Luenthai

Luen Thai Holdings Limited

聯泰控股有限公司

(Incorporated in the Cayman Islands with limited liability)

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

Annual Report 2005

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Dr. TAN Siu Lin, *Chairman*
TAN Henry, *Chief Executive Officer and President*
TAN Willie, *Chief Operating Officer*
TAN Cho Lung Raymond, *Executive Vice President*
MOK Siu Wan Anne, *Executive Vice President*

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry
CHEUNG Siu Kee
SEING Nea Yie

CHIEF FINANCIAL OFFICER

TAN Sunny

COMPANY SECRETARY

CHIU Chi Cheung

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, PO Box 2681GT
George Town, Grand Cayman
Cayman Islands, British West Indies

PRINCIPAL PLACE OF BUSINESS

5/F, Nanyang Plaza
57 Hung To Road
Kwun Tong, Kowloon
Hong Kong

WEBSITE

http://www.luenthai.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
Strathvale House, North Church Street
George Town, Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of America, N.A.
Bank of China (Hong Kong) Limited
Citibank, N.A.
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

LEGAL ADVISORS

Deacons
5th Floor Alexandra House
18 Chater Road
Central, Hong Kong

BUSINESS PROFILE

Luen Thai Holdings Limited (the "Company") together with its subsidiaries (collectively, "Luen Thai" or the "Group") is one of the world's leading apparel manufacturing and services companies with close supply chain partnership with brands and retailers globally.

Luen Thai has built an apparel supply chain and manufacturing platform with the objective of providing value-added services to improve our customers' supply chain through shortening total lead time, lowering of total sourcing costs and reducing retail mark-down.

As a total apparel manufacturing and services group, Luen Thai has developed a business model "design-to-store" ("D2S") providing a one-stop shop supply chain platform for partnership including design and development, raw material sourcing, production, quality assurance and logistics. Unlike traditional apparel manufacturers focusing mostly on production, Luen Thai offers multiple products with sizeable production facilities in various countries. First of its kind in the industry, Luen Thai set up its first Supply Chain City in Dongguan, China with dedicated development centers allowing customers to work with our team in all phases of the supply chain process. Along with our customers, Luen Thai has also been a strong supporter of compliance to social responsibilities.

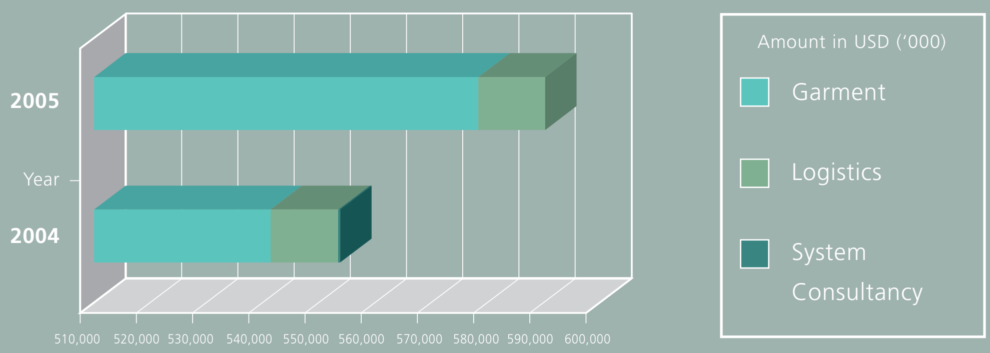
Headquartered in Hong Kong, Luen Thai has major production facilities in the People's Republic of China (the "PRC" or "China"), the Philippines and the Commonwealth of Northern Mariana Islands ("CNMI" or "Saipan") along with our Outward Processing Arrangements ("OPAs"). Our sales and logistics offices are located in Asia Pacific, the United States (the "USA") and Europe. With an annual turnover of over US$590 million, Luen Thai employs approximately 23,000 people worldwide.

KEY FINANCIAL HIGHLIGHTS

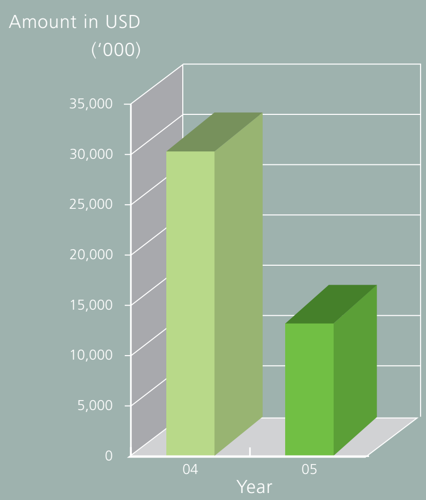
	2005	2004
	US$'000	US$'000
Turnover	**590,234**	553,766
Gross Profit	**110,789**	125,799
As a percentage of turnover	**18.8%**	22.7%
Operating Profit	**23,055**	38,363
As a percentage of turnover	**3.9%**	6.9%
Profit Attributable to the Equity Holders of the Company	**13,240**	30,361
As a percentage of turnover	**2.2%**	5.5%
Earnings Per Share	**US1.3 cents**	US3.9 cents
Dividend Per Share		
– Final	**US0.156 cent**	US0.52 cent
– Interim	**US0.244 cent**	Nil
Capital and Reserves		
Attributable to the Equity Holders of the Company	**218,714**	174,228

KEY FINANCIAL HIGHLIGHTS

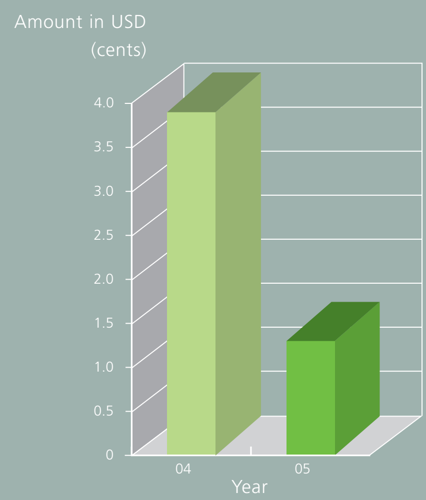
TURNOVER



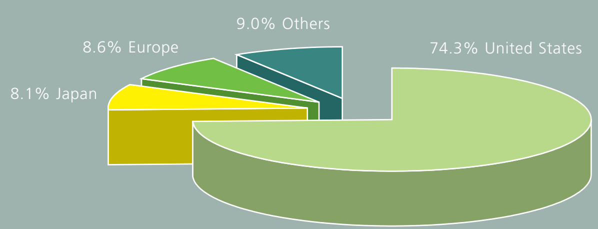
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY



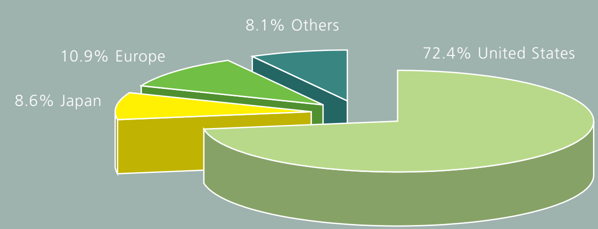
EARNINGS PER SHARE



SALES BY GEOGRAPHICAL SEGMENTS



2004



2005

2005 Operational Highlights

February

- Opened a dedicated development center in Panyu, China for one of our key customers in sleepwear division.

