LUEN THAI HOLDINGS LIMITED

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

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

GROUP FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2005 (Unaudited) US$'000	2004 (Unaudited) US$'000
Turnover	**267,484**	270,369
Operating profit	**15,883**	17,881
Profit attributable to equity holders of the Company	**12,505**	13,120
Profit margin	**4.68%**	4.85%
Basic EPS (US cents)	**1.28**	1.94

The board of directors (the "Board") of Luen Thai Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the six months ended 30 June 2005.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months period ended 30 June 2005

	Note	Unaudited Six months ended 30 June 2005 US$'000	2004 US$'000 (As restated)
Turnover	3	**267,484**	270,369
Cost of sales		**(212,738)**	(209,132)
Gross profit		**54,746**	61,237
Other revenues	3	**1,697**	892
Selling and distribution expenses		**(4,312)**	(10,746)
General and administrative expenses		**(39,050)**	(36,103)
Other income, net		**2,802**	2,601
Operating profit	5	**15,883**	17,881
Finance costs	6	**(1,396)**	(428)
Share of (loss)/profit of associated companies		**(1,745)**	343
Share of profit/(loss) of jointly controlled entities		**31**	(275)
Profit before taxation		**12,773**	17,521
Taxation	7	**(88)**	(4,394)
Profit for the period		**12,685**	13,127
Attributable to:			
Equity holders of the Company		**12,505**	13,120
Minority interests		**180**	7
Profit attributable to shareholders		**12,685**	13,127
Dividends	8	**2,422**	7,400
Earnings per share for profit attributable to the equity holders of the Company – Basic and diluted	9	**US 1.28 cents**	US1.94 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2005 US$'000	Audited As at 31 December 2004 US$'000 (As restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**81,821**	72,195
Leasehold land and land use rights		**4,902**	4,156
Interests in associated companies		**1,172**	2,927
Interests in jointly controlled entities		**873**	852
Long-term investments		**–**	1,409
Intangible assets		**18,833**	3,965
Deferred tax assets		**555**	822
Available-for-sale financial assets		**1,404**	–
Other non-current assets		**1,844**	2,717
Bank deposits		**35,090**	52,226
		146,494	141,269
Current assets			
Inventories		**79,913**	62,568
Trade receivables	10	**78,446**	75,115
Deposits, prepayments and other receivables		**9,800**	8,878
Amounts due from related companies		**2,813**	2,414
Amounts due from jointly controlled entities and associated companies		**5,497**	4,683
Restricted bank deposits		**3,757**	–
Bank balances and cash		**108,080**	58,832
		288,306	212,490
Total assets		**434,800**	353,759
LIABILITIES			
Non-current liabilities			
Bank borrowings		**1,200**	54,000
Retirement benefit obligations		**1,829**	1,597
Deferred tax liabilities		**12**	–
Other long-term liabilities		**9,518**	–
		12,559	55,597
Current liabilities			
Trade and bills payables	11	**38,546**	30,066
Other payables and accruals		**46,484**	43,544
Amounts due to related companies		**6,916**	495
Amounts due to jointly controlled entities and associated companies		**476**	644
Bank borrowings		**99,172**	43,392
Taxation payable		**4,100**	5,495
		195,694	123,636
Total liabilities		**208,253**	179,233
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**9,925**	9,023
Other reserves	12	**119,664**	79,799
Retained earnings	12	**92,748**	85,406
		222,337	174,228
Minority interest		**4,210**	298
Total equity		**226,547**	174,526
Total equity and liabilities		**434,800**	353,759
Net current assets		**92,612**	88,854
Total assets less current liabilities		**239,106**	230,123

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months period ended 30 June 2005

1. **BASIS OF PRESENTATION**

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial statements have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these financial statements. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2 below.

