business practices, employee care and environment stewardship. In addition, Luen Thai rallies its employees in caring for the environment through numerous “go green” programmes and initiatives across its global operations.

OTHER INFORMATION

Interim Dividend

The Board has resolved to declare an interim dividend of 1.764 HK cents per Share (2009: 1.736 HK cents) for the six months ended 30 June 2010 to be payable to shareholders whose names appear on the Register of Members of the Company on 28 September 2010.

The interim dividend will be paid on or around 6 October 2010.

Closure of Register of Members

The Register of Members of the Company will be closed from 24 September 2010 to 28 September 2010, both days inclusive, during which period no transfer of shares will be effected. 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, Hong Kong, no later than 4:30 p.m. on 22 September 2010 in order to qualify for the interim dividend mentioned above.

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.

Share Options

A share option scheme was adopted by the sole shareholder of the Company at the general meeting held on 27 June 2004, pursuant to which options may be granted to Eligible Participants ("Eligible Participants") to subscribe for shares in the Company (the "Share Option Scheme"). The purposes of the Share Option Scheme are to recognize and acknowledge the contributions that the Eligible Participants have made or may make to the Group and provide them an opportunity to acquire proprietary interests in the Company with the view of achieving the following principal objectives:

a) motivate the Eligible Participants to optimize their performance and efficiency for the benefit of the Group; and

b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are or will be beneficial to the Group.

The Share Option Scheme will remain in force until 26 June 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.

166,000 share options granted on 21 April 2008 were exercised during the six-month period ended 30 June 2010.

The following is a summary of options outstanding as of 30 June 2010:

	Note	Date of grant (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Exercise price per share	No. of share options
TAN Henry	4	26/01/2006	26/01/2007–25/01/2011	HK$2.52	200,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	250,000
					450,000
TAN Cho Lung, Raymond	4	26/01/2006	26/01/2007–25/01/2011	HK$2.52	150,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	150,000
					300,000
MOK Siu Wan, Anne	6	26/01/2006	26/01/2007–25/01/2011	HK$2.52	500,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	700,000
		21/04/2008	21/04/2009–20/04/2013	HK$0.71	2,000,000
					3,200,000
TAN Sunny	4, 7	26/01/2006	26/01/2007–25/01/2011	HK$2.52	300,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	400,000
					700,000
TAN Willie	5	26/01/2006	26/01/2007–25/01/2011	HK$2.52	**300,000**
Other employees		26/01/2006	26/01/2007–25/01/2011	HK$2.52	4,597,500
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	5,038,000
		21/04/2008	21/04/2009–20/04/2013	HK$0.71	10,300,000
					19,935,500
Total		26/01/2006	26/01/2007–25/01/2011	HK$2.52	6,047,500
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	6,538,000
		21/04/2008	21/04/2009–20/04/2013	HK$0.71	12,300,000
					24,885,500

Notes:

1. Upon acceptance of the options, HK$10 is paid by the grantee to the Company as consideration for the grant.

2. 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.

3. Except for 66,000 and 100,000 share options granted on 21 April 2008 were exercised in April and May 2010, none of the share options granted and outstanding as at 30 June 2010 has been exercised up to the date of approval of the Company's 2010 Interim Report.

4. Mr. Tan Henry, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny are executive Directors of the Company.

5. Mr. Tan Willie is a non-executive Director of the Company and also the brother of the Directors mentioned in note 4 above.

6. Ms. Mok Siu Wan, Anne was appointed as an executive Director of the Company with effect from 3 June 2005.

7. Mr. Tan Sunny is the Chief Financial Officer of the Group and was appointed as an executive Director of the Company with effect from 26 May 2006.

Directors' and Chief Executives' Interests in Shares

As at 30 June 2010, 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 Stock Exchange pursuant to 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
TAN Siu Lin	Trustee *(Note 1)*	66,493,000	6.70%
	Interest of controlled corporation *(Note 1)*	10,000,000	1.01%
TAN Henry	Beneficiary *(Note 1)*	66,493,000	6.70%
	Beneficial owner *(Notes 3 & 4)*	450,000	0.05%
	Interest of controlled corporation *(Note 2)*	615,200,000	61.97%
TAN Cho Lung, Raymond	Beneficiary *(Note 1)*	66,493,000	6.70%
	Beneficial owner *(Notes 3, 4 & 6)*	1,550,000	0.15%
MOK Siu Wan, Anne	Beneficial owner *(Notes 3, 4 & 5)*	3,200,000	0.32%
TAN Sunny	Beneficiary *(Note 1)*	66,493,000	6.70%
	Beneficial owner *(Notes 3, 4 & 7)*	1,022,000	0.10%
TAN Willie	Beneficiary *(Note 1)*	66,493,000	6.70%
	Beneficial owner *(Note 3)*	300,000	0.03%

Notes:

1. Mr. Tan Siu Lin is the settlor and trustee of the Tan Family Trust of 2004. As the settlor and trustee of the Tan Family Trust of 2004, which is a revocable discretionary trust, Mr. Tan Siu Lin is deemed under Part XV of the SFO to be interested in the aggregate shareholdings of Tan Holdings Corporation ("Tan Holdings Corporation"), a company incorporated in Commonwealth of Northern Mariana Islands, which in turn owns directly the entire issued capital of Union Bright Limited. Union Bright Limited holds directly 60,750,000 shares of the Company (or approximately 6.12% of the issued share capital of the Company). The Tan Family Trust of 2004 also owns directly the entire issued share capital of Wincare International Company Limited, which in turn holds directly 5,743,000 shares of the Company (or approximately 0.58% of the issued share capital of the Company). Mr. Tan Siu Lin also controls and is a subscriber and founding member of Tan Siu Lin Foundation Limited, which in turn owns directly 10,000,000 shares of the Company (or approximately 1.01% of the issued share capital of the Company).

