LUEN THAI HOLDINGS LIMITED

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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

GROUP FINANCIAL HIGHLIGHTS

	For the year ended 31 December 2006 US$'000	2005 US$'000
Revenue	**661,836**	593,118
Operating profit	**13,533**	21,075
Profit attributable to equity holders of the Company	**2,509**	13,240
Profit margin (ratio of profit attributable to equity holders of the Company to turnover)	**0.4%**	2.2%
Basic EPS (US cents)	**0.3**	1.3

The board of directors (the "Board") of Luen Thai Holdings Limited (the "Company") is pleased to announce the consolidated result of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the year ended 31 December 2006 together with the comparative figures in 2005.

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 31 December 2006 US$'000	2005 US$'000
Revenue	3	**661,836**	593,118
Cost of sales		**(537,565)**	(479,445)
Gross profit		**124,271**	113,673
Selling and distribution expenses		**(19,168)**	(14,325)
General and administrative expenses		**(91,570)**	(78,273)
Operating profit		**13,533**	21,075
Finance income	6	**3,500**	1,980
Finance costs	6	**(6,608)**	(3,474)
Share of profit/(loss) of associated companies		**54**	(1,891)
Share of loss of jointly controlled entities		**(435)**	(257)
Profit before income tax		**10,044**	17,433
Income tax expense	7	**(5,000)**	(2,933)
Profit for the year		**5,044**	14,500
Attributable to:			
Equity holders of the Company		**2,509**	13,240
Minority interest		**2,535**	1,260
		5,044	14,500
Earnings per share for profit attributable to the equity holders of the Company, expressed in US cents per share			
– Basic	8	**0.3**	1.3
– Diluted	8	**0.3**	1.3
Dividends	9	**1,846**	3,970

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2006 US$'000	2005 US$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		**4,286**	4,727
Property, plant and equipment		**90,643**	84,309
Intangible assets		**52,857**	21,852
Interests in associated companies		**287**	231
Interests in jointly controlled entities		**2,045**	2,560
Deferred income tax assets		**311**	792
Other non-current assets		**3,627**	4,558
		154,056	119,029
Current assets			
Inventories		**65,332**	64,783
Trade and bills receivables	10	**93,852**	71,318
Financial assets at fair value through profit and loss		**122**	–
Amounts due from related companies		**2,397**	3,273
Amounts due from jointly controlled entities and associated companies		**6,778**	2,045
Deposits, prepayments and other receivables		**15,600**	6,934
Pledged bank deposits		**681**	–
Cash and bank deposits		**107,076**	148,038
		291,838	296,391
Total assets		**445,894**	415,420
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**9,925**	9,925
Other reserves	12	**98,628**	117,726
Retained earnings			
– Proposed final dividend	12	**–**	1,548
– Others	12	**90,178**	89,515
		198,731	218,714
Minority interest		**15,502**	5,290
Total equity		**214,233**	224,004
LIABILITIES			
Non-current liabilities			
Borrowings		**38,250**	386
Retirement benefit obligations		**2,295**	2,041
Deferred income tax liabilities		**3,849**	401
Other long-term liabilities		**22,073**	10,296
		66,467	13,124
Current liabilities			
Trade and bills payables	11	**43,906**	31,558
Borrowings		**31,184**	83,301
Current income tax liabilities		**12,489**	2,590
Amounts due to related companies		**1,499**	2,775
Amounts due to jointly controlled entities and associated companies		**84**	–
Other payables and accruals		**76,032**	58,068
		165,194	178,292
Total liabilities		**231,661**	191,416
Total equity and liabilities		**445,894**	415,420
Net current assets		**126,644**	118,099
Total assets less current liabilities		**280,700**	237,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2006

1. GENERAL INFORMATION

The Group is principally engaged in the manufacturing and trading of garment and textile products, and the provision of freight forwarding and logistics services.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to or have no significant impact on the Group's operations:

- HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;
- HKAS 21 (Amendment), Net Investment in a Foreign Operation;
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 (Amendment), The Fair Value Option;
- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC) Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC) Int 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC) Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

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

- HK(IFRIC) Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC) Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC) Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements;
- HK(IFRIC) Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC) Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC) Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements; 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 1 January 2007.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

- HK(IFRIC) Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC) Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) Int 7 is not relevant to the Group's operations; and
- HK(IFRIC) Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC) Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC) Int 9 is not relevant to the Group's operations.