2. **CHANGES IN ACCOUNTING POLICES**

Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards 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 Int 15	Operating Leases – Incentives
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 and HKAS-Int 15 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 and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33 and HKAS-Int 15 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. Apart from certain presentational changes with comparatives restated, this change in accounting policy does not have any material effect on the financial statements.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. On 1 January 2005, the long-term investment amounting to US$1,409,000 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 shall expense the cost of share option provisions in the income statement. This 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;

– From the year ending 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 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after the adoption date.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. 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
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains A Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. TURNOVER

The Group is principally engaged in the manufacturing and trading of garment and textile products, the provision of freight forwarding and logistic and system consultancy services. Revenues recognised during the period are as follows:

	Six months ended 30 June	
	2005	2004
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Turnover –		
Sales of garment and textile products		
– third parties	**258,422**	263,595
– a jointly controlled entity	**2,939**	626
Provision of freight forwarding and logistics services		
– third parties	**5,902**	5,724
– related companies	**194**	129
– a jointly controlled entity	**9**	–
– an associated company	**18**	–
Provision for system consultancy services	**–**	295
	267,484	270,369
Other revenues –		
Interest income on bank deposits	**850**	64
Management income from		
– an associated company	**110**	72
– a jointly controlled entity	**155**	–
– a third party	**–**	117
Rental income from		
– related companies	**88**	99
– a third party	–	4
Commission income from		
– a related company	**402**	515
– a third party	**92**	21
	1,697	892
Total revenues	**269,181**	271,261

4. SEGMENT INFORMATION

Primary reporting segment – business segment

	For the six months ended 30 June 2005				
	Garment	**Freight forwarding/ logistics services**	**System consultancy**	**Elimination**	**Group total**
	US$'000	***US$'000***	***US$'000***	***US$'000***	***US$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Segment revenues					
External revenue	**261,361**	**6,123**	**–**	**–**	**267,484**
Inter segment revenue	**–**	**909**	**–**	**(909)**	**–**
	261,361	**7,032**	**–**	**(909)**	**267,484**
Segment results	**14,664**	**1,219**	**–**	**–**	**15,883**
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 taxation					**12,773**
Taxation					**(88)**
Profit for the period					**12,685**
Minority interests					**(180)**
Profit attributable to equity holders of the Company					**12,505**

	For the six months ended 30 June 2004				
	Garment	Freight forwarding/ logistics services	System consultancy	Elimination	Group total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenues					
External revenue	264,221	5,853	295	–	270,369
Inter segment revenue	–	3,073	819	(3,892)	–
	264,221	8,926	1,114	(3,892)	270,369
Segment results	15,337	2,482	62	–	17,881
Finance costs	(428)	–	–		(428)
Share of profit of associated companies	–	343	–		343
Share of loss of jointly controlled entities	(275)	–	–		(275)
Profit before taxation					17,521
Taxation					(4,394)
Profit for the period					13,127
Minority interests					(7)
Profit attributable to equity holders of the Company					13,120

Secondary reporting segments – 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.

The following table provides an analysis of the Group's sales by geographical location of customers:

	Six months ended 30 June	
	2005	2004
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
The United States	**184,930**	200,158
Europe	**30,661**	20,452
Commonwealth of Northern Mariana Islands	**3,200**	2,461
Japan	**27,211**	24,748
Canada	**1,663**	2,357
Hong Kong	**1,788**	1,963
Korea	**1,868**	2,274
The Philippines	**598**	855
Australia	**1,281**	888
Mexico	**1,295**	645
Cambodia	**62**	130
Others	**12,927**	13,438
	267,484	270,369

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2005	2004
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Crediting		
Exchange gains, net	**490**	2,272
Gain on disposal of property, plant and equipment	**28**	283
Write-back of other payables *(Note a)*	**5,407**	–
Write-back of provision for inventory obsolescence	**1,054**	–
Charging		
Amortisation of goodwill	**–**	203
Amortisation of intangible assets	**122**	–
Depreciation of property, plant and equipment	**5,351**	4,320
Operating leases		
– office premises and warehouses	**2,824**	2,254
– plant and equipment	**48**	91
Staff costs	**52,830**	55,998

Note a: In prior years, the Group had made provision of US$5,407,000 for certain expenses. As at 30 June 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 six months ended 30 June 2005.