- Opened the Fabric & Trims Innovation Center at the Dongguan Supply Chain City, which is the first of its kind in the global apparel industry with the one-stop shop objective to bring the best vendor partners to one location for our key customers.

March

- Transferred the Logistics Division in Guam to a new Distribution Center, which sets the business growth in Guam and in the Micronesian region.

May

- Acquired 71% equity interests in Tien-Hu, a sweater manufacturer with design and trading capability, expanding our product range into sweaters.

November

- Acquired a production facility in Cebu, Philippines, through our 50% joint venture company, Yuen Thai Holdings Limited, which expands our production capacity in the sports and active apparel business.

December

- Inaugurated our Philippine Supply Chain Center, which provides a full range of logistics services from warehousing, inventory management, freight forwarding, distribution to logistics consultancy to our customers.

CHAIRMAN'S STATEMENT

INTRODUCTION

2005 was indeed proven to be a challenging year not only for the Group but also for the entire apparel industry. The Group has been able to sustain its growth despite the chaos that affected the entire apparel industry during the year, as a result of trade disputes between China and its major markets following the quota elimination.

The first year of the supposedly "quota-free" era in the global apparel industry has seen major issues on trade relationships as protectionism sentiments from importing countries became more intense after an upset from the surge of Chinese-made textile products. Major global players such as the United States of America ("USA") and the European Union ("EU") were forced to impose temporary safeguards to counter the flow of garments from China that lead to trade disputes and brought about uncertainties in the market.

To minimize the effects resulting from the uncertainties from trade disputes to our customers, we had to cope with the frequent changes in production schedules and origins, and the need to re-allocate and cancel orders at short notice, aside from the temporary changes to product lines to accommodate different products, which further resulted to lower utilization of certain Luen Thai facilities.

We consider the chaos in 2005 only temporary and with trade agreements now in force with the USA/EU, along with implementation of China's quota allocation system, we expect order flows to stabilize and increase in volume in 2006.

Moreover, as market consolidation has become inevitable, Luen Thai will continue to capitalize its strong customer relationships and experience in the industry together with the right business model, to become one of the major consolidators and beneficiaries in the "quota-free" era in the apparel industry.

CHAIRMAN'S STATEMENT

BUSINESS DEVELOPMENT

Luen Thai developed "D2S" business model that is a comprehensive apparel supply chain process, embracing both upstream and downstream elements to provide customers with an end-to-end value proposition – from design support all the way to logistics and distribution (physically and electronically). Our ultimate aim is to better serve our customers through shorter lead time and value-added services in all aspects of the supply chain.

As an industry leader, Luen Thai has 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 services to our key customers, as we expand further our China operations, with the view of its competitive advantage in terms of lead time and efficiency. In February and September 2005, we opened two more dedicated development centers in Panyu and Dongguan Supply Chain City in China. We now operate a total of six dedicated development centers for our key customers. In addition, we opened the Fabric & Trims Innovation Center at the Dongguan Supply Chain City in February 2005, which is the first of its kind in the global apparel industry. It was created to cut sourcing lead time by bringing a wide selection of the latest materials development closer to our customers in collaboration with our key vendor partners. These facilities, along with other on-site development support services in design, print, washing, embroidery, costing, technical support and sample making are all located just a few minutes away from each other within the Dongguan Supply Chain City. The set-up facilitates on-site and joint product development and helps our customers achieve *speed-to-market* advantages. Furthermore, it allows us to strengthen our business partnerships with key customers and suppliers as well.

Luen Thai is committed to its multi-product and multi-country strategy. As a measure to reduce risks associated with "safeguard measures" against China and maintain an even spread of production risks, we have continued to maintain and utilize our non-China production facilities, as well as developing and enhancing our Outward Processing Arrangement ("OPA") capabilities. In terms of product range, we have gained the capabilities for the production of sweaters through our acquisition of Partner Joy Group Limited (which owns Tien-Hu Knitters Limited, Tien-Hu Knitting Factory (Hong Kong) Limited and Tien-Hu Trading (Hong Kong) Limited; and collectively referred to as the "Tien-Hu") in May 2005. We are committed to support Tien-Hu 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.

FUTURE PLANS AND PROSPECTS

Looking ahead, with trade agreements now in force with the USA/EU, along with the implementation of China's quota allocation system, we expect order flows to stabilize in 2006. Luen Thai will continue to be prudent in developing its business while minimizing risks related to trade regulations. Also, we will remain focused to strive to be one of the leading players in the global apparel market with state-of-the-art supply chain and manufacturing platform as well as multi-product and multi-country manufacturing base.

Customer Partnership: The Group will continue to grow as we gain new customers and develop closer partnership with our existing key customers through our D2S business model together with our multi-product and co-location strategies. The Group's diversified manufacturing base will be important to our customers in mitigating country and political risks.

Acquisitions and Joint Ventures: The Group will continue to strengthen its multi-country and multi-product strategy through selective and value-enhancing acquisitions and joint ventures with the view of achieving the same success as what we have in GJM, Tomwell, Yuen Thai and Tien-Hu.

On behalf of the Board of Directors, I would like to express my sincere gratitude to all our customers, shareholders and vendor-partners for placing their trust in Luen Thai and for the support they have given us all these years.

I would also like to extend my appreciation to all our employees for their continued hard work and dedication to the development of the Group. Each and every one of them has played an important role to the day-to-day operations of Luen Thai.

Finally, I would also like to take this opportunity to express my sincere thanks for the close cooperation of my fellow Board members and the senior management of the Group. Their contribution and devotion marked the Group's transition to a new era in its history.

TAN Siu Lin
Chairman

Hong Kong, 20 April 2006

CEO REPORT

INTRODUCTION

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 minimize 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 only temporary and we expect our business to increase in 2006 as order flows stabilize 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 capitalize 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 & 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 career wear. 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 activewear, 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 maximize growth from activewear, we have also recently acquired a production facility in Cebu, the 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 Thai entered into a 50%-50% joint venture agreement with Guangdong Foreign Trade Group Co., Ltd., 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 various 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 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 European business to the Group.

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

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 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 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.

INVESTOR RELATIONS AND COMMUNICATION

The Group acknowledges the importance of communication with our shareholders. The Group has proactive policy of promoting investor relations through meetings with analysts and investors, and participation of international roadshows, investors' conferences, company interviews and manufacturing plant visits. All shareholders have no fewer than 21 days notice of the Annual General Meeting at which Directors shall be available to answer questions on the business.

