LUEN THAI HOLDINGS LIMITED

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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

GROUP FINANCIAL HIGHLIGHTS

	For the year ended 31 December 2005 US$'000	2004 US$'000 (As restated)
Turnover	**590,234**	553,766
Operating profit	**23,055**	38,363
Profit attributable to equity holders of the Company	**13,240**	30,361
Profit margin (ratio of profit attributable to equity holders of the Company to turnover)	**2.2%**	5.5%
Basic EPS (US cents)	**1.3**	3.9

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

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 31 December 2005 US$'000	2004 US$'000 (As restated)
Turnover	3	**590,234**	553,766
Cost of sales		**(479,445)**	(427,967)
Gross profit		**110,789**	125,799
Other revenues	3	**3,818**	2,643
Selling and distribution expenses		**(14,325)**	(22,381)
General and administrative expenses		**(79,089)**	(71,609)
Other income, net		**1,862**	3,911
Operating profit		**23,055**	38,363
Finance costs	6	**(3,474)**	(1,432)
Share of (loss)/profit of associated companies		**(1,891)**	529
Share of loss of jointly controlled entities		**(257)**	(847)
Profit before taxation		**17,433**	36,613
Taxation	7	**(2,933)**	(6,205)
Profit for the year		**14,500**	30,408
Attributable to:			
Equity holders of the Company		**13,240**	30,361
Minority interest		**1,260**	47
		14,500	30,408
Earnings per share for profit attributable to the equity holders of the Company during the year – Basic and diluted	8	**US1.3 cents**	US3.9cents
Dividends	9	**3,970**	12,561

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2005 US$'000	2004 US$'000 (As restated)
ASSETS			
Non-current assets			
Leasehold land and land use rights		**4,727**	3,515
Property, plant and equipment		**84,309**	72,195
Intangible assets		**21,852**	3,965
Interests in associated companies		**231**	2,688
Interests in jointly controlled entities		**2,560**	852
Long-term investments		**–**	1,648
Available-for-sale financial assets		**2,023**	–
Deferred tax assets		**792**	822
Bank deposits		**–**	52,226
Other non-current assets		**2,535**	3,358
		119,029	141,269
Current assets			
Inventories		**64,783**	62,568
Trade receivables	10	**71,318**	75,115
Deposits, prepayments and other receivables		**6,934**	8,878
Amounts due from related companies		**3,273**	2,414
Amounts due from jointly controlled entities and associated companies		**2,045**	4,683
Bank balances and cash		**148,038**	58,832
		296,391	212,490
Total assets		**415,420**	353,759
LIABILITIES			
Non-current liabilities			
Bank borrowings		**386**	54,000
Retirement benefit obligations		**2,041**	1,597
Deferred tax liabilities		**401**	–
Other long-term liabilities		**10,296**	–
		13,124	55,597
Current liabilities			
Trade and bills payables	11	**31,558**	30,066
Other payables and accruals		**58,068**	43,544
Amounts due to related companies		**2,775**	495
Amounts due to jointly controlled entities and associated companies		**–**	644
Bank borrowings		**83,301**	43,392
Taxation payable		**2,590**	5,495
		178,292	123,636
Total liabilities		**191,416**	179,233
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**9,925**	9,023
Other reserves	12	**117,726**	79,799
Retained earnings	12	**91,063**	85,406
		218,714	174,228
Minority interest		**5,290**	298
Total equity		**224,004**	174,526
Total equity and liabilities		**415,420**	353,759
Net current assets		**118,099**	88,854
Total assets less current liabilities		**237,128**	230,123

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. **BASIS OF PREPARATION**

The consolidated financial statements 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 available-for-sale financial assets, 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.