6. FINANCE COSTS

	Six months ended 30 June 2005 US$'000 (Unaudited)	Six months ended 30 June 2004 US$'000 (Unaudited)
Interest expense on bank loans and overdrafts	**1,396**	428

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.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 June 2005 US$'000 (Unaudited)	Six months ended 30 June 2004 US$'000 (Unaudited)
Current taxation:		
– Hong Kong profits tax	**609**	610
– Overseas taxation		
– Current period	**2,538**	3,964
– Over-provision in prior years *(Note a)*	**(3,338)**	–
Deferred taxation relating to the origination and reversal of temporary differences	**279**	(180)
	88	4,394

Share of taxation attributable to jointly controlled entities for the six months ended 30 June 2005 of US$4,000 (2004: US$4,000) are included in the consolidated income statement as share of profits of jointly controlled entities.

Note a: In prior years, certain overseas subsidiary companies 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 30 June 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 six months ended 30 June 2005.

8. DIVIDENDS

	Six months ended 30 June 2005 US$'000 (Unaudited)	Six months ended 30 June 2004 US$'000 (Unaudited)
Dividends paid by the subsidiaries to their then shareholders before the Reorganisation *(Note a)*	**–**	7,400
Proposed interim dividend – US 0.244 cent (or equivalent to 1.9 HK cents) (2004: Nil) per share	**2,422**	–
	2,422	7,400

(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.

9. EARNING PER SHARES

The basic earnings per share is calculated based on the Group's profit attributable to equity holders of the Company of approximately US$12,505,000 (2004: US$13,120,000) and weighted average number of 974,061,326 (2004: 674,999,075) ordinary shares. The weighted average number of ordinary shares for the six months ended 30 June 2004 was based on the assumption that the Reorganisation had been completed on 1 January 2004.

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

10. TRADE RECEIVABLES

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:

	As at 30 June 2005 US$'000 (Unaudited)	As at 31 December 2004 US$'000 (Audited)
Current	**53,374**	38,390
0 to 30 days	**15,917**	20,396
31 to 60 days	**2,914**	8,996
61 to 90 days	**837**	3,018
Over 91 days	**5,404**	4,315
	78,446	75,115

11. TRADE AND BILLS PAYABLES

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

	As at 30 June 2005 US$'000 (Unaudited)	As at 31 December 2004 US$'000 (Audited)
Current	**27,522**	19,890
0 to 30 days	**5,601**	5,253
31 to 60 days	**2,578**	1,956
61 to 90 days	**426**	811
Over 91 days	**2,419**	2,156
	38,546	30,066

12. RESERVES

	Share premium US$'000 (Unaudited)	Capital reserve *(Note (i))* US$'000 (Unaudited)	Other reserve US$'000 (Unaudited)	Exchange reserve US$'000 (Unaudited)	Share issuance cost US$'000 (Unaudited)	Retained earnings US$'000 (Unaudited)	Total US$'000 (Unaudited)
As 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 *(Note (ii))*	–	–	–	–	–	7,007	7,007
Share issuance costs	–	–	–	–	(3,502)	–	(3,502)
Profit attributable to equity holders of the Company	–	–	–	–	–	13,120	13,120
Dividends	–	–	–	–	–	(7,400)	(7,400)
Exchange differences arising on translation of foreign subsidiaries	–	–	–	348	–	–	348
As at 30 June 2004	–	11,722	–	(3,753)	(3,502)	68,165	72,632

	Share premium US$'000 (Unaudited)	Capital reserve *(Note (i))* US$'000 (Unaudited)	Other reserve US$'000 (Unaudited)	Exchange reserve US$'000 (Unaudited)	Share issuance cost US$'000 (Unaudited)	Retained earnings US$'000 (Unaudited)	Total US$'000 (Unaudited)
As 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	**–**	**–**	**–**	**–**	**–**	**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**

Note –

(i) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange thereof.

(ii) As part of the Reorganisation, the Group disposed of its entire interest in the Mexican Operations and the System Consultancy Operations to its then shareholders by way of distribution in specie in May 2004. At the date of the distribution, the Mexican Operations and the System Consultancy Operations were in net deficit position. As a result, an amount of approximately US$7 million resulting from such distribution in specie was transferred to retained earnings.