The Group has established various forms of communication channels to improve the transparency of the Group including proactive and timely issuance of press releases so as to inform investors of our latest corporate development. The Group maintains a website (*www.luenthai.com*) in English and Chinese to disseminate information electronically on a timely basis to all concerned parties.

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 14.1% 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 the 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.

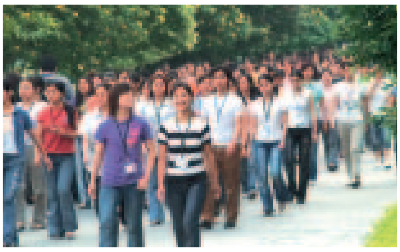
CONTINGENT LIABILITIES AND OFF-BALANCE SHEET OBLIGATIONS

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 recognized 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 specialties 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 organization 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 Group 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 recognized organizations and government bodies in the region.

This symbolizes 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.

PROSPECTS

Looking forward to 2006, we expect our business to increase as order flows start to stabilize, with the enforcement of trade agreements between China and the USA/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 acquisitions 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, SGTI 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 recognize the importance of quality and lead-time to our customers, we expect our China operations to continue to play an important role in providing customer satisfaction. We believe that it has the required efficiency that will continue to aid Luen Thai's global competitiveness.

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.

MANAGEMENT EXECUTIVES

EXECUTIVE DIRECTORS

Dr. TAN Siu Lin, aged 75, is the founder and Chairman of the Group. Dr. Tan is also the Chairman of Luen Thai Centre for Supply Chain System Research and Development at Peking University, the PRC, and the Chairman of TSL School of Business and Information Technology in Quanzhou Normal University(泉州師範學院陳守仁工商信息學院)Dr. Tan is a board member of the Shaw College at the Chinese University of Hong Kong and the Vice-Chairman of the Huaqiao University (華僑大學) as well as the honorable president of the Hong Kong General Chamber of Textiles Limited. Dr. Tan holds an honorary Doctoral of Laws degree from the University of Guam.

TAN Henry, BBS, aged 52, is the Chief Executive Officer and President of the Group and son of Dr. TAN Siu Lin. Mr. Tan is also a member of the Remuneration Committee and the Bank Facility Committee. He joined the Group in January 1985 and has over 21 years of experience in apparel and logistics industries. Mr. Tan is the Chairman of the Hong Kong General Chamber of Textiles Limited and is also an independent non-executive director of Kingboard Chemical Holdings Limited. He is a past Chairman of Po Leung Kuk, an authorized charity organization in Hong Kong. He also acts as committee member of the Chinese People's Political Consultative Conference in Fujian (中國人民政治協商會議福建省委員會委員). Mr. Tan obtained his Master's degree in Business Administration and Bachelor's degree in Business Administration from the University of Guam.

TAN Willie, aged 50, is the Chief Operating Officer of the Group and son of Dr. TAN Siu Lin. He joined the Group in July 1985 and has over 20 years of experience in the apparel business as well as logistics. Mr. TAN is a board director of the Confederation of Garment Exporters of the Philippines and is a committee member of the Chinese People's Political Consultative Conference in Qingyuan, Guangdong (中國人民政治協商會議廣東省清遠市委員會委員). Mr. Tan is the Founding Board of Director of the Philippine-China Business Council since February 2005. Mr. Tan obtained his Bachelor's degree in Business Administration from the University of Guam.

TAN Cho Lung, Raymond, aged 44, is the Executive Vice President of the Group and son of Dr. TAN Siu Lin, responsible for the strategic development of the Group. He joined the Group in 1989 and has over 16 years of experience in the industry. Mr. Tan is a member of the advisory board of the Textile Projects Vetting Committee for the Innovation and Technology Fund of Hong Kong. He has been the recipient of the Young Industrialist Award of Hong Kong and the DHL/SCMP Owner-Operator award for 2003. Mr. Tan graduated with a Bachelor's degree in Business Administration from the University of Guam.

MOK Siu Wan, Anne, aged 53, is the Executive Vice President of the Group and the Managing Director of Fashion Division. She is an accomplished industry professional with years of experience in key executive and board member positions out of which over 20 years were spent within various management positions within the Swire Group Companies. She also held senior management positions with other large companies including Pentland Group plc, an international group which develops and owns some leading brands in the sports and fashion business, and Li & Fung Limited. She graduated with a Bachelor's degree in Arts from the University of Hong Kong and has attended the management programmes organized by Harvard University, Tsinghua University and INSEAD Euro-Asia Centre. She was a member of the Board of Governors for the American Chamber of Commerce in Hong Kong from 1998 to 2003 and the Chairman of the Textiles Committee for the American Chamber of Commerce in Hong Kong in 1996 and 1997. She joined the Group in 2003.

MANAGEMENT EXECUTIVES

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry, aged 40, is a member of both the Audit Committee and the Remuneration Committee. Mr. Chan has over 18 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. Mr. Chan was a Director of the Stock Exchange of Hong Kong Company Limited from 1994 to 2000 and was also a Director of Hong Kong Securities Clearing Company Limited from 1996 to 2000. Mr. Chan is currently a member of the Advisory Committee of the Securities and Futures Commission, the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, an independent non-executive Director of Hengan International Group Company Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacture and distribution of personal hygiene products. Mr. Chan obtained his Master's degree in Business Administration from Asia International Open University (Macau) and his Bachelor's degree in Arts from Carleton University in Canada. He joined the Group in 2004.

CHEUNG Siu Kee, aged 62, is a member of both the Audit Committee and the Remuneration Committee. Mr. Cheung has extensive experience in the financial industry. He was the Group Treasurer of Nam Tai Electronics, Inc. from 2004 to 2005. Mr. Cheung had also worked for the Hongkong and Shanghai Banking Corporation Limited in Hong Kong for 37 years when he retired in 2003 as a Senior Executive in the Corporate and Institutional Banking division. Mr. Cheung obtained his Bachelor's degree of Arts from the University of Hong Kong. He joined the Group in 2004.

SEING Nea Yie, aged 58, is the Chairman of both the Audit Committee and the Remuneration Committee. Mr. Seing is the senior partner of both accounting firms Messrs. Chan, Seing & Co. and Messrs. Chen Yih Kuen & Co. Certified Public Accountants. Mr. Seing has over 31 years of audit experience and is currently holding CPA (Practising) at Hong Kong Institute of Certified Public Accountants. Mr. Seing is an active contributor to the charity activities in the community. He was the Director of Po Leung Kuk, an authorized charity organization in Hong Kong, from 1987 to 1990 and became the Vice Chairman in 1990 and 1991. Mr. Seing was also a member of audit committee of Po Leung Kuk from 1996 to 2000. Currently, Mr. Seing is the honorary president of The Fukienese Association Limited. Mr. Seing Nea Yie succeeded Mr. Fok Kwan Wing in January 2005*.