The consolidated financial statements of the Group for the year ended 31 December 2004 are prepared using merger accounting as permitted by the Statement of Standard Accounting Practice ("SSAP") Number 27 "Accounting for the Group Reconstructions" as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

2. **CHANGES IN ACCOUNTING POLICIES**

Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
HKAS-Int 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, HKAS-Ints 15, 25 and 27 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates, jointly controlled entities and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33, HKAS-Ints 15, 25 and 27 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. On 1 January 2005, the long-term investment amounting to US$1,648,000 was reclassified as available-for-sale financial assets.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group is required to expense the cost of share option in the income statement. The change in accounting policy does not have any material effect on the financial statements.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period of 10 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 amounting to US$1,124,000 has been eliminated with a corresponding decrease in the cost of goodwill; and

– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to long-term investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005;

– HKFRS 2 – retrospective application is only required for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively applies after 1 January 2005.

The Group has not early adopted the following new standards or interpretations that have been issued and not yet effective, which are relevant to the operations of the Group. It is expected that the adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 and HKFRS 4 (Amendment)	Transition and Initial Recognition of Financial liabilities and Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosure
HKFRS-Int 4	Determining whether on Arrangement contains a lease

3. TURNOVER

The Group is principally engaged in the manufacturing and trading of garment and textile products and the provision of freight forwarding and logistics services. Revenues recognised during the year are as follows:

	2005 *US$'000*	2004 *US$'000*
Turnover		
Sales of garment and textile products to		
– third parties	**565,436**	537,933
– a jointly controlled entity	**12,926**	3,465
Provision of freight forwarding and logistics services to		
– third parties	**10,574**	10,659
– related companies, a jointly controlled entity and an associated company	**1,298**	1,414
Provision of system consultancy services	**–**	295
	590,234	553,766
Other revenues		
Interest income on bank deposits	**1,980**	671
Management fee income	**594**	729
Rental income	**176**	144
Commission income	**998**	1,005
Others	**70**	94
	3,818	2,643
Total revenues	**594,052**	556,409

4. SEGMENT INFORMATION

Primary reporting format – business segments

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

	Garment *US$'000*	**Freight forwarding/ logistics services** *US$'000*	**Group** *US$'000*
Total gross segment sales	**578,362**	**14,692**	**593,054**
Inter-segment sales	**–**	**(2,820)**	**(2,820)**
	578,362	**11,872**	**590,234**
Operating profit	**21,127**	**1,928**	**23,055**
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 taxation			**17,433**
Taxation	**(2,936)**	**3**	**(2,933)**
Profit for the year			**14,500**
Minority interest	**(1,247)**	**(13)**	**(1,260)**
Profit attributable to equity holders of the Company			**13,240**

The segment results for the year ended 31 December 2004 are as follows:

	Garment *US$'000*	**Freight forwarding/ logistics services** *US$'000*	**System consultancy** *US$'000*	**Group** *US$'000*
Total gross segment sales	541,398	16,731	1,114	559,243
Inter-segment sales	–	(4,658)	(819)	(5,477)
	541,398	12,073	295	553,766
Operating profit	32,861	5,440	62	38,363
Finance costs	(1,432)	–	–	(1,432)
Share of profit of associated companies	2	527	–	529
Share of loss of jointly controlled entities	(847)	–	–	(847)
Profit before taxation				36,613
Taxation	(5,529)	(676)	–	(6,205)
Profit for the year				30,408
Minority interest	–	(47)	–	(47)
Profit attributable to equity holders of the Company				30,361

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

	Year ended 31 December 2005			
	Garment ***US$'000***	**Freight forwarding/ logistics services** ***US$'000***	**System consultancy** ***US$'000***	**Group** ***US$'000***
Depreciation	**10,690**	**542**	**–**	**11,232**
Amortisation	**572**	**–**	**–**	**572**
Impairment of trade receivable	**66**	**22**	**–**	**88**
Write-back of inventory obsolescence	**(980)**	**–**	**–**	**(980)**

	Year ended 31 December 2004			
	Garment *US$'000*	Freight forwarding/ logistics services *US$'000*	System consultancy *US$'000*	Group *US$'000*
Depreciation	8,882	553	167	9,602
Amortisation	486	–	–	486
Impairment of trade receivable	815	44	–	859
Provision for inventory obsolescence	428	–	–	428