3. REVENUE

	2006 US$'000	2005 US$'000
Sales of garment and textile products	**644,416**	578,362
Freight forwarding and logistics service fee	**13,791**	11,872
Management income from		
– a related company, jointly controlled entity and an associated company	**427**	594
Rental income from a related company and a jointly controlled entity	**198**	176
Commission income from a related company and an associated company	**1,749**	998
Others	**1,255**	1,116
	661,836	593,118

4. SEGMENT INFORMATION

Primary reporting format – business segments

The segment results for the year ended 31 December 2006 are as follows:

	Garment US$'000	Freight forwarding/ logistics services US$'000	Others US$'000	Group US$'000
Segment revenues				
Total segment revenue	644,416	16,737	3,629	664,782
Inter-segment revenue	–	(2,946)	–	(2,946)
Revenue	644,416	13,791	3,629	661,836
Segment result	13,105	428	–	13,533
Finance income	3,083	417	–	3,500
Finance costs	(6,608)	–	–	(6,608)
Share of profit of associated companies	–	54	–	54
Share of loss of jointly controlled entities	(435)	–	–	(435)
Profit before income tax				10,044
Income tax expense	(4,524)	(476)	–	(5,000)
Profit for the year				5,044
Minority interest	(2,458)	(77)	–	(2,535)
Profit attributable to the equity holders of the Company				2,509

The segment results for the year ended 31 December 2005 are as follows:

	Garment US$'000	Freight forwarding/ logistics services US$'000	Others US$'000	Group US$'000
Segment revenues				
Total segment revenue	578,362	14,692	2,884	595,938
Inter-segment revenue	–	(2,820)	–	(2,820)
Revenue	578,362	11,872	2,884	593,118
Segment result	19,252	1,823	–	21,075
Finance income	1,875	105	–	1,980
Finance costs	(3,474)	–	-	(3,474)
Share of loss of associated companies	–	(1,891)	–	(1,891)
Share of loss of jointly controlled entities	(257)	–	–	(257)
Profit before income tax				17,433
Income tax expense	(2,936)	3	–	(2,933)
Profit for the year				14,500
Minority interest	(1,247)	(13)	–	(1,260)
Profit attributable to the equity holders of the Company				13,240

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

	Year ended 31 December 2006			Year ended 31 December 2005		
	Garment US$'000	**Freight forwarding/ logistics services US$'000**	**Group US$'000**	Garment US$'000	Freight forwarding/ logistics services US$'000	Group US$'000
Depreciation	**12,778**	**711**	**13,489**	10,690	542	11,232
Amortization	**1,166**	**–**	**1,166**	572	–	572
Impairment of trade receivables	**343**	**25**	**368**	66	22	88
Provision for/(write-back) of inventory obsolescence	**1,047**	**–**	**1,047**	(980)	–	(980)
Provision for impairment of intangible assets	**827**	**–**	**827**	–	–	–
Provision for impairment of property, plant and equipment	**1,273**	**–**	**1,273**	–	–	–

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Garment US$'000	**Freight forwarding/ logistics services US$'000**	**Group US$'000**
Segment assets	**414,194**	**28,935**	**443,129**
Associated companies	**8**	**279**	**287**
Jointly controlled entities	**2,045**	**–**	**2,045**
	416,247	**29,214**	**445,461**
Unallocated assets			**433**
Total assets			**445,894**
Segment liabilities	**160,942**	**11,231**	**172,173**
Unallocated liabilities			**59,488**
Total liabilities			**231,661**
Capital expenditure	**49,003**	**2,548**	**51,551**