* On 28 January 2005, the Group announced that with deepest regret, Mr. FOK Kwan Wing, an independent non-executive director of the Group, passed away on 21 January 2005. Mr. Fok served as a member of the Board and was the chairman of the Audit Committee since June 2004. He made invaluable contributions to the Group during his tenure. The Board was deeply saddened by the loss of Mr. Fok and conveys its sincere condolences to his family.

REPORT OF THE DIRECTORS

The board of directors of Luen Thai Holdings Limited (the "Directors") has the pleasure in presenting to the shareholders this annual report together with the audited financial statements of Luen Thai Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

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

GROUP PROFIT

The consolidated income statment is set out on page 46 and shows the Group's profit for the year ended 31 December 2005. A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the CEO Report on pages 10 to 16 of the annual report.

DIVIDENDS

An interim dividend of US0.244 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.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Company and the Group as at 31 December 2005 are set out in notes 16 to 18 to the financial statements.

SHARE CAPITAL

Details of movement in share capital of the Company during the year are set out in note 28 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company available for distribution as dividends amounted to approximately US$191,429,000 as at 31 December 2005, comprising retained earnings of approximately US$2,867,000, a share premium of approximately US$116,998,000 and a capital reserve, amounting to approximately US$71,564,000. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the capital reserve account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 116 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately US$23,009,000. Details of the movement in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in note 27 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$535,000.

SHARE OPTIONS

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

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

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

A summary of details of the Share Option Scheme is set out as follows:

Eligible Participants:	At the Board's discretion include – (i) any Director, employee or officer employed by any Group company ("Employee"), consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, Employee, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any Director, Employee, consultant, professional, customer, supplier, agent, partner, advisor of or contractor to the Group or an Affiliate.
Minimum period for which an option must be held before it can be exercised:	An option may be exercised at any time during a period to be notified by the Board to each grantee. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.

Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:	HK$10 within 21 days of offer
Basis of determining the exercise price:	The exercise price shall be determined by the Board and not less than the highest of (i) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of share on the date of grant.
Remaining life of the Share Option Scheme:	The Share Option Scheme will remain in force until 26 June 2014, unless otherwise determined in accordance with its term.

The following is a summary of options granted and outstanding during the year ended 31 December 2005:

	Note	Date of grant (dd/mm/yyyy)	Exercise Period (dd/mm/yyyy)	Exercise Price Per Share	No. of share options As at 1 January 2005	Granted during the year	Exercised during the year	As at 31 December 2005
TAN Henry	5	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	200,000	–	–	200,000
TAN Willie	5	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	200,000	–	–	200,000
TAN Cho Lung, Raymond	5	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	150,000	–	–	150,000
Mok Siu Wan, Anne	10	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	250,000	–	–	250,000
TAN Jerry	6	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	150,000	–	–	150,000
TAN Sunny	7	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	150,000	–	–	150,000
CHIU George	8	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	200,000	–	–	200,000
TAN Jeffrey	9	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	50,000	–	–	50,000
TAN Jason	9	28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	100,000	–	–	100,000
Other Employees		28/12/2004	28/12/2004 – 27/12/2007	HK$4.10	6,306,500	–	–	6,306,500
					7,756,500	–	–	7,756,500

Notes:

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

2. The exercise price of the share options is subject to the adjustment in the event of any alteration in the capital structure of the Company.

3. The closing market price per share on the date the options were granted was HK$4.10.

4. The above options are not recognized in the financial statements as they were all granted and vested before 1 January 2005.

5. Mr. Tan Henry, Mr. Tan Willie, Mr. Tan Cho Lung, Raymond are the executive Directors of the Company.

6. Mr. Tan Jerry is the Chief Executive Officer of CTSI Logistics and the brother of the Directors mentioned in note 5 above.

7. Mr. Tan Sunny is the Chief Financial Officer of the Group and the brother of the Directors mentioned in note 5 above.

8. Mr. Chiu George is the brother-in-law of Mr. Tan Henry.

9. Mr. Tan Jeffrey and Mr. Tan Jason are the sons of Mr. Tan Henry, the Group Chief Executive Officer, and are also employees of the Group.

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

No share options were exercised, cancelled or lapsed during the year.

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors
TAN Siu Lin
TAN Henry
TAN Willie
TAN Cho Lung, Raymond
MOK Siu Wan, Anne *(appointed with effect from 3 June 2005)*

Independent non-executive Directors
CHAN Henry
CHEUNG Siu Kee
FOK Kwan Wing *(deceased on 21 January 2005)*
SEING Nea Yie *(appointed with effect from 28 January 2005)*

PARTICULARS OF SERVICE AGREEMENTS

Except for Ms. Mok Siu Wan, Anne, each of the executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from 27 June 2004, and thereafter shall continue subject to termination by either the Company or the Director giving three months' notice in writing to the other party. Under the service agreements, the remuneration payable to each of them shall be a fixed monthly salary, with such increase as the Board may from time to time determine in its absolute discretion. In addition, they will each be entitled to a bonus equivalent to one month's salary on or around each Chinese New Year falling after the first anniversary of the commencement date. Each of them will also be entitled to all reasonable out-of-pocket expenses.

On 3 June 2005, Ms. Mok Siu Wan, Anne was elected as an executive Director of the Company during the 2005 Annual General Meeting. The remuneration payable to Ms. Mok is the same as those provided to the other executive Directors of the Company, including fixed monthly salary, bonus and all reasonable out-of-pocket expenses.

The respective monthly salaries of the executive Directors are set out below:

Dr. TAN Siu Lin	HK$76,700
Mr. TAN Henry	HK$198,000
Mr. TAN Willie	HK$192,000
Mr. TAN Cho Lung, Raymond	HK$144,000
Mr. MOK Siu Wan, Anne	HK$256,668

Pursuant to the letter of appointment from the Company to each of the independent non-executive Directors dated 16 April 2004, the appointment of each independent non-executive Director was for an initial term of 3 years commencing from 16 April 2004, except for Mr. Seing Nea Yie, whose appointment became effective on 28 January 2005 as replacement of Mr. Fok Kwan Wing who passed away on 21 January 2005. Pursuant to the articles of association of the Company, Mr. Seing initially held office only until the 2005 Annual General Meeting of the Company and was then re-elected. Details of the change in directorship were also included in the Company's announcement dated 27 January 2005. Pursuant to the letters of appointment from the Company dated 27 January 2005 for Mr. Seing Nea Yie and 16 April 2004 for all other independent non-executive Directors, all independent non-executive Directors shall be entitled to an annual fee of HK$100,000.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2005, the interests of the Directors and chief executives of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the SEHK pursuant to the Model Code contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Long position in the Shares