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***
Assets	**388,192**	**24,437**	**412,629**
Associated companies	**8**	**223**	**231**
Jointly controlled entities	**2,560**	**–**	**2,560**
Total assets	**390,760**	**24,660**	**415,420**
Liabilities	**181,112**	**10,304**	**191,416**
Capital expenditure	**43,486**	**1,033**	**44,519**

The segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Garment *US$'000*	**Freight forwarding/ logistics services** *US$'000*	**System consultancy** *US$'000*	**Group** *US$'000*
Assets	329,772	20,447	–	350,219
Associated companies	9	2,679	–	2,688
Jointly controlled entities	852	–	–	852
Total assets	330,633	23,126	–	353,759
Liabilities	169,511	9,722	–	179,233
Capital expenditure	33,368	1,090	60	34,518

Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, intangible assets, inventories, receivables, deferred taxation, investments, operating cash and other operating assets.

Segment liabilities comprise operating liabilities, 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, 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.

Sales

	2005 *US$'000*	2004 *US$'000*
The United States	**427,602**	411,662
Europe	**64,117**	47,349
Commonwealth of Northern Mariana Islands	**8,281**	7,907
Japan	**50,557**	45,039
Canada	**3,814**	4,870
Hong Kong	**4,446**	3,017
Korea	**3,866**	3,982
The Philippines	**1,692**	1,544
Australia	**2,362**	1,662
Mexico	**2,670**	1,381
Others	**20,827**	25,353
	590,234	553,766

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

Total assets

	2005 *US$'000*	2004 *US$'000*
The United States	**37,483**	44,236
The PRC	**87,402**	71,396
Hong Kong	**206,998**	149,261
The Philippines	**37,784**	42,014
Commonwealth of Northern Mariana Islands	**23,772**	33,238
Others	**19,190**	10,074
	412,629	350,219
Interests in associated companies	**231**	2,688
Interests in jointly controlled entities	**2,560**	852
	415,420	353,759

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

Capital expenditures

	2005 *US$'000*	2004 *US$'000*
The United States	**111**	146
The PRC	**20,462**	23,663
Hong Kong	**20,778**	2,693
The Philippines	**1,760**	4,918
Commonwealth of Northern Mariana Islands	**881**	2,146
Mexico	**–**	103
Others	**527**	849
	44,519	34,518

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

5. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	2005 *US$'000*	2004 *US$'000*
Write-back of other payables *(Note a)*	**(5,407)**	–
Amortisation of leasehold land and land use rights	**82**	24
Amortisation of goodwill	**–**	462
Amortisation of other intangible assets	**490**	–
Depreciation of property, plant and equipment	**11,232**	9,602
Employee benefit expense	**113,985**	112,612

Note a: In prior years, the Group had made provision of US$5,407,000 for certain expenses. As at 31 December 2005, the Directors have undertaken an updated review and have determined that the provision of such payment of expenses of US$5,407,000 would no longer be required and should be derecognised. Consequently, the amount of US$5,407,000 was taken to the consolidated income statement for the year ended 31 December 2005.

6. FINANCE COSTS

	2005 *US$'000*	2004 *US$'000*
Interest expense on bank loans and overdrafts	**3,474**	1,432

7. TAXATION

Hong Kong profits tax has been provided at the rates of 17.5% (2004: 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.

	2005 *US$'000*	2004 *US$'000*
Current taxation:		
– Hong Kong profits tax	**742**	913
– Overseas taxation	**5,102**	7,753
Over-provision in prior years *(Note a)*	**(3,338)**	(1,994)
Deferred taxation relating to the origination and reversal of temporary differences	**427**	(467)
	2,933	6,205

Note a: In prior years, certain overseas subsidiaries had made provisions for tax liabilities based on their estimated taxable profits arising from their respective operating countries outside Hong Kong. The Directors have undertaken a review of the Group's tax provisions as at 31 December 2005 and have determined that a provision for tax of US$3,338,000 would no longer be required and should be derecognised. Consequently, the amount of US$3,338,000 was taken to the consolidated income statement for the year ended 31 December 2005.