MANAGEMENT DISCUSSION & ANALYSIS

Overview

As the global apparel industry enters into 2005, the first year in the "quota-free" era, we are reading into a new edition of the rules engagement in world trade, which reflects the latest benefits (and problematic issues) arising from China's accession into the World Trade Organisation ("WTO") and has led to the creation of new apparel sourcing strategies and supply chain/manufacturing partnerships in the region. The first half of 2005 has indeed proven to be a challenging period for the Group, attributable mainly to the latest round of trade disputes and negotiation between China and the USA ("US") as well as the European Union ("EU"). The imposition of temporary safeguards by the US and the EU, and the expected additional petitions to counter the flow of garments from China, have affected not just the Group but also the entire apparel industry at different levels.

The continued Sino-American and Sino-European trade disputes and the resultant reinstatement of import quota on certain product categories have forced our customers to make frequent and last-minute changes to their production orders with us. These order changes have complicated our manufacturing process and therefore increased our operating costs. The Group's aggregate costs of sales for the first 6 months in 2005 increased by 1.7% (or approximately US$3,606,000) as compared with the corresponding period in 2004, against a 1.1% (or approximately US$2,885,000) decrease in export sales. The increase in costs of sales was attributable to:

(1) additional transportation costs arising from changes in production schedules and production origins;

(2) lower utilisation of the production facilities in China due to re-allocation and cancellation of orders at short notice; and

(3) temporary changes to production lines to accommodate different products which have, to some extent, negatively affected the Group's operational efficiency.

In the light of the Group's substantial exposure to the US market, the Group continues to take prudent measures in balancing and spreading its exposure to country-specific risks by expanding its business operations in Japan and Europe. In the first half of 2005 and as compared with the corresponding period in 2004, we have seen an increase of approximately 49.9% (or approximately US$10,209,000) and approximately 10% (or approximately US$2,463,000) in revenue from the Group's operations in Europe and Japan respectively, and such increment when combined represents approximately 4.7% of the Group's total turnover for the first 6 months of 2005.

As an industry leader, Luen Thai had also taken strategic initiatives to position itself for the new "quota-free" era. It is our continuous effort to offer an integrated and comprehensive one-stop service to our key customers. The latest and continued development of our Dongguan "Supply Chain City" in China has generated encouraging results, with us gaining new customers, market share and improved design and supply chain coordination. To further strengthen our business partnership with key customers, we have also opened new development centers, upgraded our design & research center, and built a fabric & trims innovation center, all in China, during the first half of 2005.

Luen Thai is committed to its multi-product and multi-country strategy. As a measure to reduce risks associated with "safeguards measures" against China and maintain an even spread of production risks, we have continued to maintain and utilise our non-China production facilities, as well as developing and enhancing our Outward Processing Arrangement ("OPA") capabilities in Macau and Hong Kong. In terms of product range, we have gained the capabilities for the production of sweater through our acquisition of Partner Joy Group Limited (which owns Tien Hu Knitters Limited, Tien-Hu Knitting Factory (HK) Limited and Tien-Hu Trading (HK) Limited; and (collectively referred to as the "Tien-Hu group") in May 2005. Tien-Hu group sold over approximately US$90 million of sweater to its customers in 2004. We are committed to support Tien-Hu group to further develop its business with our supply chain infrastructure and customer relationships. In addition to sweater, we also started the manufacturing of pants (or trousers) during the first half of 2005 with some notable success through the support from our key customers despite the larger-than-expected start-up costs.

Result of operations

Turnover of the Group was US$267,484,000 for the six months ended 30 June 2005, representing a decrease of 1.1% as compared to that recorded for the corresponding period last year.

During the period under review, gross profit margin decreased by 2.2% point to 20.5% whereas the operating margin decreased from 6.6% to 5.9% when compared to that of the same period last year. These reductions are the results of a decrease in apparel turnover primarily due to the aftermath of Sino-American and Sino-European trade disputes and the reinstatement of import quota on certain product categories as mentioned in the "Overview" section above. The Group also incurred additional start-up costs on its expansion into the production of pants and its development of OPA facilities in Macau.