Name of Director	Capacity	No. of Shares	Percentage of interest in the Company
TAN Siu Lin	Trustee *(note 1)*	675,774,000	68.09%
TAN Henry	Beneficiary of Trust *(notes 2 & 3)*	614,250,000	61.89%
	Beneficial Owner *(note 6)*	200,000	0.02%
TAN Willie	Beneficiary of Trust *(notes 2 & 4)*	614,250,000	61.89%
	Beneficial Owner *(notes 6 & 7)*	700,000	0.07%
TAN Cho Lung, Raymond	Beneficiary of Trust *(notes 2 & 5)*	614,250,000	61.89%
	Beneficial Owner *(note 6)*	150,000	0.02%
MOK Siu Wan, Anne	Beneficial Owner *(notes 6 & 8)*	350,000	0.04%

Notes:

1. Mr. Tan Siu Lin is the settlor and trustee of each of the Tan Family Trust of 2004, the Pak Kim Lam Tan Trust of 2004, the HJ Trust, the WR5C Trust, the LS Trust, the RC Trust, the JL Trust and the ST Trust (collectively referred to as the "Trusts"). As the settlor and trustee of the Trusts, all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under part XV of the SFO to be interested in the aggregate shareholdings of Tan Holdings Corporation ("Tan Holdings Corporation"), a company incorporated in Commonwealth of Northern Mariana Islands and Helmsley Enterprises Limited ("Helmsley"), a company incorporated in the Commonwealth of the Bahamas, held in the Company, representing 68.09% of the issued share capital of the Company.

2. Pursuant to a shareholders' agreement dated 12 June 2004 and entered into between Mr. Tan Siu Lin as trustee for each of the Trusts and Helmsley, each of the Trusts have agreed to adhere to certain pre-emptive arrangements concerning the transfer of shares in Helmsley. For the purposes of Part XV of the SFO, each of the Trusts is therefore deemed to have effective voting power in respect of the interests in Helmsley in the Company.

3. Mr. Tan Henry is one of the beneficiaries of the HJ Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the HJ Trust in the Company.

4. Mr. Tan Willie is one of the beneficiaries of the WR5C Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of WR5C Trust in the Company.

5. Mr. Tan Cho Lung, Raymond is one of the beneficiaries of the RC Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the RC Trust in the Company.

6. Except for Mr. Tan Siu Lin, each of the executive Directors is a grantee in the share options granted on 28 December 2004.

7. A total of 500,000 shares of the Company ("Company Shares") were purchased by an associate of Mr. Tan Willie between September and October 2005. Mr. Tan Willie is therefore deemed under Part XV of the SFO to be interested in the said total 500,000 purchased Company Shares.

8. Ms. Mok Siu Wan, Anne, in her personal capacity, purchased a total of 100,000 Company Shares on 10 August 2005.

CONNECTED TRANSACTIONS AND DIRECTORS' INTEREST IN CONTRACTS

The Tan Private Group, comprising of Helmsley and Tan Holdings Corporation and their respective subsidiaries (other than the Group) and any other connected person of the Company (as defined in the Listing Rules), is engaged in a large variety of businesses, ranging from the distribution of office supplies, insurance, fisheries, technological support, property, advertising and printing, and production of packaging materials. Such operations are generally conducted with independent third parties not connected with the Company or any of its Directors, chief executives and substantial shareholders (such terms as defined under the Listing Rules). However, given the extensive scope of such non-apparel-related business operations of the Company's substantial shareholders (with the same meaning ascribed thereto in the Listing Rules), Helmsley and Tan Holdings Corporation, the Group has a number of continuing transactions with the Tan Private Group.

As defined in the Listing Rules, members of the Tan Private Group are deemed associates and hence connected persons of the Company. Therefore, any transaction between any Group company and any member of the Tan Private Group that will continue following the Listing will constitute a connected transaction of the Company for the purposes of Chapter 14A of the Listing Rules, and which may be subject to the reporting, announcement and/or independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

The following table is a summary of the historical amounts of the non-exempt continuing connected transactions of the Group pursuant to Chapter 14A of the Listing Rules for the years ended 31 December 2005 and 2004. Details of these connected transactions are more particularly described in the prospectus and in the announcements dated 30 September and 1 December 2005 which pertain to new lease arrangements entered into between certain subsidiaries of the Group and its connected persons in Guam and Hong Kong, respectively.

Connected Party	**Category**	**2005**	2004
		US$'000	US$'000
Tan Private Group	Food and office supplies	**267**	456
	Travel services	**327**	386
	Insurance coverage	**680**	1,028
	Supply of packaging materials	**1,001**	1,321
	Provision of technological support services	**2,068**	2,266
	Lease agreements	**1,001**	881
	Freight services	**134**	231
	Mechanical repair and maintenance services	**182**	296
	Administrative and support services	**5,206**	9,024

The Directors (including the independent non-executive Directors) confirm that the above continuing connected transactions were:

(i) carried out on normal commercial terms;

(ii) carried out in the ordinary and usual course of business of the Group on terms that are fair and reasonable to the Group and are in the interest of the shareholders of the Company and the Group as a whole; and

(iii) within the relevant cap amounts as agreed by the Stock Exchange.

Also, the Directors (including the independent non-executive Directors) advise that the auditors, based on the work they have performed, confirmed that the Group's continuing connected transactions:

(i) have received the approval of the Directors;

(ii) are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;

(iii) have been entered into in accordance with the relevant agreement covering the transactions; and

(iv) have not exceeded the cap disclosed in the previous announcements.

Save as disclosed above:

(i) no contracts of significance subsisted to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly at the end of the year or at any time during the year; and

(ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interest disclosed in "Directors' and Chief Executives' Interests in Shares", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

Long position in the shares

Name of shareholder	Notes	Capacity	No. of ordinary shares beneficially held	Approximate percentage of interest in the Company
Capital Glory Limited	(a)	Beneficial owner	614,250,000	61.89%
Helmsley	(a)	Interest of controlled corporation	614,250,000	61.89%
Tan Family Trust of 2004	(b), (c)	Interest of controlled corporation	675,774,000	68.09%
Trusts (other than the Tan Family Trust of 2004)	(c)	Interest of controlled corporation	614,250,000	61.89%
Pou Chen Corporation		Interest of controlled corporation	89,100,000	8.98%
Wealthplus Holdings Limited		Interest of controlled corporation	89,100,000	8.98%
Yue Yuen Industrial (Holdings) Limited		Interest of controlled corporation	89,100,000	8.98%
Pou Hing Industrial Co. Ltd.		Interest of controlled corporation	89,100,000	8.98%
Great Pacific Investments Limited		Beneficial Owner	89,100,000	8.98%
Tan Holdings Corporation		Interest of controlled corporation	60,750,000	6.12%
		Beneficial Owner	774,000	0.08%
Union Bright Limited		Beneficial Owner	60,750,000	6.12%
JPMorgan Chase & Co.	(d)	Beneficial Owner	50,168,000	5.05%

Notes:

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

(b) The Tan Family Trust of 2004 was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin and his family members. The Tan Family Trust of 2004 is interested in the entire issued share capital of Tan Holdings Corporation and 30% of the issued share capital of Helmsley. For the purposes of Part XV of the SFO, it is deemed to be interested in the shares held by both Tan Holdings Corporation and Helmsley.