8. EARNING PER SHARE

Basic earnings per share is calculated based on the Group's profit attributable to equity holders of the Company of approximately US$13,240,000 (2004: US$30,361,000) and weighted average number of 983,356,000 (2004: 780,117,000) ordinary shares.

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

9. DIVIDENDS

A final dividend in respect of 2005 of US0.156 cent per share, amounting to a total dividend of approximately US$1,548,000 is to be proposed at the Annual General Meeting on 26 May 2006. These financial statements do not reflect this dividend payable.

	2005 *US$'000*	2004 *US$'000*
Dividends paid by the subsidiaries to their then shareholders before the Reorganisation *(Note a)*	**–**	7,400
Interim dividend paid of US0.244 cent (2004: Nil) per ordinary share	**2,422**	–
Proposed final dividend of US0.156 cent (2004: US0.52 cent) per ordinary share	**1,548**	5,161
	3,970	12,561

(a) During 2004 and prior to the completion of the Initial Public Offering reorganisation (the "Reorganisation"), certain wholly-owned subsidiaries of the Company declared dividends of approximately US$7,400,000 to their then shareholders. As part of the Reorganisation, such amounts were capitalised by the then shareholders.

The rates of dividend and the number of shares ranking for dividends paid by the subsidiaries to their then shareholders before the Reorganisation are not presented as such information is not meaningful having regard to the purpose of these financial statements.

10. TRADE RECEIVABLES

	2005 *US$'000*	2004 *US$'000*
Trade receivables	**73,217**	77,520
Less: provision for impairment of receivables	**(1,899)**	(2,405)
	71,318	75,115

The carrying amount of trade receivables approximate its fair value.

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

	2005 *US$'000*	2004 *US$'000*
Current	**41,851**	39,718
0 to 30 days	**15,831**	20,396
31 to 60 days	**4,902**	8,996
61 to 90 days	**2,704**	3,018
Over 91 days	**7,929**	5,392
	73,217	77,520

The Group has recognised a loss of US$88,000 (2004: US$859,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in general and administratie expenses in the consolidated income statement.

11. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables is as follows:

	2005 *US$'000*	2004 *US$'000*
Current	**16,242**	19,890
0 to 30 days	**8,464**	5,253
31 to 60 days	**909**	1,956
61 to 90 days	**1,602**	811
Over 91 days	**4,341**	2,156
	31,558	30,066

12. RESERVES

	Share premium *US$'000*	**Capital reserve** *US$'000*	**Other reserves** *US$'000*	**Exchange reserve** *US$'000*	**Retained earnings** *US$'000*	**Total** *US$'000*
At 1 January 2004	–	4,322	–	(4,101)	55,438	55,659
Reserve from the Reorganisation	–	7,400	–	–	–	7,400
Disposal of subsidiaries by way of a distribution in specie	–	–	–	–	7,007	7,007
Net proceeds from issuance of new shares	78,436	–	–	–	–	78,436
Capitalisation of share premium	(6,750)	–	–	–	–	(6,750)
Profit attributable to equity holders of the Company	–	–	–	–	30,361	30,361
Dividends	–	–	–	–	(7,400)	(7,400)
Exchange differences arising on translation of foreign subsidiaries	–	–	–	492	–	492
At 31 December 2004	71,686	11,722	–	(3,609)	85,406	165,205
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
Profit attributable to equity holders of the Company	–	–	–	–	13,240	13,240
Recognition of financial liability arisen from acquisition of a subsidiary	–	–	(6,579)	–	–	(6,579)
Revaluation deficit	–	–	(349)	–	–	(349)
Dividends	–	–	–	–	(7,583)	(7,583)
Exchange differences arising on translation of foreign subsidiaries	–	–	–	(457)	–	(457)
As at 31 December 2005	116,998	11,722	(6,928)	(4,066)	91,063	208,789

MANAGEMENT DISCUSSION & ANALYSIS

Overview

2005 has been a challenging year for the Group. Entering into the first year of "quota-free" environment, the Group has experienced, along with other industry players, all the chaos brought about by the uncertainties due to trade disputes between China and its major markets. Luen Thai, nonetheless, managed to sustain its revenue growth in 2005.