   Each of Mr. Tan Henry, Mr. Tan Willie, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny is a beneficiary of the Tan Family Trust of 2004, and each of them is deemed under Part XV of the SFO to be interested in the shareholdings of Tan Holdings Corporation, Union Bright Limited and Wincare International Company Limited.

2. Mr. Tan Henry is the beneficial owner of 3,500 issued shares (representing 70% interest) in Helmsley Enterprises Limited ("Helmsley"), a company incorporated in the Commonwealth of the Bahamas. Helmsley wholly owns Capital Glory Limited, which in turn owns 614,250,000 shares, or approximately 61.88% interest in the issued share capital of the Company. Mr. Tan Henry also controls and has the interest in Double Joy Investment Limited, a company incorporated in the British Virgin Islands which directly owns 950,000 shares of the Company (or approximately 0.09% of the issued share capital of the Company).

3. Each of Mr. Tan Henry, Mr. Tan Willie, Mr. Tan Cho Lung, Raymond, Ms. Mok Siu Wan Anne and Mr. Tan Sunny is a grantee of the share options granted by the Company on 26 January 2006.

4. Each of Mr. Tan Henry, Mr. Tan Cho Lung, Raymond, Ms. Mok Siu Wan Anne and Mr. Tan Sunny is a grantee of the share options granted by the Company on 10 November 2006.

5. Ms. Mok Siu Wan, Anne is a grantee of the share options granted by the Company on 21 April 2008.

6. A total of 1,250,000 shares of the Company were acquired by an associate of Mr. Tan Cho Lung, Raymond in 2006, 2008 and 2009. He is therefore deemed under Part XV of the SFO to be interested in all of the 1,250,000 shares acquired by his associate.

7. Mr. Tan Sunny acquired a total of 322,000 shares of the Company in 2006.

Substantial Shareholders

As at 30 June 2010, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interests disclosed in "Directors' and Chief Executives' Interests in Shares", the following shareholders had notified the Company of their relevant interests in the shares of the Company.

Long position in the Shares

Name of shareholder	Notes	Capacity	No. of ordinary Shares beneficially held	Approximate percentage of interests in the Company
Capital Glory Limited	(a)	Beneficial owner	614,250,000	61.88%
Helmsley	(a)	Interest of controlled corporation	614,250,000	61.88%
Tan Family Trust of 2004	(b)	Interest of controlled corporation	66,493,000	6.70%
Pou Chen Corporation		Interest of controlled corporation	89,100,000	8.98%
Wealthplus Holdings Limited		Interest of controlled corporation	89,100,000	8.98%
Yue Yuen Industrial (Holdings) Limited		Interest of controlled corporation	89,100,000	8.98%
Pou Hing Industrial Co. Ltd.		Interest of controlled corporation	89,100,000	8.98%
Great Pacific Investments Limited		Beneficial Owner	89,100,000	8.98%
Tan Holdings Corporation		Interest of controlled corporation	60,750,000	6.12%
Union Bright Limited		Beneficial owner	60,750,000	6.12%

Notes:

(a) Capital Glory Limited ("Capital Glory"), a company incorporated in the British Virgin Islands ("BVI") with limited liability, is a wholly owned subsidiary of Helmsley. Helmsley is therefore deemed to be interested in the interests of Capital Glory held in the Company.

(b) The Tan Family Trust of 2004 was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin and his family members. The Tan Family Trust of 2004 owns directly the entire issued share capital of Tan Holdings Corporation, and Tan Holdings Corporation in turn owns directly the entire issued share capital of Union Bright Limited. Union Bright Limited directly holds 60,750,000 Shares (or approximately 6.12% of the issued share capital of the Company). The Tan Family Trust of 2004 also owns directly the entire issued share capital of Wincare International Company Limited ("Wincare"), which in turn holds directly 5,743,000 Shares (or approximately 0.58% of the issued share capital of the Company). For the purposes of Part XV of the SFO, the Tan Family Trust of 2004 is deemed to be interested in the Shares of the Company held by Tan Holdings Corporation and Wincare respectively.

As the trustee of the Tan Family Trust of 2004, which is a revocable discretionary trust, Mr. Tan Siu Lin is deemed under Part XV of the SFO to be interested in the aggregate Shares of the Company held by Tan Holdings Corporation and Wincare International Company Limited, representing approximately 6.7% of the issued share capital of the Company.

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 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 will be interested in 10% or more of the nominal values of any class of share capital carrying rights to vote in all circumstances at general meetings or any other members of the Group.

Corporate Governance Practices

Throughout the period ended 30 June 2010, the Company has been in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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 takes care to identify practices designed to achieve effective oversight, transparency and ethical behavior. As at the date of this report, 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. Mr. 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.

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. Mr. Tan Siu Lin, Mr. Tan Henry and Mr. Tan Sunny comprise the Bank Facility Committee.

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has discussed with the management the auditing, internal control and financial reporting matters including the review of the unaudited interim financial information.

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 (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 its code of conduct regarding securities transactions by Directors during the six months ended 30 June 2010.

Disclosure of Information on the Company and the Stock Exchange’s Website

This interim report will be published on the websites of the Company (http://www.luenthai.com) and the Stock Exchange (http://www.hkex.com.hk).

By order of the Board
Tan Henry
Chief Executive Officer and President

Hong Kong, 20 August 2010