(c) The Trusts (Other than the Tan Family Trust of 2004) comprise of the following:

   (i) The Pak Kim Lam Tan Trust of 2004 was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan and their family members.

   (ii) The HJ Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Henry and the family members of Mr. Tan Henry.

   (iii) The WR5C Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Willie and the family members of Mr. Tan Willie.

   (iv) The LS Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mrs. Lily Tan Chou and the family members of Mrs. Lily Tan Chou.

   (v) The RC Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Cho Lung, Raymond and the family members of Mr. Tan Cho Lung, Raymond.

   (vi) The JL Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Cho Yee, Jerry and the family members of Mr. Tan Cho Yee, Jerry.

   (vii) The ST Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Sunny and the family members of Mr. Tan Sunny.

(d) The same number of shares were held in lending pool.

As the trustee of the Tan Family Trust of 2004 and the Trusts (other than the Tan Family Trust of 2004), collectively known as the "Trusts", all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under Part XV of the SFO to own in the aggregate shareholdings of Tan Holdings Corporation and Helmsley held in the Company, representing 68.09% of the issued share capital of the Company.

Save as disclosed above, so far as is known to the Directors, there are no other person (not being a Director or chief executive of the Company) who has interest or a short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the nominal values of any class of share capital carrying rights to vote in all circumstances at general meetings or any other members of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

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 Company Shares ("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.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 64% (2004: 61%) of the total sales. The top five suppliers accounted for approximately 42% (2004: 65%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 28% (2004: 26%) of the total sales and the Group's largest supplier accounted for approximately 21% (2004: 27%) of the total purchases for the year. At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Corporate Governance Report is set out in pages 37 to 44 of this annual report.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 35 to the financial statements.

AUDITORS

The financial statements for the year have been audited by Messrs. PricewaterhouseCoopers. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to re-appoint Messrs. PricewaterhouseCoopers as the auditors of the Company.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

On behalf of the Board

Tan Henry
Chief Executive Officer and Director

20 April 2006

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Luen Thai Holdings Limited together with its subsidiaries (the "Group" or "Luen Thai") acknowledges the need and importance of corporate governance as one of the key elements in creating shareholders' value. It is committed to ensuring high standards of corporate governance in the interests of shareholders and takes care to identify practices designed to achieve effective oversight, transparency and ethical behavior.

In November 2004, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") issued certain amendments in the Listing Rules related to the Code on Corporate Governance Practices (the "Code") and the rules on the Corporate Governance Report, which came into effect on 1 January 2005. The Company has considered the Code and has reviewed and amended internal procedures, where appropriate, to comply with the code.

Throughout the year ended 31 December 2005, the Company was in compliance with the Code as set out in the then Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

This report includes information relating to corporate governance practices of the Company during the year ended 31 December 2005 and significant events after that date and up to the date of this report.

DIRECTORS' SECURITIES TRANSACTIONS

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.

BOARD OF DIRECTORS

The Board

The Board is scheduled to meet at least four times a year to determine overall strategic direction and objectives and approve interim and annual results and other significant matters. In 2005, four Board meetings were held with an average attendance rate of 94%, details of which are presented below.

Board Members	***Meetings Attended/Held***	***Average Attendance Rate***
Executive Directors		89%
TAN Siu Lin *(Chairman of the Board)*	4/4	
TAN Henry*	4/4	
TAN Willie*	3/4	
TAN Cho Lung, Raymond*	3/4	
MOK Siu Wan, Anne *(appointed with effect from 3 June 2005)*	3/3	
**Son of TAN Siu Lin*		
Independent non-executive Directors		100%
CHAN Henry	4/4	
CHEUNG Siu Kee	4/4	
FOK Kwan Wing *(deceased on 21 January 2005)*	n/a	
SEING Nea Yie *(appointed with effect from 28 January 2005)*	4/4	

Directors are consulted to include any matter in the draft agenda. As part of our best practices, the agenda of Board meetings are finalized by the Chairman after taking into consideration any matters proposed by other Directors, including the independent non-executive Directors. The notice and agenda are generally released at least 14 days in advance.

The Company's articles of association (the "Articles of Association") provide that a Board meeting shall be held in cases where a substantial shareholder or Director has a conflict of interest in a material matter, in which the substantial shareholder or Director is required to abstain from voting and shall not be counted in quorum. This is also in conformity with the Code requirements.

The Company Secretary, Mr. Chiu Chi Cheung, is responsible for taking minutes of Board and Board Committee meetings. Draft and final minutes are sent to all Directors for comments within a reasonable time. A final draft of each minutes of meetings is made available for inspection by Directors/Committee Members.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters. They are also encouraged to take independent professional advice at the Company's expense in performance of their duties, if necessary. Furthermore, all the Directors are covered by the Directors' & Officers' Liability Insurance, which is also part of our best practices.

Chairman and CEO

During the year 2005 and as of the date of this report, Mr. Tan Siu Lin is the Chairman of the Board and Mr. Tan Henry is the Chief Executive Officer of the Company. Mr. Tan Henry is the son of Mr. Tan Siu Lin.

The Chairman of the Board is responsible for overseeing the strategic planning and leadership of Luen Thai. The Chief Executive Officer, on the other hand, is responsible for the strategic development and maintaining the Group's relationship with outside companies of the Group.

The Chairman ensures that the entire Board is provided with relevant Company information that would allow them to effectively discharge their responsibilities. The Company continues to strive to improve the quality and timeliness of dissemination of relevant information to all the Directors.

Composition

The board of directors (the "Board") comprises five executive Directors, including the Chairman of the Board, and three independent non-executive Directors. Each of the Directors has the relevant experience, competencies and skills appropriate to the requirements of the business of the Group, which are more particularly described in page 17 of this Annual Report. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The Group's best practices include the appointment of independent non-executive Directors which represents at least one-third of the Board.

Appointments, re-election and removal

The Board as a whole is responsible for the procedure agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment and thereafter at regular interval of rotation. Pursuant to the provisions of the Articles of Association, the Directors are subject to retirement by rotation at least once every three years and new Directors are required to submit themselves for re-election at the first general meeting of the Company following their appointment. The Company has not established any nomination committee and is not currently considering establishing the same owing to the small size of the Board of the Company. The Chairman of the Board is mainly responsible for identifying appropriate candidates to fill the casual vacancy whenever it arises or to add additional member as and when required. The Chairman will propose the qualified candidate(s) to the Board for consideration. The Board will approve the appointment based on the suitability, qualification of the candidate.