As the Group strives to develop and maintain long-term partnership with our customers, we make sure that our customers' demands are met especially during times of uncertainties like what we experienced in 2005. In order to cope with the frequent and last-minute changes in production orders in 2005, we had to reshuffle our production planning, which affected not only our production efficiency but also the effective use of our facilities, thereby, causing an increase in our operating costs plus airfreight. However, with our intense efforts to minimise unfavorable impact of the uncertainties in quota and trade regulations, the Group still managed to record a profit in 2005.

Luen Thai considers the market chaos as temporary and we expect our business will increase in 2006 as order flows stabilise following the enforcement of trade agreements with the USA/EU along with implementation of China's quota allocation system.

With our state-of-the-art supply chain and manufacturing platform, the Group continues to grow by gaining new customers and striving to develop stronger relationships with our key customers as we capitalise further on business opportunities with them. Operationally, the Group has taken a number of initiatives to sustain and further improve operational efficiency, and effectively control costs.

Result Review

Turnover of the Group was approximately US$590,234,000 for the year ended 31 December 2005, representing an increase of 6.6% as compared to that recorded in 2004.

The Group's overall gross profit for 2005 was approximately US$110,789,000 as compared to US$125,799,000 in 2004. The overall gross profit margin in 2005 is 18.8% as compared to 22.7% in 2004. The Group's operating profit for 2005 was approximately US$23,055,000, representing a decrease of 39.9% over 2004. These reductions are the results of higher operating costs primarily due to uncertainties brought about by trade disputes between China and the USA/EU, and the reinstatement of quota on certain product categories. The Group also incurred additional start-up costs on its expansion into the production of pants and its development of OPA facilities. The average selling price of the Group in 2005, however, remained relatively stable when compared to 2004.

Mariana Express Lines Ltd. ("MELL"), an associated company engaged in ocean cargo service in Asia which was disposed on 3 September 2005, recorded a loss of approximately US$1,895,000 for the eight months ended 31 August 2005, due to high oil prices and increase in charter hire costs.

The profit attributable to equity holders of the Company for the year ended 31 December 2005 therefore suffered a decline of 56.4% to approximately US$13,240,000 when compared to that recorded in prior year.

The freight forwarding & logistics services recorded a turnover amounting to US$11,872,000 in 2005, representing a decrease of 1.7% over 2004.

Operational Review

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

Co-location Strategy

Our Dongguan Supply Chain City represents the Group's long-term partnership strategy with our key customers with design support, product development, logistics and distribution, laboratory testing and production all housed in one site to continuously improve efficiencies and reduce lead time of our customers, suppliers and the Group. The Group signed up another key customer on such co-location partnership in 2005.

In addition, GJM Division opened its dedicated development center for one of its key customers in Panyu, China, which is also considered as the first vendor-partner in the greater China region to pioneer the development center exclusively for its sleepwear product.

Fabric and Trims Innovation Center

The Group opened Fabric & Trims Innovation Center at the Dongguan Supply Chain City, which is the first of its kind in the global apparel industry. This was created to cut sourcing lead-time by bringing a wide selection of the latest materials development closer to our customers.

Expansion of Tomwell

Tomwell Limited was acquired by the Group in 2004 and it is engaged in the production of ladies careerwear. In consideration of its growing business, we facilitated its expansion in our Dongguan Supply Chain City in 2005 and it started to operate in February 2006.

Outward Processing Arrangements

In line with the Group's multi-country and multi-product strategy and as a measure to counter uncertainties, our Outward Processing Arrangements ("OPAs") are in full swing on its first year of operations. These new facilities have allowed us to steadily grow our knit and woven production capability while our facilities in China, Saipan and the Philippines continue to complement Luen Thai's global production network. We shall continue to identify opportunities for us to expand our production capability through these OPAs and make adjustments accordingly in keeping with regulatory changes in the apparel industry.