The Group's selling and distribution expenses decreased by approximately 59.9% or approximately US$6,434,000 during the first six months of 2005 primarily due to the elimination of quota charges and improved control on freight costs. General & administrative expenses, however, increased by approximately 8.2% over the same period last year as a result of the additional costs incurred in the midst of the current uncertainties surrounding the global apparel industry.

Mariana Express Lines Limited ("MELL"), an associated company engaged in ocean cargo service in Asia, recorded a loss of approximately US$1,758,000 for the six months period ended 30 June 2005 due to the high oil prices and the increase in charter hire costs.

The effective tax rate, however, decreased significantly due to the derecognition of certain tax provision as a result of a review undertaken by the Directors as at 30 June 2005.

The profit attributable to equity holders of the Company for the first six months of 2005 therefore suffered a decline of 4.7% to approximately US$12,505,000 when compared to that recorded for the same period last year.

Apparel Operations
The on-going textile trade disputes between China and US/EU caused some negative impact to our apparel operation. The reinstatement of quota has negatively impacted the operations and caused additional operating costs to our apparel operations. The growth of the Group's sleepwear business is in line with the Group's overall strategic direction. Our joint venture with Yue Yuen Industries Limited, Yuen Thai Industries Company Limited ("YTIC"), continues its momentum in the development of active wear. YTIC is in the second year of operation and we are pleased with the development and confident on the business potential going forward.

Another area of growth for the Group is its continued expansion into the Japanese and European markets. In the light of its significant exposure to the US market, the Group continues to take prudent measures in balancing and spreading its exposure to country specific risks by expanding its sales to Japan and Europe. In the first half of 2005, we have seen a notable success from such strategy.

Logistics and Freight Forwarding Operations
For the six months ended 30 June 2005, the Group's logistics division recorded a turnover of approximately US$6,123,000 representing an approximately 4.6% increase from approximately US$5,853,000 recorded for the same period last year. The growth in the Group's logistics division is the result of new customers gained in the US.

Liquidity and Financial Resources
Cash flow from the Group's operations for the first six months in 2005 was approximately US$16,454,000. As at 30 June 2005, the Group's total cash and cash equivalents approximately amounts to US$101,286,000, an increase of US$55,082,000 over the balance as at 31 December 2004.

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 2005, the Group is in a net cash position and hence no gearing ratio is presented.

As at 30 June 2005, the maturity profile of the Group's bank borrowings spread over two years with approximately US$99,172,000 repayable within one year or on demand and approximately US$1,200,000 in the second year.

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 from time to time 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 2005, 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 two years that enable the Group to expand into other apparel product categories such as sleepwear, ladies career wear and active wear, which in turn increased the Group's market share in the overall apparel business.

On 3 May 2005, the Group acquired a 71% equity interest in Partner Joy Group Limited ("Partner Joy") through Fortune Investment Limited, a wholly owned subsidiary of the Company (the "Acquisition"). Partner Joy through its three wholly owned subsidiaries in Hong Kong – Tien-Hu Knitters Limited, Tien-Hu Knitting Factory (HK) Limited, and Tien-Hu Trading (HK) Limited- is principally engaged in the manufacturing and trading of sweaters. The Tien-Hu group has been in operation since the 1980s and its major customers include many renowned US brands.

The Acquisition gave Luen Thai a significant presence in the sweater segment and will further consolidate the Group's leading position in the apparel industry. This is also in line with Luen Thai's multi-product strategy by way of selective acquisitions and joint ventures. The Tien-Hu group contributed approximately US$454,000 post acquisition profit (or approximately 3.6% of the Group's net profit) for the six months ended 30 June 2005.

Details of the Acquisition were more particularly described in the Company's announcement dated 4 May 2005 and a related circular released to the Company's shareholders on 25 May 2005.