Responsibilities of Directors

Upon acceptance of appointment, a new Director is provided with sufficient orientation package, including introduction to Group activities (when necessary), induction into their responsibilities and duties, and other regulatory requirements, to ensure that he has a proper understanding of the business and his responsibilities as a Director of the Company.

Each of the Directors is required to give sufficient time and attention to the affairs of the Company. Based on the meetings of the Board and Committees under the Board (the "Board Committee"), a very satisfactory average attendance rates were recorded, as also presented in pages 38, 41 and 43 of the Annual Report.

Independent non-executive Directors

The roles of the independent non-executive Directors include the following:

(i) provision of independent judgement at the Board meeting;

(ii) take the lead where potential conflicts of interests arise;

(iii) serve on committees if invited; and

(iv) scrutinize the performance of the Group as necessary

Pursuant to the letter of appointment from the Company to each of the independent non-executive Directors dated 16 April 2004, the appointment of each independent non-executive Director was for an initial term of 3 years commencing from 16 April 2004, except for Mr. Seing Nea Yie, whose appointment became effective on 28 January 2005 as replacement of Mr. Fok Kwan Wing who passed away on 21 January 2005. Pursuant to the Articles of Association, Mr. Seing initially held office only until the 2005 Annual General Meeting of the Company and was then re-elected. Details of the change in directorship were also included in the Company's announcement dated 27 January 2005. Pursuant to the letters of appointment from the Company dated 27 January 2005 for Mr. Seing Nea Yie and 16 April 2004 for all other independent non-executive Directors, all independent non-executive Directors shall be entitled to an annual fee of HK$100,000.

The independent non-executive Directors of the Company and their immediate family receive no payment from the Company or its subsidiaries (except the Director fee). No family member of any independent non-executive Directors is employed as an executive officer of the Company or its subsidiaries, or has been so in the past three years. The independent non-executive Directors are subject to retirement and re-election at the Annual General Meeting in accordance with the provisions of the Articles of Association. Each independent non-executive Director has provided a confirmation of his independence with reference to the new independence guidelines as set out in the Listing Rules.

Supply of and access to information

To allow the Directors to make an informed decision and properly discharge their duties and responsibilities, the Company Secretary ensures that relevant Board papers are sent to all the Directors in a timely manner. All Board papers and minutes are also made available for inspection by the Board and its Committees.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee was set up with the responsibility of recommending to the Board the remuneration policy of all the Directors and the senior management, which was discussed in more detail in its written Terms of Reference (the "RC Terms of Reference"). The Remuneration Committee comprises one executive Director and three independent non-executive Directors, as set out below.

Independent non-executive Directors
CHAN Henry
CHEUNG Siu Kee
SEING Nea Yie, *Committee Chairman*

Executive Director
TAN Henry

The Committee Chairman is required to report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

A meeting of the Remuneration Committee is required to be held at least once a year to coincide with key dates within the financial reporting and audit cycle. In 2005, a perfect (100%) attendance rate for each Committee member was recorded for three meetings held by the Remuneration Committee.

The Remuneration Committee is authorized to investigate any matter within the RC Terms of Reference and seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if it considers necessary. The Remuneration Committee has reviewed the compensation of the directors and senior executives for 2005.

In 2005, total Directors' remuneration amounted to approximately US$1,818,000 (2004: US$984,000), individual monthly details of which are disclosed in pages 28 and 29 of the Annual Report. Executive Directors and senior management's compensation including the long-term incentive shall be based on the corporate and individual performance.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2005, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

Internal Controls

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interest of the shareholders and the Group's assets.

The Internal Audit Team (the "IA Team") was established in May 2005 with an Internal Audit Charter approved and adopted by the Audit Committee. The Audit Team is an independent unit established within the Group, which provides the Board an independent appraisal of the Group's systems of internal controls to evaluate the adequacy and effectiveness of the controls established to safeguard shareholders' investment and the Group's assets. The head of the internal audit has a direct reporting line to the Audit Committee.

The Directors through the IA Team under the Audit Committee conduct periodical reviews of the effectiveness of the Group's system of internal controls.

Audit Committee

The Audit Committee was established with written terms of reference that sets out the authorities and duties of the Committee adopted by the Board. It comprises three independent non-executive Directors, none of which is a former partner of the external auditors

The Audit Committee's principal duties include reviewing the nature and scope of the statutory audits, interim and annual financial statements of the Group, and the adequacy and effectiveness of the accounting and financial controls of the Group. It shall meet at least three times a year and on an ad hoc/as-needed basis. It meets with the external auditors and the management of the Group, to ensure that the audit findings are addressed properly. The Audit Committee is authorized to take independent professional advice at Company's expense.

The Audit Committee has reviewed the annual and interim results of 2005 and was content that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong.

The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting of the Company, Messrs. PricewaterhouseCoopers be re-appointed as the external auditors of the Group for 2006.

Attendance for the three meetings held by the Audit Committee during the year is set out below:

Audit Committee Members	***Meetings Attended/Held***
CHAN Henry	3/3
CHEUNG Siu Kee	3/3
FOK Kwan Wing *(deceased on 21 January 2005)*	n/a
SEING Nea Yie, *Committee Chairman (appointed with effect from 28 January 2005)*	3/3

The financial statements for the year have been audited by PricewaterhouseCoopers. During the year, remuneration of approximately US$620,000 was payable to PricewaterhouseCoopers for the provision of audit services. In addition, approximately US$296,000 was payable to PricewaterhouseCoopers for other non-audit services. The non-audit services mainly consist of tax compliance and the interim review. The fees for audit and non-audit services for subsidiaries not performed by PricewaterhouseCoopers amounted to approximately US$69,000 and US$87,000, respectively.

Communication with Shareholders

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the Annual Report and the Interim Report. Luen Thai website provides regularly updated Group information to shareholders. Luen Thai also arranges regular site visit for investors and media. Enquiries on matters relating to shareholdings and the business of the Group are welcome, and are dealt with in an informative and timely manner. The Group encourages all shareholders to attend Annual General Meeting.

SHAREHOLDERS' INFORMATION

Major Shareholders and Spread of Shareholders

The Company has 992,500,000 shares in issue, each with a par value of US$0.01.