Logistics and Distribution

CTSI Logistics, the Group's logistics division, has been upgrading its operations and facilities in anticipation of closer partnership with our customers in the logistics area. In 2005, CTSI Logistics inaugurated its Philippine Supply Chain Center (the "Center"), which houses office and warehouse spaces. The Center is an integral part of the Logistics Division's vision of becoming a total logistics solution provider — from warehousing, inventory management, freight forwarding, distribution to logistics consultancy — a full range of logistics services, which are all available under one roof.

In addition, CTSI Logistics in Guam moved to the new Guam Distribution Center of 23,800 square feet, which is dubbed as the "Hub of Micronesia" and is set to become a point of convergence for business growth in Guam and in the Micronesian region.

Acquisitions and Joint Ventures

It is the Group's strategy in expanding into other apparel product categories by way of selective acquisitions and joint ventures. With an 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 the joint venture with Yue Yuen in 2004 for active wear, the Group has again expanded its product line through the acquisition of the 71% equity interest in Partner Joy Group Limited ("Partner Joy") in May 2005. Partner Joy, through its three wholly owned subsidiaries in Hong Kong – Tien-Hu Knitters Limited, Tien-Hu Knitting Factory (Hong Kong) Limited and Tien-Hu Trading (Hong Kong) Limited (collectively referred to as "Tien-Hu") – is principally engaged in the manufacturing and trading of sweaters. Tien-Hu has been in operation since the 1980s and its major customers include many renowned US brands. The acquisition gives Luen Thai a significant presence in the sweater segment and further consolidates the Group's leading positions in the apparel industry.

In our effort to maximise growth from activewear, we have also recently acquired a production facility in Cebu, Philippines through a joint venture with athletic footwear giant Yue Yuen Industrial (Holdings) Ltd. The acquired facility has already been renovated and has started operations in March this year.

In January 2006, Luen Tai entered into 50%-50% joint venture agreement with Guangdong Foreign Trade Group Co., Ltd. ("GDFT"), the largest foreign trade group in Guangdong, China, to establish Shenzhen Guangthai International Co. Ltd. ("SGTI"). SGTI is expected to give Luen Thai a strong outsourcing platform in many products in China.

Moreover, Luen Thai entered into an agreement to acquire 50% stake in On Time International Limited and its subsidiaries (collectively, the "On Time Group") on 10 March 2006 (the "Acquisition"), which is more particularly described in the Company's announcement dated 16 March 2006. On Time Group, through its wholly-owned subsidiaries, is principally engaged in the design, sourcing and distribution on a worldwide basis of garments and other textile products. 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 production scale, will speed up turnaround times and bring in more high-end 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 capitalise on these to become one of the major consolidators and beneficiaries in the "quota-free" era in the apparel industry.

Future Plans and Prospect

Looking forward to 2006, we expect our business to increase as order flows start to stabilise, with the enforcement of trade agreements between China and US/EU, and with the implementation of China's quota allocation system. 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 and logistics services. Along with our organic growth, the Group will continue to expand through acquisition and joint ventures where we would strike a balance portfolio globally on customers/markets, product categories and countries of production. With newly acquired companies such as Partner Joy, SGIT and On Time Group, Luen Thai will further expand through outsourcing, in addition to internal capacity expansion. We believe that these would enable the Group to continue to sustain its growth in the coming years and will ultimately allow us to emerge as one of the major consolidators and beneficiaries in the "quota-free" era in the apparel industry, as we also continue to grow our market share with selected key customers through closer partnership based on multi-product and co-location strategies.

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 recognise 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.

We expect the Group to benefit from its post-acquisition synergies, which are consistent with the group's multi-country and multi-product strategy. The Group is currently in different stages of negotiation on acquisitions and joint ventures opportunities.

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

Luen Thai is becoming recognised by professionals in the industry as the company of choice to work for. As a business leader in people management, Luen Thai has developed well-planned work environments for its geographically diverse and multi-cultural workforce of about 23,000. The Group's operations are managed by a professional and multicultural management team whose specialities have been honed in the industry. This executive and management team is aligned to the Group's strategic objectives, business model and corporate values.

We promote customer-focused practices and wellness amenities so each employee can be treated with utmost care. We generate advancement opportunities across the organisation through a wide array of technical training and leadership development programs. These help our teams develop their talent so they can contribute to the advancement of the Company and grow as leaders in their own right. In addition, 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.

Luen Thai's pioneering of supply chain initiatives, quality assurance and employee care programs in the industry have been acknowledged by well-recognised organisations and government bodies in the region. This symbolises our efforts in ensuring that our customers, employees, partners and stakeholders receive only the best products and services from us. In 2005, we received the Excellent Manufacturing Enterprise Award from the Trans-century Dongguan & Hong Kong Association for our contributions to the development of Hong Kong, Dongguan and the Pearl River Delta industries.

Our corporate values help shape our social relationships and daily business decisions. In all our undertakings, we do our best to meet the expectations of the people in the community where we operate. At Luen Thai, we believe that service to the community is a core social responsibility.

We are honored to have contributed to broad-reaching community programs that support the environment, the families, and the education of the youth. Last year, Luen Thai key executives and employees worldwide raised over US$111,000 for the victims of the tsunami that hit in 2004. Apart from this, we have supported numerous education, cultural, and social welfare activities of the Quanzhou Normal University in China, Po Leung Kuk, the Community Chest of Hong Kong, and the President's Relief Fund of Pakistan.

Financial Results and Liquidity

As at 31 December 2005, the total amount of cash and bank balances of the Group was approximately US$148,038,000, representing an increase of approximately US$36,980,000 when compared to 31 December 2004. The total bank borrowings at 31 December 2005 was US$83,687,000, representing a 14% decrease when compared to US$97,392,000 at 31 December 2004.

As at 31 December 2005, the maturity profile of the Group's bank borrowings spread over two years with US$83,301,000 repayable within one year or on demand and US$386,000 in the second year.

The gearing ratio is defined as net debt (represented by bank borrowings net of cash and bank balances) divided by capital and reserves attributable to the equity holders of the Company. As at 31 December 2005, 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 and Hong Kong dollars. 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

On 24 January 2005, the Company, Capital Glory Limited and BNP Paribas Peregrine Capital Limited entered into a placing agreement in relation to the placing of 90,200,000 existing Shares of the Company ("Placing Agreement") and a conditional subscription agreement between the Company and Capital Glory in relation to the subscription of 90,200,000 new Shares ("Subscription Agreement"), which is equivalent to the same number of Shares under the Placing Agreement. Details of both the Placing and Subscription Agreements were more particularly described in the Company's announcement dated 24 January 2005.

CORPORATE GOVERNANCE

The Group acknowledges the need and importance of corporate governance as one of the key elements in creating shareholders' value. The Group continuously improves its corporate governance policies in accordance with international best practices. 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 in June 2004 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. The Audit Committee met three times in 2005 with 100% attendance rate.

Remuneration Committee: The Remuneration Committee was set up in April 2005 with the responsibility of recommending to the Board the remuneration policy of 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 bank 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.

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 contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005.

Full details on the subject of corporate governance are set out in the Company's 2005 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 and external auditors, and financial matters including the review of audited consolidated financial statements of the Group for the year ended 31 December 2005.

MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("the "Model Code") as set out in Appendix 10 of the Listing Rules. After having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by Directors.

POST BALANCE SHEET EVENT

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 International Limited ("On Time"), a company incorporated in the British Virgin Islands and is principally engaged in the design, sourcing and distribution on a worldwide basis of garments and other textile products. The cash 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.

FINAL DIVIDEND

An interim dividend of US 0.244 cent per share was paid to the shareholders during the year and the Directors recommend the payment of a final dividend of US0.156 cent per share to the shareholders on the register of members on 26 May 2006 totaling to approximately US$1,548,000.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 May 2006 to 26 May 2006, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on 19 May 2006 in order to qualify for the final dividend mentioned above.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

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

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

Hong Kong, 20 April 2006

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