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Garment US$'000	Freight forwarding/ logistics services US$'000	Group US$'000
Segment assets	387,712	24,125	411,837
Associated companies	8	223	231
Jointly controlled entities	2,560	–	2,560
	390,280	24,348	414,628
Unallocated assets			792
Total assets			415,420
Segment liabilities	127,198	14,442	141,640
Unallocated liabilities			49,776
Total liabilities			191,416
Capital expenditure	43,486	1,033	44,519

Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, intangible assets, investment in associated companies and jointly controlled entities, inventories, receivables, cash and cash equivalents and other operating assets. Unallocated assets comprise deferred taxation and financial assets at fair value through profit or loss.

Segment liabilities comprise operating liabilities and borrowing. They exclude items such as taxation and corporate borrowings.

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 combinations.

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.

	2006 US$'000	2005 US$'000
Revenue		
The United States	**429,869**	427,602
Europe	**115,664**	64,117
Japan	**64,325**	50,557
Canada	**5,308**	3,814
Commonwealth of Northern Mariana Islands	**7,100**	8,281
Hong Kong	**8,895**	7,330
Korea	**5,813**	3,866
The Philippines	**1,545**	1,692
Australia	**1,970**	2,362
Mexico	**1,413**	2,670
Others	**19,934**	20,827
	661,836	593,118

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

	2006 US$'000	2005 US$'000
Total Assets		
Hong Kong	**239,476**	206,998
The United States	**37,279**	37,483
The PRC	**106,079**	87,402
Commonwealth of Northern Mariana Islands	**18,234**	23,772
The Philippines	**36,264**	37,784
Others	**6,230**	19,190
	443,562	412,629
Associated companies	**287**	231
Jointly controlled entities	**2,045**	2,560
	445,894	415,420

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

	2006 US$'000	2005 US$'000
Capital expenditures		
Hong Kong	**33,128**	20,778
The United States	**1,101**	111
The PRC	**12,384**	20,462
Commonwealth of Northern Mariana Islands	**1,514**	881
The Philippines	**1,710**	1,760
Others	**1,714**	527
	51,551	44,519

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

5. EXPENSES BY NATURE

Items included in cost of sales, selling and distribution expenses, and general and administrative expenses are as follows:

	2006 US$'000	2005 US$'000
Provision for/(write-back) of inventory obsolescence	**1,047**	(980)
Loss on disposal of property, plant and equipment and leasehold land	**115**	426
Amortization of leasehold land and land use rights	**102**	82
Amortization of other intangible asset	**1,064**	490
Provision for impairment of intangible asset	**827**	–
Depreciation of property, plant and equipment	**13,489**	11,232
Provision for impairment of property, plant and equipment	**1,273**	–
Provision for impairment of receivables	**368**	88

6. FINANCE INCOME AND COSTS

	2006 US$'000	2005 US$'000
Interest expense on bank loans and overdrafts	**4,091**	3,474
Change in estimates of financial liabilities	**2,517**	–
Finance costs	**6,608**	3,474
Finance income – Interest income	**(3,500)**	(1,980)
Net finance costs	**3,108**	1,494

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2006 US$'000	2005 US$'000
Current income tax:		
– Hong Kong profits tax	**1,774**	742
– Overseas taxation	**3,213**	5,102
Over-provision in prior years	**(512)**	(3,338)
Deferred income tax	**525**	427
	5,000	2,933

Subsequent to year end, a subsidiary has received from the Hong Kong Inland Revenue Department an additional assessment relating to assessment year 2000/01 for taxation amounting to approximately US$1,080,000. This additional assessment relates to a dispute on the non-taxable claim of certain non-Hong Kong sourced income for tax assessment purposes. The directors believe that the Group has grounds to contest the additional assessment and have taken appropriate action to object the additional assessment. Therefore, no provision has been made in the financial statements for the year ended 31 December 2006 in relation to the above additional assessment of US$1,080,000.

8. EARNINGS PER SHARE

Basic earnings per share is calculated based on the Group's profit attributable to the equity holders of the Company of approximately US$2,509,000 (2005: US$13,240,000) and weighted average number of 992,500,000 (2005: 983,356,000) ordinary shares in issue during the year.

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

9. DIVIDENDS

	2006 US$'000	2005 US$'000
Interim dividend paid of US0.186 cent (2005: US0.244 cent) per ordinary share	**1,846**	2,422
Proposed final dividend of US nil cent (2005: US0.156 cent) per ordinary share	**–**	1,548
	1,846	3,970

10. TRADE AND BILLS RECEIVABLES

	2006 US$'000	2005 US$'000
Trade and bills receivables	**95,102**	73,217
Less: provision for impairment of receivables	**(1,250)**	(1,899)
	93,852	71,318

The carrying amount of trade receivables approximates its fair value.

The Group normally grants credit terms to its customers ranging from 30 to 60 days. The ageing analysis of the trade receivables is as follows:

	2006 US$'000	2005 US$'000
Current	**54,129**	41,851
0 to 30 days	**26,845**	15,831
31 to 60 days	**6,442**	4,902
61 to 90 days	**1,768**	2,704
Over 91 days	**5,918**	7,929
	95,102	73,217

11. TRADE AND BILLS PAYABLES

At 31 December 2006, the ageing analysis of trade and bills payables was as follows:

	2006 US$'000	2005 US$'000
Current	**17,283**	16,242
0 to 30 days	**17,242**	8,464
31 to 60 days	**4,059**	909
61 to 90 days	**819**	1,602
Over 91 days	**4,503**	4,341
	43,906	31,558

12. RESERVES

	Share premium US$'000	**Capital reserve US$'000**	**Other reserve US$'000**	**Share based compensation expense US$'000**	**Exchange reserve US$'000**	**Retained Earnings US$'000**	**Total US$'000**
At 1 January 2005	71,686	11,722	–	–	(3,609)	85,406	165,205
Net proceeds from issuance of new shares	45,312	–	–	–	–	–	45,312
Recognition of financial liability arising from acquisition of a subsidiary	–	–	(6,579)	–	–	–	(6,579)
Profit for the year	–	–	–	–	–	13,240	13,240
Dividends paid	–	–	–	–	–	(7,583)	(7,583)
Revaluation deficit	–	–	(349)	–	–	–	(349)
Exchange differences arising from translation of foreign subsidiaries	–	–	–	–	(457)	–	(457)
At 31 December 2005	116,998	11,722	(6,928)	–	(4,066)	91,063	208,789
At 1 January 2006	**116,998**	**11,722**	**(6,928)**	**–**	**(4,066)**	**91,063**	**208,789**
Recognition of financial liability arising from acquisition of a subsidiary	**–**	**–**	**(20,383)**	**–**	**–**	**–**	**(20,383)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**2,509**	**2,509**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(3,394)**	**(3,394)**
Acquisition of a subsidiary	**–**	**–**	**(1,450)**	**–**	**–**	**–**	**(1,450)**
Share based compensation expense	**–**	**–**	**–**	**539**	**–**	**–**	**539**
Exchange differences arising from translation of foreign subsidiaries	**–**	**–**	**–**	**–**	**2,196**	**–**	**2,196**
At 31 December 2006	**116,998**	**11,722**	**(28,761)**	**539**	**(1,870)**	**90,178**	**188,806**

MANAGEMENT DISCUSSION & ANALYSIS

Result Review

Revenue of the Group was approximately US$661,836,000 for the year ended 31 December 2006, representing an increase of 11.6% as compared to that recorded in 2005. The increase was attributable to our organic growth with existing customers together with the acquisition of On Time International Limited ("On Time"). Customer partnerships with D2S business model has proven to be the right one for the Group's operations.

Luen Thai's overall gross profit for 2006 was approximately US$124,271,000 as compared to US$113,673,000 in 2005. The overall gross profit margin in 2006 is 18.8% as compared to 19.2% in 2005. The Group's operating profit for 2006 was approximately US$13,533,000, representing a decrease of 35.8% over 2005. Despite the outstanding performance of the ladies' fashion and sweater (Tien-Hu) divisions, the Group's overall 2006 financial performance was severely affected by the one-time restructuring of its casual wear division. The restructuring required our casual wear division to do order reallocation, to address capacity and product mismatch-related issues when the Group closed one of its three garment manufacturing facilities in the Philippines and ceased its manufacturing operations in Saipan, as it continues to expand operations in China.

The profit attributable to the equity holders of the Company for the year ended 31 December 2006 therefore suffered a significant decline of 81.0% to approximately US$2,509,000 when compared to that recorded in prior year.

The freight forwarding and logistics services recorded a revenue amounting to US$13,791,000 in 2006, representing an increase of 16.2% over 2005.

Operational Review

The Group accomplished a number of initiatives and the following are some of the highlights:

Relocation of Tomwell

Tomwell, which is engaged in the production of career wear, has relocated and started its operations in the Dongguan Supply Chain City in February 2006 in line with the Group's objective to further reduce operational costs and improve efficiency.

Design and Development

On Time, to which the Group acquired a total of 50% stake in 2006, has recently set up its development center in the Dongguan Supply Chain City to enhance cross-selling opportunities and provide strong design support capabilities to the Group.

Print Shop

The Luen Thai Print Shop has opened and moved to a bigger facility in the Dongguan Supply Chain City to expand its operations and address the increasing requirements for fashion prints. The new facility houses a showroom, widened work areas and individual offices for every print process, with an estimated total capacity of over 30,000 pairs of prints daily.

One-time Restructuring of Casual Wear Division

As discussed in the Company's announcement in February 2007, the coupling effect of the rationalization of the Group's garment manufacturing facilities in the Philippines which involved the closure of one of our three garment production bases in the Philippines (the "Rationalization") and the cessation of our garment manufacturing operations in Saipan (the "Cessation") was expected to unfavourably affect our results of operations. A significant reduction in profit, which resulted from the total one-off closure and other related expenses we incurred for both the Rationalization and the Cessation, was recorded in the second half of 2006. Despite the costs, the Board of Directors believes that by transferring such operations elsewhere within the Group's network, Luen Thai will be able to improve its operational efficiency in the longer run, considering the elimination of US import quotas and the relatively higher costs of maintaining garment manufacturing operations in Saipan over other jurisdictions.

Success in Ladies' Fashion and Sweater Divisions

The ladies' fashion division became the profit driver for Luen Thai with record revenue and profit. It has continuously increased its market share on existing and new customers with particular success in the department store sector in both the USA and UK markets.

The sweater division, Tien-Hu, continues to outperform its budget with record revenue and profit. The integration process has been very smooth and it has been able to leverage the Group's "D2S" platform in developing new business.

Expansion of Active Wear Division

Yuen Thai, our active wear division and a 50/50 joint venture with Yue Yuen Industrial (Holdings) Limited, launched a manufacturing facility in Cebu, the Philippines in 2006. There were start-up losses incurred by Yuen Thai during 2006 but it has paved a solid foundation for growth in 2007.

Logistics and Distribution

CTSI Logistics, the Group's logistics division, continues to improve its operations and facilities in anticipation of closer partnership with our customers in the logistics zone. In 2006, CTSI Logistics inaugurated two new Supply Chain Centers in California, USA and in Cebu, the Philippines, in addition to its existing Supply Chain Center in Manila, the Philippines (collectively, the "Centers"). The Centers cover spacious, clean and secure facility powered by intelligent logistics and IT solutions, which is expected to support our Logistics Group in providing clients with more synergistic and streamlined services that will give it a sharper edge in competing in the global business arena. It is also an integral part of the Logistics Division's vision of becoming a total logistics solution provider - from warehousing, inventory management, freight forwarding, and distribution to logistics consultancy - a full range of logistics services, which are all available under one roof.