Future Plans and Prospect
Looking ahead, the Sino-American and Sino-European trade disputes and negotiations will continue to pose uncertainties for the global apparel trade during the rest of the year. As resolutions of these disputes are made in the near future (such as the comprehensive EU agreement there will be better clarity and visibility for Luen Thai and our customers to plan business for the rest of 2005 and 2006. We will continue to be prudent in developing our business while minimising risks relating to trade disputes. The trend of industry consolidation is unavoidable. We are confident that Luen Thai will eventually become one of the major consolidators and beneficiaries in the industry with our full-service, multi-country, multi-product, "design-to-store" business model. Customer partnerships and acquisitions will continue to be the driving forces on business growth.

Luen Thai is currently considering the acquisition of apparel related business, those with strong potential to bring shareholders' value to the Group. Part of the proceeds from the Company's listing in 2004 and the placing and subscription agreement completed in January 2005 was set-aside for this purpose.

The Group is committed to conform to it cost-cutting measures and shall continue to improve its operational efficiency.

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 to support its 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. An estimate of the financial effect is not disclosed, as it is not practicable to do so. Accordingly, no provision for such liabilities has been made in the financial statements.

Certain subsidiaries of the Group have given guarantees to a bank in respect of general banking facilities granted to a company beneficially owned by certain directors of the subsidiaries of the Group amounting to US$6,877,000.

Human Resources and Social Responsibilities
Luen Thai has a current manpower of approximately 18,000 stationed in various locations worldwide. The Group's operation is 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. As part of our commitment to being a learning organization, Luen Thai has set up technical training schools to support its expansion of facilities. The schools train new hires in basic sewing machine operations and also existing operators in learning new methods for diversified product ranges. Conduct of supervisory and management training for supervisors and managers enables enhanced learning in the areas of leadership and management skills. 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.

In June 2005, the Company was given the Platinum Award by Community Chest Group in Hong Kong in recognition of its generous contribution to people in need. The Group also initiated a company-wide voluntary fund-raising program in January 2005 and was successful in raising a considerable amount of money to help the victims of the December 2004 tsunami in South Asia

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 Company has complied with the Code of Best Practices set out in Appendix 14 to the Listing Rules since its listing on the The Stock Exchange of Hong Kong Limited on 15 July 2004.

The Directors acknowledge the need and importance of corporate governance as one of the key elements in creating shareholders' value and have therefore continuously considered ways of improving the Group's corporate governance policies in accordance with international best practices. As at the date of this report, the Company has formed the Audit Committee and the Remuneration Committee at the Board level.

Audit Committee: The Audit Committee was set up in June 2004 to provide advice and recommendations to the Board. All Audit Committee members are independent non-executive Directors, all of whom have either appropriate finance or industry knowledge to advise the Board.

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. The majority of the Remuneration Committee members are independent non-executive Directors.

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

MODEL CODE
The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions (the "Model Code"). After making due enquiries, the Directors confirm that they have complied with the standard required under such adopted code of conduct.

REVIEW OF INTERIM RESULTS
The unaudited interim financial reports for the six months ended 30 June 2005 have been reviewed by the Company's audit committee, and 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.

POST BALANCE SHEET EVENT
On 3 September 2005, CTSI Holdings Limited ("CTSI Holdings"), a wholly owned subsidiary of the Company, entered into and completed a Sale and Purchase Agreement with Luen Thai Direct Investment Limited, a connected person, for the transfer of CTSI Holdings' 45% interest in the share capital of Mariana Express Lines Ltd., an associated company, at a cash consideration of US$661,140.

INTERIM DIVIDEND
The Board has resolved to declare an interim dividend of US 0.244 cent (or equivalent to 1.9 HK cents) per share (2004: nil) for the six months ended 30 June 2005 to be payable to shareholders whose names appear on the Register of Members of the Company on 14 October, 2005.

The interim dividend will be paid on or around 21 October, 2005.

CLOSURE OF REGISTER OF MEMBERS
The Register of Members of the Company will be closed from 12 October 2005 to 14 October 2005, 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 10 October 2005 in order to qualify for the final dividend mentioned above.

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

Hong Kong, 22 September 2005

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.

This results announcement will be published on the websites of the Company (www.luenthai.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk).