



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

*I*nterim  
*R*eport 2006

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### Executive Directors

TAN Siu Lin, *Chairman*

TAN Henry, *Chief Executive Officer and President*

TAN Cho Lung Raymond, *Executive Vice President*

MOK Siu Wan Anne, *Executive Vice President*

TAN Sunny, *Chief Financial Officer*

### Non-executive Director

TAN Willie

### Independent Non-executive Directors

CHAN Henry

CHEUNG Siu Kee

SEING Nea Yie

### Qualified Accountant and Company Secretary

CHIU Chi Cheung

The board of directors (the "Board") of Luen Thai Holdings Limited (the "Company") is pleased to present the interim report together with the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the six months ended 30 June 2006. 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 Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

## MANAGEMENT DISCUSSION & ANALYSIS

### Results of Operations and Overview

The first few months of 2006 still brought some challenges not only to the Group but also to the whole apparel industry, an upshot from the trade disputes between China and the United States resulting from the reinstatement of quota in certain product categories, which was only settled at the end of 2005. Those challenges plus the unexpected high prices of quota in the first half of the year required the Group to continue effecting certain adjustments in its production plans, which inevitably affected our operational efficiency. We had to incur additional logistics and labor costs in order to meet production deadlines that caused our margins to adjust downward. The Group is currently in the process of re-balancing its production base and rationalizing its product categories and customers to further improve its operational efficiency.

Luen Thai's core business remains intact despite the challenges that we had to overcome from uncertainties brought about by changes in trade regulations. For the six months ended 30 June 2006, the Group recorded a turnover of approximately US\$275 million, representing an increase of 2.9 % compared to the corresponding period last year, resulting from the proportionate 3.0% increase in apparel turnover.

We have again increased our business in Europe and in Japan by approximately US\$6.2 million or 20.1% and US\$7.8 million or 28.6%, respectively, which is still significant compared to approximately US\$10.2 million and US\$2.5 million increase in the same period of 2005. This supports the Group's multi-country, multi-product strategy that is expected to continue to help insulate it from other uncertainties that may result from possible anti-surge measures and other trade regulations of major markets.

During the period under review, gross margin recorded a slight increase of 0.2% point to 20.7% whereas the operating margin decreased from 5.6% to 3.1% when compared to the same period last year. The Group's selling and distribution expenses increased by 76.5% or approximately US\$3.3 million during the first six months of 2006, mainly due to the increase in freight costs. General and administrative expenses also increased by 12.7% or approximately US\$4.7 million over the same period last year as a result of the expansion and acquisition.

The profit attributable to equity holders of the Company for the six months ended 30 June 2006 therefore suffered a decline of 50.9% to approximately US\$6.1 million when compared to that recorded for the same period last year.

The increase in effective tax rate is mainly due to the decrease in derecognition of certain tax provision as compared to the same period last year.

## Apparel Operations

The first half of 2006 showed continued growth in the apparel business of the Group. We have been successful in enhancing our business in Europe and in Japan, as shown by the significant increase in sales this year, thereby reducing the Group's reliance in the US market and would enable us to effectively sustain mitigation of geographical risks. During the period under review, casual wear division was faced with operational challenges resulting from the trade disputes and structural changes on the global apparel trade regulations. On the other hand, sleepwear/fashion division performed very well continuing its success from 2005. Also, Partner Joy Group Limited ("Partner Joy"), in which we acquired 71% interests in 2005, has been operating well and developing some cross-selling opportunities in accordance with the Group's expectations. Partner Joy is principally engaged in manufacturing and trading of sweaters through its three wholly owned subsidiaries in Hong Kong.

Moreover, to further enhance Luen Thai's design capabilities and expand our European business to further consolidate our industry leadership, the Group entered into an agreement in March 2006 to acquire 50% stake in On Time International Limited ("On Time"), which is principally engaged in the design, sourcing and distribution on a worldwide basis of garments and other textile products.

In Cebu, Philippines, our newly acquired facility through a joint venture company, Yuenthai Philippines, Inc., has completed its renovation and started to operate also in March 2006. This expands our active wear operations and would reinforce our market reach in the US, Europe and Japan.

In Dongguan, China, where our first supply chain city is located, a development center for On Time was recently set up. Also, we have opened another 32,000-square-meter building in the same location, which is all set to accommodate the projected growth of our China production starting with the ladies' suits and fashion wear. It will house certain subsidiaries' offices and technical center as well.

These developments confirm our capability for multi-product development and manufacturing, as well as delivery of fashion-forward goods to customers. We will remain competitive through rebalancing our production facilities and rationalizing our product categories and customers.

## Logistics and Freight Forwarding Operations

For the six months ended 30 June 2006, the logistics division recorded a turnover of US\$6.0 million representing a 1.4% decrease from US\$6.1 million for the same period last year. The Management expects the logistics division to improve its operations in the second half of 2006.

The opening of our distribution centre in Los Angeles in 2004 has indeed enhanced the Group's capability to provide better logistics services and has been showing positive impact in the overall operation of the logistics division.

## Liquidity and Financial Resources

The financial position of the Group remains strong. As at 30 June 2006, the Group's total cash and cash equivalents approximately amounts to US\$104.6 million, an increase of US\$24.6 million over the balance as at 31 December 2005.

Gearing ratio is defined as net debt (representing by bank borrowings net of cash and bank balances) divided by shareholders' funds. As at 30 June 2006, the Group is in a net cash position and hence no gearing ratio is presented.

As at 30 June 2006, the maturity profile of the Group's bank borrowings spread over ten years with approximately US\$60.9 million repayable within one to five years and US\$22.5 million repayable over five years.

## Foreign Exchange Risk Management

The Group adopts a prudent policy to hedge the fluctuation of exchange rates. Most of the Group's operating activities are denominated in US dollars and Hong Kong dollars. For those activities denominated in other currencies, the Group may enter into forward contracts with large and reputable financial institutions to hedge its receivable and payable denominated in foreign currencies to reduce the risks involved in exchange rate fluctuations. As at 30 June 2006, the Group has no outstanding foreign currency exchange contract.

## Acquisitions and Joint Ventures

Acquisitions and joint ventures remain an important part of the Group's growth strategy, with the proven success of certain acquisitions and joint ventures particularly in the past three years, allowing the Group to expand into other apparel product categories such as sleepwear, ladies career wear, active wear and sweaters, which accordingly increased the Group's market share in the apparel business.

In January 2006, Luen Thai entered into a 50%-50% joint venture agreement with Guangdong Foreign Trade Group Co., Ltd., to establish Shenzhen Guangthai International Co. Ltd., which is expected to give Luen Thai a strong outsourcing platform in various products in China.

In March 2006, Luen Thai entered into an agreement to acquire 50% stake in On Time, which is expected to further enhance Luen Thai's design capabilities, which along with its production scale, will speed up turnaround times and bring in more European business to the Group.

Acquisitions and joint ventures are one of Luen Thai's core competencies considering our scale, management and strong customer relationships. We will continue to capitalize on these to become one of the major consolidators and beneficiaries in the "quota-free" era in the apparel industry. The Group is currently in different stages of negotiation on acquisitions and joint ventures opportunities.

## Future Plans and Prospects

Looking ahead, we expect our business to improve as order flow has started to stabilize due to effective enforcement of trade agreements between major markets and with the implementation of China's quota allocation system. The stabilization of order flow will eventually increase our operational efficiency. Furthermore, we expect to gain on the current developments in the apparel industry on the strength of our product innovation capabilities and value-added services from design support, fabric development to logistics services.

Along with our organic growth, the Group will continue to expand through acquisitions and joint ventures where we would balance our portfolio globally on customers/markets, product categories and countries of production. We expect the Group to benefit from its post-acquisition synergies, which are consistent with the Group's multi-country and multi-product strategy. With newly acquired companies such as Partner Joy and On Time, Luen Thai will further expand through outsourcing, in addition to internal capacity expansion.

Operation of diversified manufacturing base in different countries is still important in servicing our customers in view of possible regulatory measures against China. However, as we recognize the importance of quality and lead-time to our customers, we expect our China operations to continue to play an important role in providing customer satisfaction. We believe that it has the required efficiency that will continue to aid Luen Thai's global competitiveness.

## Contingent Liabilities and Off-Balance Sheet Obligations

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.

## Human Resources and Social Responsibilities

Luen Thai has a current manpower of approximately 25,000 located in various locations worldwide. A professional and multicultural management team whose specialties have been honed in the industry manages the operation of the Group. This executive and management team complements the Group's strategic objectives, business model and corporate values. As part of our commitment to being a learning organization, Luen Thai set up technical training schools to support its expansion of facilities. The schools train new hires in basic sewing machine operations and aid existing operators in learning new methods for diversified product ranges. We also conduct supervisory and management training for supervisors and managers to assist them in realizing their leadership and management potentials. The Group offers its staff competitive remuneration schemes. In addition, share options are granted to eligible employees as incentive for their contribution to the Group.

## 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 securities during 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.

The following is a summary of options granted, lapsed and outstanding during the period ended 30 June 2006:

Notes	Date of grant (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Exercise price per share	As at 1 January 2006	No. of Share Options			As at 30 June 2006	
					Granted	Exercised	Lapsed		
TAN Henry	3	28/12/2004	28/12/2004- 27/12/2007	HK\$4.10	200,000	-	-	-	200,000
		26/01/2006	26/01/2007- 25/01/2011	HK\$2.52	-	200,000	-	-	200,000
					200,000	200,000	-	-	400,000
TAN Cho Lung, Raymond	3	28/12/2004	28/12/2004- 27/12/2007	HK\$4.10	150,000	-	-	-	150,000
		26/01/2006	26/01/2007- 25/01/2011	HK\$2.52	-	150,000	-	-	150,000
					150,000	150,000	-	-	300,000
MOK Siu Wan, Anne	3	28/12/2004	28/12/2004- 27/12/2007	HK\$4.10	250,000	-	-	-	250,000
		26/01/2006	26/01/2007- 25/01/2011	HK\$2.52	-	500,000	-	-	500,000
					250,000	500,000	-	-	750,000
TAN Sunny	3,4	28/12/2004	28/12/2004- 27/12/2007	HK\$4.10	150,000	-	-	-	150,000
		26/01/2006	26/01/2007- 25/01/2011	HK\$2.52	-	300,000	-	-	300,000
					150,000	300,000	-	-	450,000
TAN Willie	5	28/12/2004	28/12/2004- 27/12/2007	HK\$4.10	200,000	-	-	-	200,000
		26/01/2006	26/01/2007- 25/01/2011	HK\$2.52	-	300,000	-	-	300,000
					200,000	300,000	-	-	500,000
TAN Cho Yee, Jerry	6	28/12/2004	28/12/2004- 27/12/2007	HK\$4.10	150,000	-	-	-	150,000
		26/01/2006	26/01/2007- 25/01/2011	HK\$2.52	-	150,000	-	-	150,000
					150,000	150,000	-	-	300,000

	Note	Date of grant (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Exercise price per share	As at 1 January 2006	No. of Share Options			As at 30 June 2006
						Granted	Exercised	Lapsed	
CHIU George	7	28/12/2004	28/12/2004-27/12/2007	HK\$4.10	200,000	-	-	-	200,000
		26/01/2006	26/01/2007-25/01/2011	HK\$2.52	-	200,000	-	-	200,000
					200,000	200,000	-	-	400,000
TAN Jeffrey	8	28/12/2004	28/12/2004-27/12/2007	HK\$4.10	50,000	-	-	-	50,000
		26/01/2006	26/01/2007-25/01/2011	HK\$2.52	-	150,000	-	-	150,000
					50,000	150,000	-	-	200,000
TAN Jason	8	28/12/2004	28/12/2004-27/12/2007	HK\$4.10	100,000	-	-	-	100,000
		26/01/2006	26/01/2007-25/01/2011	HK\$2.52	-	200,000	-	-	200,000
					100,000	200,000	-	-	300,000
Other employees		28/12/2004	28/12/2004-27/12/2007	HK\$4.10	6,306,500	-	-	136,500	6,170,000
		26/01/2006	26/01/2007-25/01/2011	HK\$2.52	-	6,560,000	-	290,000	6,270,000
					6,306,500	6,560,000	-	426,500	12,440,000
					<b>7,756,500</b>	<b>8,710,000</b>	<b>-</b>	<b>426,500</b>	<b>16,040,000</b>

## Notes:

1. Upon acceptance of the options, HK\$10 is paid by the grantee to the Company by way of 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. Mr. Tan Henry, Mr. Tan Cho Lung, Raymond, Ms. Mok Siu Wan, Anne and Mr. Tan Sunny are executive Directors of the Company.
4. Mr. Tan Sunny was appointed as an executive Director of the Company with effect from 26 May 2006.
5. Mr. Tan Willie was previously appointed as an executive Director of the Company and was then re-designated as a non-executive Director with effect from 26 May 2006.
6. Mr. Tan Cho Yee, Jerry is the Chief Executive Officer of CTSI Logistics and the brother of Mr. Tan Henry, Mr. Tan Willie, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny.
7. Mr. Chiu George is the brother-in-law of Mr. Tan Henry.
8. Mr. Tan Jeffrey and Mr. Tan Jason are the sons of Mr. Tan Henry, the Group Chief Executive Officer, and are also employees of the Group.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2006, the interests of the Directors and chief executives of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

### Long position in the Shares

Name of Director	Capacity	No. of Shares	Percentage of interests in the Company
TAN Siu Lin	Trustee ( <i>Note 1</i> )	675,998,000	68.11%
TAN Henry	Beneficiary ( <i>Notes 2, 3 &amp; 7</i> )	614,650,000	61.93%
TAN Cho Lung, Raymond	Beneficiary ( <i>Notes 2, 5 &amp; 7</i> )	614,550,000	61.92%
MOK Siu Wan, Anne	Beneficial owner ( <i>Note 7</i> )	750,000	0.08%
TAN Sunny	Beneficiary ( <i>Notes 2, 6 &amp; 7</i> )	614,968,000	61.96%
TAN Willie	Beneficiary ( <i>Notes 2, 4 &amp; 7</i> )	615,250,000	61.99%

#### Notes:

1. Mr. Tan Siu Lin is the settlor and trustee of each of the Tan Family Trust of 2004, the Pak Kim Lam Tan Trust of 2004, the HJ Trust, the WR5C Trust, the LS Trust, the RC Trust, the JL Trust and the ST Trust (collectively referred to as the "Trusts"). As the settlor and trustee of the Trusts, all of which are revocable discretionary trusts, 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 and Helmsley Enterprises Limited ("Helmsley"), a company incorporated in the Commonwealth of the Bahamas, held in the Company, representing 68.11% of the issued share capital of the Company.
2. Pursuant to a shareholders' agreement dated 12 June 2004 and entered into between Mr. Tan Siu Lin as trustee for each of the Trusts and Helmsley, each of the Trusts has agreed to adhere to certain pre-emptive arrangements concerning the transfer of shares in Helmsley. For the purposes of Part XV of the SFO, each of the Trusts is therefore deemed to have effective voting power in respect of the interests in Helmsley in the Company.
3. Mr. Tan Henry is one of the beneficiaries of the HJ Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the HJ Trust in the Company.
4. Mr. Tan Willie is one of the beneficiaries of the WR5C Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of WR5C Trust in the Company.

5. Mr. Tan Cho Lung, Raymond is one of the beneficiaries of the RC Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the RC Trust in the Company.
6. Mr. Tan Sunny is one of the beneficiaries of the ST Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the ST Trust in the Company.
7. On 28 December 2004 and 26 January 2006, respectively, each of the executive Directors was granted share options in the Company ("Share Options"), which were more particularly described in pages 7 and 8 of this report. As of the date of this report, none of the subject Share Options has been exercised.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, 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 issued capital 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	61.89%
Helmley	(a)	Interest of controlled corporation	614,250,000	61.89%
Tan Family Trust of 2004	(b), (c)	Interest of controlled corporation	675,998,000	68.11%
Trusts (other than the Tan Family Trust of 2004)	(c)	Interest of controlled corporation	614,250,000	61.89%
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%

Name of shareholder	Capacity	No. of ordinary shares beneficially held	Approximate percentage of interests in the Company
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%
	Beneficial owner	998,000	0.10%
Union Bright Limited	Beneficial owner	60,750,000	6.12%
T. Rowe Price Associates, Inc. and its affiliates	Beneficial owner	59,992,000	6.04%
JPMorgan Chase & Co.	Beneficial owner	59,022,000	5.95%

*Notes:*

- (a) Capital Glory Limited (“Capital Glory”), a company incorporated in the British Virgin Islands 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 is interested in the entire issued share capital of Tan Holdings Corporation and 30% of the issued share capital of Helmsley. For the purposes of Part XV of the SFO, it is deemed to be interested in the shares held by both Tan Holdings Corporation and Helmsley.
- (c) The Trusts (Other than the Tan Family Trust of 2004) comprise the following:
  - (i) The Pak Kim Lam Tan Trust of 2004 was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan and their family members.
  - (ii) The HJ Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Henry and the family members of Mr. Tan Henry.
  - (iii) The WR5C Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Willie and the family members of Mr. Tan Willie.

- (iv) The LS Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mrs. Lily Tan Chou and the family members of Mrs. Lily Tan Chou.
- (v) The RC Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Cho Lung, Raymond and the family members of Mr. Tan Cho Lung, Raymond.
- (vi) The JL Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Cho Yee, Jerry and the family members of Mr. Tan Cho Yee, Jerry.
- (vii) The ST Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Sunny and the family members of Mr. Tan Sunny.

As the trustee of the Tan Family Trust of 2004 and the Trusts (other than the Tan Family Trust of 2004), collectively known as the "Trusts", all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under Part XV of the SFO to own in the aggregate shareholdings of Tan Holdings Corporation and Helmsley held in the Company, representing 68.11% 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

Throughout the period ended 30 June 2006, 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. 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 2006.

## 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, 21 September 2006

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

		As at 30 June 2006 US\$'000 (Unaudited)	As at 31 December 2005 US\$'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
	5	4,676	4,727
Leasehold land and land use rights			
Property, plant and equipment	5	87,691	84,309
Intangible assets	5	23,977	21,852
Interests in associated companies		297	231
Interests in jointly controlled entities	18	29,263	2,560
Deferred tax assets		820	792
Other non-current assets		4,978	4,558
<b>Total non-current assets</b>		<b>151,702</b>	119,029
<b>Current assets</b>			
Inventories		85,162	64,783
Trade receivables	6	76,415	71,318
Deposits, prepayments and other receivables		10,955	6,934
Amounts due from related companies		1,936	3,273
Amounts due from jointly controlled entities and associated companies		3,728	2,045
Cash and cash equivalents		115,882	148,038
<b>Total current assets</b>		<b>294,078</b>	296,391
<b>Total assets</b>		<b>445,780</b>	415,420
<b>EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	7	9,925	9,925
Other reserves	8	118,264	117,726
Retained earnings	8	95,661	91,063
		<b>223,850</b>	218,714
<b>Minority interest</b>		<b>5,263</b>	5,290
<b>Total equity</b>		<b>229,113</b>	224,004

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

	As at 30 June 2006 US\$'000 (Unaudited)	As at 31 December 2005 US\$'000 (Audited)
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Bank borrowings	9 <b>40,500</b>	386
Retirement benefit obligations	<b>2,330</b>	2,041
Deferred income tax liabilities	<b>555</b>	401
Other long-term liabilities	<b>6,460</b>	10,296
<b>Total non-current liabilities</b>	<b>49,845</b>	13,124
<b>Current liabilities</b>		
Trade and bills payables	10 <b>41,003</b>	31,558
Other payables and accruals	<b>79,625</b>	58,068
Amounts due to related companies	<b>427</b>	2,775
Amounts due to jointly controlled entities and associated companies	<b>223</b>	–
Bank borrowings	9 <b>42,947</b>	83,301
Current income tax liabilities	<b>2,597</b>	2,590
<b>Total current liabilities</b>	<b>166,822</b>	178,292
<b>Total liabilities</b>	<b>216,667</b>	191,416
<b>Total equity and liabilities</b>	<b>445,780</b>	415,420
<b>Net current assets</b>	<b>127,256</b>	118,099
<b>Total assets less current liabilities</b>	<b>278,958</b>	237,128

The notes on pages 19 to 40 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

Six months ended 30 June

	Note	2006 US\$'000 (Unaudited)	2005 US\$'000 (Unaudited)
Sales	4	275,309	267,484
Cost of goods sold		(218,284)	(212,738)
Gross profit		57,025	54,746
Other gain (net)	11	1,093	1,833
Selling and distribution expenses		(7,611)	(4,312)
General and administrative expenses		(41,945)	(37,234)
Operating profit		8,562	15,033
Interest income		1,409	850
Finance costs	12	(3,162)	(1,396)
Share of profit/(loss) of associated companies		64	(1,745)
Share of (loss)/profit of jointly controlled entities		(348)	31
Profit before income tax	13	6,525	12,773
Income tax expense	14	(406)	(88)
Profit for the period		6,119	12,685
Attributable to:			
Equity holders of the Company		6,146	12,505
Minority interest		(27)	180
		6,119	12,685
Earnings per share for profit attributable to the equity holders of the Company, expressed in US cents per share	15		
– Basic		0.62	1.28
– Diluted		0.62	1.28
Dividends	16	1,846	2,422

The notes on pages 19 to 40 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to equity holders of the Company					
	Share Capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Other reserves <i>US\$'000</i>	Retained earnings <i>US\$'000</i>	Minority interest <i>US\$'000</i>	Total <i>US\$'000</i>
Balance at 1 January 2005	9,023	71,686	8,113	85,406	298	174,526
Currency translation differences	-	-	89	-	-	89
Profit for the period	-	-	-	12,505	180	12,685
Total recognized income for the six months ended 30 June 2005	-	-	89	12,505	180	12,774
Issuance of new shares	902	45,312	-	-	-	46,214
Dividends paid	-	-	-	(5,163)	-	(5,163)
Recognition of financial liabilities arisen from acquisition of a subsidiary	-	-	(5,536)	-	-	(5,536)
Minority interest – Business combinations	-	-	-	-	3,732	3,732
Balance at 30 June 2005	9,925	116,998	2,666	92,748	4,210	226,547
Balance at 1 January 2006	<b>9,925</b>	<b>116,998</b>	<b>728</b>	<b>91,063</b>	<b>5,290</b>	<b>224,004</b>
Currency translation differences	-	-	317	-	-	317
Profit for the period	-	-	-	6,146	(27)	6,119
Total recognized income for the six months ended 30 June 2006	-	-	317	6,146	(27)	6,436
Share based compensation expenses	-	-	221	-	-	221
Dividends paid	-	-	-	(1,548)	-	(1,548)
Balance at 30 June 2006	<b>9,925</b>	<b>116,998</b>	<b>1,266</b>	<b>95,661</b>	<b>5,263</b>	<b>229,113</b>

The notes on pages 19 to 40 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Six months ended 30 June	
	2006 US\$'000 (Unaudited)	2005 US\$'000 (Unaudited)
Net cash (outflow)/inflow from operating activities	<b>(1,879)</b>	16,454
Net cash inflow/(outflow) from investing activities	<b>26,149</b>	(18,009)
Net cash inflow from financing activities	<b>74</b>	56,353
Net increase in cash and cash equivalents	<b>24,344</b>	54,798
Cash and cash equivalents of 1 January	<b>80,003</b>	46,204
Effect of foreign exchange rate changes	<b>267</b>	284
Cash and cash equivalents at 30 June	<b>104,614</b>	101,286
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>115,882</b>	108,080
Bank overdrafts	<b>(11,268)</b>	(6,794)
	<b>104,614</b>	101,286

The notes on pages 19 to 40 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") is principally engaged in the manufacturing and trading of garment and textile products, apparel manufacturing and the provision of freight forwarding and logistics services. During the period, the Group entered into a sale and purchase agreement for the acquisition of 50% equity interest in On Time International Limited ("On Time"), a company incorporated in the British Virgin Islands (the "BVI"). On Time is principally engaged in the design, sourcing and distribution of garments and other textile products.

The Company is a limited liability company incorporated in the Cayman Islands. Its principal place of business is at 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.

This condensed consolidated interim financial information is presented in thousands of units of United States dollars (US\$'000) unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 21 September 2006.

## 2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2006 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 2005.

## 3. Accounting policies

The accounting policies adopted are consistent with those of and as described in the annual financial statements for the year ended 31 December 2005.

### 3. Accounting policies (*Continued*)

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. The Group decided to retain its former accounting policy regarding the recognition of actuarial gains and losses.
- Amendment to HKAS 39, 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss.
- Amendment to HKAS 21, 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. The amendment to this standard does not result in substantial changes to the Group's accounting policies.
- Amendment to HKAS 39 and HKFRS 4, 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. The amendment to this standard does not result in substantial changes to the Group's accounting policies.
- HK(IFRIC)-Int 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. This interpretation does not result in substantial changes to the Group's accounting policies.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group; and
- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

## 4. Segment information

### (i) Primary reporting format – business segments

At 30 June 2006, the Group is principally engaged in the manufacturing and trading of garment and textile products and the provision of freight forwarding and logistics services. Turnover consists of sales from garment and textile products and the provision of freight forwarding and logistics services.

The segment results for the six months ended 30 June 2006 are as follows:

	<b>For the six months ended 30 June 2006</b>		
	<b>Freight forwarding/ logistics services</b>		
	<b>Garment</b>	<b>services</b>	<b>Group</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Segment revenues			
Total segment revenue	<b>269,271</b>	<b>7,390</b>	<b>276,661</b>
Inter-segment revenue	<b>–</b>	<b>(1,352)</b>	<b>(1,352)</b>
Revenue	<b>269,271</b>	<b>6,038</b>	<b>275,309</b>
Operating profit/segment result	<b>7,963</b>	<b>599</b>	<b>8,562</b>
Interest income	<b>1,203</b>	<b>206</b>	<b>1,409</b>
Finance costs	<b>(3,162)</b>	<b>–</b>	<b>(3,162)</b>
Share of profit of associated companies	<b>–</b>	<b>64</b>	<b>64</b>
Share of loss of jointly controlled entities	<b>(348)</b>	<b>–</b>	<b>(348)</b>
Profit before income tax			<b>6,525</b>
Income tax expense	<b>(303)</b>	<b>(103)</b>	<b>(406)</b>
Profit for the period			<b>6,119</b>
Minority interest	<b>79</b>	<b>(52)</b>	<b>27</b>
Profit attributable to the equity holders of the Company			<b>6,146</b>

#### 4. Segment information (*Continued*)

(i) **Primary reporting format – business segments (*Continued*)**

The segment results for the six months ended 30 June 2005 are as follows:

	For the six months ended 30 June 2005		
	Garment	Freight forwarding/ logistics services	Group
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenues			
Total segment revenue	261,361	7,032	268,393
Inter-segment revenue	–	(909)	(909)
Revenue	261,361	6,123	267,484
Operating profit/segment result	13,848	1,185	15,033
Interest income	816	34	850
Finance costs	(1,396)	–	(1,396)
Share of loss of associated companies	–	(1,745)	(1,745)
Share of profit of jointly controlled entities	31	–	31
Profit before income tax			12,773
Income tax expense	(4)	(84)	(88)
Profit for the period			12,685
Minority interest	(159)	(21)	(180)
Profit attributable to the equity holders of the Company			12,505

#### 4. Segment information (*Continued*)

(i) **Primary reporting format – business segments (*Continued*)**

Other segment items included in the condensed consolidated interim income statement are as follows:

	For the six months ended 30 June 2006		
	Garment US\$'000 (Unaudited)	Freight forwarding/ logistics services US\$'000 (Unaudited)	Group US\$'000 (Unaudited)
Depreciation	5,697	315	6,012
Amortization	583	–	583
Impairment of trade receivables	55	25	80
Provision for inventory obsolescence	2	–	2

	For the six months ended 30 June 2005		
	Garment US\$'000 (Unaudited)	Freight forwarding/ logistics services US\$'000 (Unaudited)	Group US\$'000 (Unaudited)
Depreciation	5,063	288	5,351
Amortization	161	–	161
Impairment of trade receivables	248	34	282
Write-back for inventory obsolescence	(1,054)	–	(1,054)

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

#### 4. Segment information (*Continued*)

(i) **Primary reporting format – business segments (*Continued*)**

The segment assets and liabilities at 30 June 2006 and capital expenditure for the six months then ended are as follows:

	Garment <i>US\$'000</i> (Unaudited)	Freight forwarding/ logistics services <i>US\$'000</i> (Unaudited)	Group <i>US\$'000</i> (Unaudited)
Segment assets	390,694	24,706	415,400
Associated companies	8	289	297
Jointly controlled entities	29,263	–	29,263
	<u>419,965</u>	<u>24,995</u>	<u>444,960</u>
Unallocated assets			820
<b>Total assets</b>			<u>445,780</u>
Segment liabilities	<u>203,711</u>	<u>9,804</u>	213,515
Unallocated liabilities			<u>3,152</u>
<b>Total liabilities</b>			<u>216,667</u>
<b>Capital expenditure</b>	<u>8,109</u>	<u>1,749</u>	<u>9,858</u>

#### 4. Segment information (*Continued*)

(i) **Primary reporting format – business segments (*Continued*)**

The segment assets and liabilities at 31 December 2005 and capital expenditure for the six months ended 30 June 2005 are as follows:

	Garment <i>US\$'000</i> (Unaudited)	Freight forwarding/ logistics services <i>US\$'000</i> (Unaudited)	Group <i>US\$'000</i> (Unaudited)
Segment assets	387,712	24,125	411,837
Associated companies	8	223	231
Jointly controlled entities	2,560	–	2,560
	<u>390,280</u>	<u>24,348</u>	<u>414,628</u>
Unallocated assets			<u>792</u>
<b>Total assets</b>			<u><u>415,420</u></u>
Segment liabilities	<u>178,255</u>	<u>10,170</u>	<u>188,425</u>
Unallocated liabilities			<u>2,991</u>
<b>Total liabilities</b>			<u><u>191,416</u></u>
<b>Capital expenditure</b>	<u>31,412</u>	<u>667</u>	<u>32,079</u>

Assets consist primarily of tangible and intangible assets, other non-current assets, current financial assets, inventories, receivables and operating cash. They exclude deferred taxation.

Segment liabilities comprise operating liabilities. They exclude items such as taxation.

Capital expenditure comprises additions to leasehold land and land use rights, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combination.

#### 4. Segment information (*Continued*)

##### (ii) Secondary reporting format – geographical segments

The Group's revenue is mainly derived from customers located in the United States of America (the "United States" or "USA"), Asia and Europe, while the Group's business activities are conducted predominantly in Hong Kong, the People's Republic of China (the "PRC"), Commonwealth of Northern Mariana Islands, the Philippines and the United States.

	Six months ended 30 June	
	2006 US\$'000 (Unaudited)	2005 US\$'000 (Unaudited)
<b>Sales</b>		
The United States	<b>182,467</b>	184,930
Europe	<b>36,832</b>	30,661
Japan	<b>35,005</b>	27,211
Canada	<b>1,675</b>	1,663
Commonwealth of Northern Mariana Islands	<b>3,456</b>	3,200
Hong Kong	<b>2,059</b>	1,788
Korea	<b>2,672</b>	1,868
The Philippines	<b>726</b>	598
Australia	<b>1,044</b>	1,281
Mexico	<b>724</b>	1,295
Cambodia	<b>273</b>	62
Others	<b>8,376</b>	12,927
	<b>275,309</b>	267,484

Sales are allocated based on the place/countries in which customers are located.

#### 4. Segment information (Continued)

##### (ii) Secondary reporting segments – geographical segments (Continued)

	As at	
	30 June 2006 US\$'000 (Unaudited)	31 December 2005 US\$'000 (Audited)
<b>Total Assets</b>		
Hong Kong	198,711	206,998
The United States	39,970	37,483
The PRC	97,394	87,402
Commonwealth of Northern Mariana Islands	25,032	23,772
The Philippines	33,658	37,784
Others	21,455	19,190
	<b>416,220</b>	412,629
Associated companies	297	231
Jointly controlled entities	29,263	2,560
	<b>445,780</b>	415,420

Total assets are allocated based on where the assets are located.

	Six months ended 30 June	
	2006 US\$'000 (Unaudited)	2005 US\$'000 (Unaudited)
<b>Capital expenditure</b>		
Hong Kong	1,358	20,386
The United States	758	87
The PRC	5,852	9,909
Commonwealth of Northern Mariana Islands	1,111	705
The Philippines	718	752
Others	61	240
	<b>9,858</b>	32,079

Capital expenditure is allocated based on where the assets are located.

## 5. Capital expenditure

	Intangible assets					
	Goodwill	Other intangible assets	Total intangible assets	Property, plant and equipment	Leasehold land and land use rights	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Six months ended 30 June 2005						
Opening net book amount as at 1 January 2005	3,965	-	3,965	72,195	4,156	80,316
Additions	-	-	-	14,530	785	15,315
Acquisition of a subsidiary	4,711	10,279	14,990	1,774	-	16,764
Disposals	-	-	-	(1,288)	-	(1,288)
Depreciation and amortization	-	(122)	(122)	(5,351)	(39)	(5,512)
Exchange differences	-	-	-	(39)	-	(39)
Closing net book amount as at 30 June 2005	8,676	10,157	18,833	81,821	4,902	105,556
Six months ended 30 June 2006						
Opening net book amount as at 1 January 2006	12,063	9,789	21,852	84,309	4,727	110,888
Additions	-	-	-	9,858	-	9,858
Disposals	-	-	-	(460)	-	(460)
Depreciation and amortization	-	(367)	(367)	(6,012)	(51)	(6,430)
Adjustments on contingent consideration	2,492	-	2,492	-	-	2,492
Exchange differences	-	-	-	(4)	-	(4)
Closing net book amount as at 30 June 2006	14,555	9,422	23,977	87,691	4,676	116,344

## 6. Trade receivables

	<b>As at 30 June 2006 US\$'000 (Unaudited)</b>	As at 31 December 2005 US\$'000 (Audited)
Trade receivables	<b>78,394</b>	73,217
Less: provision for impairment of receivables	<b>(1,979)</b>	(1,899)
	<b>76,415</b>	71,318

The majority of the Group's sales are on letter of credit or documents against payment. The remaining amounts are with credit terms to its customers ranging from 30 to 60 days. At 30 June 2006, the ageing analysis of the trade receivables was as follows:

	<b>As at 30 June 2006 US\$'000 (Unaudited)</b>	As at 31 December 2005 US\$'000 (Audited)
Current	<b>52,520</b>	41,851
0 to 30 days	<b>13,557</b>	15,831
31 to 60 days	<b>3,492</b>	4,902
61 to 90 days	<b>1,659</b>	2,704
Over 91 days	<b>7,166</b>	7,929
	<b>78,394</b>	73,217

## 7. Share capital

	Number of shares (‘000)	Nominal value US\$‘000
Authorized – ordinary shares of US\$0.01 each		
At 31 December 2005 and 30 June 2006	1,500,000	15,000
Issued and fully paid– ordinary shares of US\$0.01 each		
<b>At 1 January 2005</b>	902,300	9,023
New issue of shares	90,200	902
<b>At 30 June 2005</b>	992,500	9,925
<b>At 1 January 2006 and 30 June 2006</b>	992,500	9,925

### 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.

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 share.

## 7. Share capital (Continued)

Movements in the number of share options are as follows:

Date of grant	Exercisable period	Subscription price per share	Beginning of year '000	Number of shares		End of year '000
				Granted '000	Lapsed '000	
28 December 2004	From 28 December 2004 to 27 December 2007	HK\$4.10	7,757	–	(137)	7,620
26 January 2006	From 26 January 2007 to 25 January 2011	HK\$2.52	–	8,710	(290)	8,420
			7,757	8,710	(427)	16,040

## 8. Reserves

	Share premium US\$'000 (Unaudited)	Capital reserve US\$'000 (Unaudited)	Other reserve US\$'000 (Unaudited)	Share based		Retained earnings US\$'000 (Unaudited)	Total US\$'000 (Unaudited)
				Exchange reserve US\$'000 (Unaudited)	compensation reserve US\$'000 (Unaudited)		
As at 1 January 2005	71,686	11,722	–	(3,609)	–	85,406	165,205
Issue of new shares	45,312	–	–	–	–	–	45,312
Profit attributable to equity holders of the Company	–	–	–	–	–	12,505	12,505
Recognition of financial liability arisen from acquisition of a subsidiary	–	–	(5,536)	–	–	–	(5,536)
Dividends	–	–	–	–	–	(5,163)	(5,163)
Exchange differences arising on translation of foreign subsidiaries	–	–	–	89	–	–	89
As at 30 June 2005	116,998	11,722	(5,536)	(3,520)	–	92,748	212,412
As at 1 January 2006	116,998	11,722	(6,928)	(4,066)	–	91,063	208,789
Profit attributable to equity holders of the Company	–	–	–	–	–	6,146	6,146
Share based compensation expenses	–	–	–	–	221	–	221
Dividends	–	–	–	–	–	(1,548)	(1,548)
Exchange differences arising on translation of foreign subsidiaries	–	–	–	317	–	–	317
As at 30 June 2006	116,998	11,722	(6,928)	(3,749)	221	95,661	213,925

## 9. Bank borrowings

	<b>As at 30 June 2006 US\$'000 (Unaudited)</b>	As at 31 December 2005 US\$'000 (Audited)
<b>Non-current</b>		
Bank loans	<b>40,500</b>	386
<b>Current</b>		
Bank overdrafts	<b>11,268</b>	11,361
Collateralised borrowings	<b>634</b>	740
Current portion of non-current bank loans	<b>5,623</b>	46,399
Trust receipt bank loans	<b>25,422</b>	24,801
	<b>42,947</b>	83,301
<b>Total borrowings</b>	<b>83,447</b>	83,687

The Group's bank loans are repayable as follows:

	<b>As at 30 June 2006 US\$'000 (Unaudited)</b>	As at 31 December 2005 US\$'000 (Audited)
Within one year	<b>42,947</b>	83,301
Between 1 and 2 years	<b>4,500</b>	386
Between 2 and 5 years	<b>13,500</b>	–
Wholly repayable within 5 years	<b>60,947</b>	83,687
Over 5 years	<b>22,500</b>	–
	<b>83,447</b>	83,687

The carrying amounts of the borrowings approximately equal their fair values.

## 10. Trade and bills payables

At 30 June 2006, the ageing analysis of the trade and bills payables was as follows:

	<b>As at 30 June 2006 US\$'000 (Unaudited)</b>	As at 31 December 2005 US\$'000 (Audited)
Current	<b>18,049</b>	16,242
0 to 30 days	<b>8,785</b>	8,464
31 to 60 days	<b>5,322</b>	909
61 to 90 days	<b>3,610</b>	1,602
Over 91 days	<b>5,237</b>	4,341
	<b>41,003</b>	31,558

## 11. Other gain (net)

	<b>Six months ended 30 June</b>	
	<b>2006 US\$'000 (Unaudited)</b>	2005 US\$'000 (Unaudited)
Management income from		
– a related company	<b>86</b>	–
– an associated company	–	110
– jointly controlled entities	<b>151</b>	155
Rental income from related companies	<b>101</b>	88
Commission income from		
– a related company	<b>743</b>	–
– an associated company	–	402
– a third party	–	92
Exchange difference, net	<b>(238)</b>	454
(Loss)/gain on disposal of property, plant and equipment	<b>(29)</b>	138
Others	<b>279</b>	394
	<b>1,093</b>	1,833

## 12. Finance costs

	Six months ended 30 June	
	2006 US\$'000 (Unaudited)	2005 US\$'000 (Unaudited)
Interest expense on bank borrowings	1,832	1,396
Change in estimates of financial liabilities	1,330	–
	<b>3,162</b>	1,396

## 13. Profit before income tax

The following items have been charged/(credited) to the profit before income tax during the interim period:

	Six months ended 30 June	
	2006 US\$'000 (Unaudited)	2005 US\$'000 (Unaudited)
Amortization of leasehold land and land use rights	51	39
Amortization of intangible assets	367	122
Amortization of intangible assets (included in share of loss of jointly controlled entities)	165	–
Depreciation of property, plant and equipment	6,012	5,351
Write-back of other payables	(778)	(5,407)
Employee benefit expenses	55,447	52,830

Goodwill is not subject to amortization but is tested for impairment annually at year-end (31 December) or whenever there is any indication of impairment. At 30 June 2006, there was no indication of impairment for non-financial assets with indefinite lives.

Intangible assets other than goodwill that are subject to amortization are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. At 30 June 2006, there was no indication of impairment.

## 14. Income taxes

Hong Kong profits tax has been provided at the rates of 17.5% (2005: 17.5%) 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.

<b>Six months ended 30 June</b>	
<b>2006</b> <b>US\$'000</b> <b>(Unaudited)</b>	2005 <i>US\$'000</i> (Unaudited)
Current income tax:	
– Hong Kong profits tax	609
– Overseas taxation	
– Current period	2,538
– Over-provision in prior years	(3,338)
Deferred income tax	279
	<b>88</b>
	<b>406</b>

Share of taxation of the jointly controlled entities for the six months ended 30 June 2006 of US\$30,000 (2005: US\$4,000) are included in the condensed consolidated interim income statement as share of (loss)/profit of jointly controlled entities.

## 15. Earnings per share

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

<b>Six months ended 30 June</b>	
<b>2006</b> <b>US\$'000</b> <b>(Unaudited)</b>	2005 <i>US\$'000</i> (Unaudited)
Profit attributable to equity holders of the Company	12,505
Weighted average number of ordinary shares in issue	974,061,326
Basic earnings per share (US cents per share)	1.28
	<b>0.62</b>

There was no dilutive effect on earnings per share since all outstanding share options were anti-dilutive.

## 16. Dividends

	Six months ended 30 June	
	2006 <i>US\$'000</i> (Unaudited)	2005 <i>US\$'000</i> (Unaudited)
Proposed interim dividend – US 0.186 cent (or equivalent to HK 1.45 cents) (2005: US 0.244 cent) per share	<b>1,846</b>	2,422

## 17. Capital commitments

	As at 30 June 2006 <i>US\$'000</i> (Unaudited)	As at 31 December 2005 <i>US\$'000</i> (Audited)
Contracted but not provided for acquisition of property, plant and equipment	<b>4,206</b>	3,878

## 18. Interest in jointly controlled entities

	As at 30 June 2006 <i>US\$'000</i> (Unaudited)	As at 31 December 2005 <i>US\$'000</i> (Audited)
Share of net assets/(liabilities)	<b>9,934</b>	(84)
Goodwill (Note)	<b>16,685</b>	–
Loan to a jointly controlled entity	<b>2,644</b>	2,644
	<b>29,263</b>	2,560
Unlisted investments, at cost	<b>29,460</b>	2,461

Loan to a jointly controlled entity is unsecured, interest-free and not repayable within the next twelve months.

## 18. Interest in jointly controlled entities (*Continued*)

Note:–

On 10 March 2006, the Group entered into a sale and purchase agreement in respect of the acquisition of 50% equity interest in On Time. On Time is principally engaged in the design, sourcing and distribution of garments and other textile products. The acquisition consideration is based on the audited consolidated results of On Time for the three years ending on 31 December 2008 and is subject to a minimum of US\$19,250,000 and a maximum of US\$33,000,000. The acquisition was completed on 3 April 2006. During the period, an upfront cash consideration of US\$19,250,000 was paid. The acquisition resulted a goodwill of US\$16,685,000.

In addition, certain call options have been granted to the Group in connection with the acquisition of On Time which allow the Group to acquire the remaining 50% of the entire share capital of On Time from the other shareholder of On Time under certain terms and conditions as stipulated in the shareholders' agreement. Certain put options have also been granted to the other shareholder which allow the other shareholder to sell its 40% of equity interests in On Time to the Group under certain terms and conditions as stipulated in the shareholders' agreement.

## 19. Related party transactions

As at 30 June 2006, Capital Glory Limited, a company incorporated in the British Virgin Islands, owns 61.89% of the Company's total issued shares. The Directors regard the ultimate holding company to be Helmsley Enterprises Limited, a company incorporated in the Commonwealth of the Bahamas.

### (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.

## 19. Related party transactions (*Continued*)

### (a) Transactions with related parties (*Continued*)

	Six months ended 30 June	
	2006 <i>US\$'000</i> (Unaudited)	2005 <i>US\$'000</i> (Unaudited)
Management fee income from		
– a related company	86	–
– an associated company	–	110
– jointly controlled entities	151	155
	<b>237</b>	265
Commission income from		
– a related company	743	–
– an associated company	–	402
	<b>743</b>	402
Freight forwarding and logistics services income from		
– related companies	153	194
– a jointly controlled entity	10	9
– an associated company	9	18
	<b>172</b>	221
Sales to a jointly controlled entity	<b>2,443</b>	2,939
Subcontracting income from a jointly controlled entity	–	36
Rental income from related companies	<b>101</b>	88
Administrative and support service income from a related company	<b>51</b>	–

## 19. Related party transactions (Continued)

### (a) Transactions with related parties (Continued)

	Six months ended 30 June	
	2006 US\$'000 (Unaudited)	2005 US\$'000 (Unaudited)
Administrative and support service charged by related companies	1,396	2,851
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	817	402
Freight forwarding and logistics services charged by related companies	315	-
Office supplies charged by related companies	55	179
Packaging expenses charged by a related company	372	519
Insurance expenses charged by related companies	365	421
Travel-related services charged by related companies	291	489
Professional and technological support service fees to a related company	1,029	1,033
Repair and maintenance expenses charged by a related company	66	103
Subcontracting fees charged by jointly controlled entities	1,143	1,315
Recharge of material costs and other expenses to		
– related companies	191	-
– an associated company and jointly controlled entities	833	4,206
	<b>1,024</b>	<b>4,206</b>

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

## 19. Related party transactions (*Continued*)

### (b) Key management compensation

	Six months ended 30 June	
	2006 US\$'000 (Unaudited)	2005 US\$'000 (Unaudited)
Salaries and allowances	1,525	1,525
Others	13	13
	<b>1,538</b>	1,538

### (c) Banking facilities

Corporate guarantees to the extent of HK\$30,000,000 was given to Yuen Thai Industrial Co. Ltd., a jointly controlled entity of the Group.

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

As at 30 June 2006, the outstanding balances with the related companies, jointly controlled entities and associated companies are unsecured, interest-free and repayable on demand.

## 20. Contingent liabilities and litigations

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.

## 21. Comparative figures

Certain 2005 comparative figures have been reclassified to conform to the current period's presentation.