Qing Yuan Expansion

The Group's second Supply Chain City which is being developed in Qing Yuan, China is getting ready for an increase in production, wherein more management team members are also being transferred to support the planned expansion.

Acquisitions and Joint Ventures

It is the Group's strategy in strengthening its apparel manufacturing and supply chain services capabilities by way of selective acquisitions and joint ventures, which have proven success not only in recent years but even in the past.

On 3 April 2006, Luen Thai acquired a 50% stake in On Time together its subsidiaries (the "Acquisition"), which is more particularly described in the Company's announcement dated 16 March 2006. On 3 April 2007, the Company sent its exercise notice for the option to purchase additional 10% interest in On Time, the completion of which is subject to the Company's independent shareholders' approval and pursuant to the relevant Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules"). On Time, through its subsidiaries, is principally engaged in the design, sourcing and distribution of garments and other textile products on a worldwide basis. Established in the early 1990s, its headquarter is located in Hong Kong with offices in Asia Pacific. The Acquisition is expected to further enhance Luen Thai's design capabilities, which along with its outsourcing production scale, will speed up turnaround times and bring in more European business to the Group.

Moreover, the Group entered into a 50%-50% joint venture agreement with Guangzhou Huasheng Garment Company Limited on 5 January 2007, to establish Guangzhou Thai Ying Garment Company Limited ("Thai Ying"). Thai Ying is expected to enhance Luen Thai's manufacturing capabilities for active wear, more particularly for outerwear jackets, and provide lower cost sample-making support to the Group.

The success of the recent joint ventures and the Acquisition are results of the Group's established experience of acquiring and managing entities in different segments such as GJM for sleepwear (from Warnaco Inc. in 2002), Tomwell for ladies career wear (from Kasper Holdings Inc./Jones Apparel Group, Inc. in 2004), and Tien-Hu for sweaters (from New Trillion Consultants Limited in 2005).

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 industry leaders and further materialize our design-to-store business model.

Future Plans and Prospect

Luen Thai will continue deploy resources to improve its D2S platform in supporting further growth of our business units. With the success of GJM, Tomwell, Yuen Thai, Tien Hu and On Time acqusitions and joint ventures, Luen Thai will seek value-enhancing acquisition and joint venture opportunities.

Operationally, with the completion of the restructuring, it is expected that the casual wear division will return to profitability and margin recovery would be in progress. We are optimistic on the future growth of casual wear division. Also, given the outstanding performance of ladies' fashion and sweater divisions in 2006, we are looking forward to more contributions from such business units. On Time will become an important business unit of Luen Thai and we are committed to leverage our D2S platform in supporting On Time in gaining more business. Lastly, given the strengthen of the Chinese domestic market, Luen Thai will seek opportunities in developing business in China to further reduce our reliance on the US market.

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 financial statements.

Human Resources, Social Responsibilities and Corporate Citizenship

Over the years, Luen Thai has steadily enhanced its reputation as an employer of choice through focused, integrated and strategic human resources ("HR") strategies. Operating beyond the traditional HR infrastructure, Luen Thai's Corporate Human Resources Division ("CHR") is consistently aligned to the Group's vision and business goals.

Our corporate values, which center on meeting our customers' needs, help thousands of Luen Thai employees to move in one direction – to achieve our vision of becoming the best apparel supply chain services partner in the world. To do this, Luen Thai opens its communication channels to its employees in order to facilitate an engaging culture, where employees feel a sense of belonging in the Company.

With about 25,000 employees around the world, Luen Thai continuously strives to provide the best employee care. In addition to providing a safe workplace, Luen Thai has established world class and convenient living environments. Work-life balance and wellness is also encouraged in Luen Thai through the establishment of facilities and activities that support a fulfilling life for all employees.

Opportunities for growth and maximizing career potential are also provided within the organization through regular and formalized learning held across all levels of the organization.

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 equitable compensation and benefit schemes. Employees' contributions are valued, recognized and rewarded.

Corporate Social Responsibility

Luen Thai remains committed to corporate social responsibility by engaging in lawful, transparent and ethical business operations. The company embraces its responsibilities not only to our employees, customers and stakeholders but also the communities in which we operate.

Management leads the company in providing support and donations to educational institutions such as Quanzhou Normal University in China and charitable organizations such as Po Leung Kuk and Community Chest of Hong Kong.

Awards

On 6 February 2007, Luen Thai was named the Overall Winner of the 2006 People Management Awards organized by the Hong Kong Institute of Human Resource Management and the South China Morning Post in association with Hong Kong University of Science and Technology Business School. The Company was also named the Large Enterprise Category Winner. The awards recognize outstanding people management initiatives that made a difference to the business.

The Company's entry, "Project Supply Chain City HR," highlighted CHR's innovative strategies in recruitment, retention, people capability building and value-added employee services, among others.

Financial Results and Liquidity

As at 31 December 2006, the total amount of cash and bank balances of the Group was approximately US$107,076,000, representing a decrease of approximately US$40,962,000 when compared to 31 December 2005. The total bank borrowings at 31 December 2006 was approximately US$69,434,000, representing a 17.0% decrease when compared to US$83,687,000 at 31 December 2005.

As at 31 December 2006, the maturity profile of the Group's bank borrowings spread over five years with approximately US$31,184,000 repayable within one year or on demand, approximately US$4,500,000 in the second year, approximately US$13,500,000 in the second to fifth year, and US$20,250,000 in more than five years.

The gearing ratio is defined as net debt (represented by bank borrowings net of cash and bank balances) divided by the capital and reserves attributable to the equity holders of the Company. As at 31 December 2006, the Group is in a net cash position. Hence, no gearing ratio is presented.

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, Hong Kong dollars and Euro. For those activities denominated in other currencies, the Group may enter into forward contracts to hedge its receivable and payable denominated in foreign currencies against the exchange rate fluctuation.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2006.

CORPORATE GOVERNANCE

The Group acknowledges the need and importance of corporate governance as one of the key elements in creating shareholders' value. The Group is committed to improving its corporate governance policies in compliance with the regulatory requirements and in accordance with international best practices. As at the date of this report, the Company has formed the Audit Committee, Remuneration Committee and Bank Facility Committee all at the Board of Directors (the "Board") level, to provide assistance, advice and recommendations on relevant matters that aim to ensure protection of the Group and the Company's shareholders' interests as a whole.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the Code on Corporate Governance Practices contain in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006.

Full details on the subject of corporate governance are set out in the Company's 2006 annual report.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference that set out the authorities and duties of the Committee adopted by the Board.

The Audit Committee's review covers the accounting principles and practices adopted by the Group, audit plans and findings of the internal auditors, and financial matters including the review of the consolidated financial statements of the Group for the year ended 31 December 2006.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2006 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

POST BALANCE SHEET EVENT

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items have yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

On 3 April 2007, a wholly owned subsidiary of the company has exercised in full its rights of the first 10% call option granted to require the minority shareholders of On Time to sell and transfer 10% of the issued share capital of On Time. The estimated cost to acquire 10% of the issued share capital of On Time is approximately US$ 4,231,000. Upon completion, On Time will become a 60% owned subsidiary of the Company.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend (2005: US0.156 cent per share).

DISCLOSURE OF INFORMATION ON THE COMPANY AND THE STOCK EXCHANGE'S WEBSITES

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

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

Hong Kong, 19 April 2007

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