As at 31 December 2005, the major shareholders of the Company were as follows:

Beneficial Shareholders	**Number of Ordinary Shares Owned**	**Percentage**
Capital Glory Limited *(notes 1 & 2)*	614,250,000	61.89%
Union Bright Limited *(notes 1 & 3)*	60,750,000	6.12%
Other Shareholders *(notes 1, 4 & 5)*	1,274,000	0.13%
	676,274,000	68.14%
Public Shareholders		
Yue Yuen Industrials (Holdings) Limited	89,100,000	8.98%
JPMorgan Chase & Co.	50,168,000	5.05%
Other Shareholders	176,958,000	17.83%
Total	992,500,000	100.0%

Notes:

1. Parties acting in concert.

2. Capital Glory is a wholly owned subsidiary of Helmsley, which is in turn owned by a number of trusts for the benefits of the Tan family.

3. Union Bright Limited is a wholly owned subsidiary of Tan Holdings Corporation, which is in turn wholly-owned by the Tan Family Trust.

4. Tan Holdings Corporation purchased a total of 774,000 Company Shares in May and July 2005.

5. A total of 500,000 shares of the Company ("Company Shares") were purchased by an associate of Mr. Tan Willie between September and October 2005. Mr. Tan Willie is therefore deemed under Part XV of the SFO to be interested in the said total 500,000 purchased Company Shares.

Share Performance

The Company's share price was HK$2.075 as at 31 December 2005 and its market capitalization was HK$2.06 billion. In 2005, the highest trading price for the Company share was HK$4.40 on 21 January and the lowest was HK$1.97 on 13 December.

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF
LUEN THAI HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 46 to 115 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Note	**2005** **US$'000**	2004 US$'000 (As restated)
Turnover	5	**590,234**	553,766
Cost of sales		**(479,445)**	(427,967)
Gross profit		**110,789**	125,799
Other revenues	5	**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	7	**(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	8	**(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	10		
– Basic		**US1.3 cents**	US3.9 cents
– Diluted		**US1.3 cents**	US3.9 cents
Dividends	11	**3,970**	12,561

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Note	2005 US$'000	2004 US$'000 (As restated)
ASSETS			
Non-current assets			
Leasehold land and land use rights	13	**4,727**	3,515
Property, plant and equipment	14	**84,309**	72,195
Intangible assets	15	**21,852**	3,965
Interests in associated companies	17	**231**	2,688
Interests in jointly controlled entities	18	**2,560**	852
Long-term investments	19	**–**	1,648
Available-for-sale financial assets	20	**2,023**	–
Deferred tax assets	21	**792**	822
Bank deposits		**–**	52,226
Other non-current assets		**2,535**	3,358
		119,029	141,269
Current assets			
Inventories	22	**64,783**	62,568
Trade receivables	23	**71,318**	75,115
Deposits, prepayments and other receivables		**6,934**	8,878
Amounts due from related companies	33	**3,273**	2,414
Amounts due from associated companies and jointly controlled entities	33	**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	25	**386**	54,000
Retirement benefit obligations	27	**2,041**	1,597
Deferred tax liabilities	21	**401**	–
Other long-term liabilities	26	**10,296**	–
		13,124	55,597
Current liabilities			
Trade and bills payables	24	**31,558**	30,066
Other payables and accruals		**58,068**	43,544
Amounts due to related companies	33	**2,775**	495
Amounts due to associated companies and jointly controlled entities	33	**–**	644
Bank borrowings	25	**83,301**	43,392
Taxation payable		**2,590**	5,495
		178,292	123,636
Total liabilities		**191,416**	179,233

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Note	2005 US$'000	2004 US$'000 (As restated)
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	28	**9,925**	9,023
Other reserves	29	**117,726**	79,799
Retained earnings	29	**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

TAN SIU LIN
Director

TAN HENRY
Director

BALANCE SHEET

As at 31 December 2005

	Note	2005 US$'000	2004 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	16	**199,126**	158,243
Current assets			
Bank balances and cash		**73**	632
Deposits, prepayments and other receivables		**27**	–
Amount due from a subsidiary	16	**2,500**	–
		2,600	632
Total assets		**201,726**	158,875
LIABILITIES			
Current liabilities			
Other payables and accruals		**372**	611
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	28	**9,925**	9,023
Other reserves	29	**188,562**	143,250
Retained earnings	29	**2,867**	5,991
Total equity		**201,354**	158,264
Total equity and liabilities		**201,726**	158,875
Net current assets		**2,228**	21
Total assets less current liabilities		**201,354**	158,264

TAN SIU LIN
Director

TAN HENRY
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	2005 US$'000	2004 US$'000 (As restated)
Operating activities			
Net cash inflow generated from operations	30(a)	**57,574**	15,810
Interest paid		**(3,474)**	(1,432)
Hong Kong profits tax paid		**(1,483)**	(1,079)
Overseas taxation paid		**(4,459)**	(8,212)
Net cash inflow from operating activities		**48,158**	5,087
Investing activities			
Purchase of property, plant and equipment		**(23,009)**	(31,660)
Purchase of leasehold land and land use rights		**(1,359)**	(915)
Purchase of available for sale financial assets		**(724)**	(208)
Increase in bank deposits maturing beyond three months		**–**	(52,226)
Proceeds from disposal of property, plant, equipment and leasehold land		**1,255**	1,743
Proceeds from disposal of an associate		**661**	–
Acquisition of a subsidiary, net of cash acquired	30(c)	**(5,733)**	(2,478)
Disposal of subsidiaries, net of cash disposed		**–**	(27)
Distribution in specie, net of cash disposed		**–**	(1,559)
Increase in long-term loans to a jointly controlled entity		**(1,856)**	(644)
Interest received		**1,980**	671
Increase in other non-current assets		**823**	(713)
Net cash outflow from investing activities		**(27,962)**	(88,016)
Net cash inflow/(outflow) before financing activities		**20,196**	(82,929)
Financing activities	30(b)		
Repayment of long-term loans from related companies		**–**	(37,605)
(Decrease)/Increase in trust receipts bank loans		**(11,631)**	13,380
Increase in short-term bank loans		**–**	877
Increase in long-term bank loans		**–**	67,581
Repayment of long-term bank loans		**(12,655)**	(17,281)
Net proceeds from issue of new shares		**46,214**	80,709
Dividends paid		**(7,583)**	–
Net cash inflow from financing activities		**14,345**	107,661

CONSOLIDATED CASH FLOW STATEMENT

	2005 US$'000	2004 US$'000 (As restated)
Effect of foreign exchange rate changes	**(742)**	502
Increase in cash and cash equivalents	**33,799**	25,234
Cash and cash equivalents at 1 January	**46,204**	20,970
Cash and cash equivalents at 31 December	**80,003**	46,204
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**148,038**	111,058
Time deposit with maturity beyond three months but less than one year	**(56,674)**	–
Time deposit with maturity beyond one year	**–**	(52,226)
Bank overdrafts	**(11,361)**	(12,628)
	80,003	46,204

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity holders of the Company					
	Share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Minority interest US$'000	Total US$'000
Balance at 1 January 2005, as previously reported as equity	9,023	71,686	8,113	85,406	–	174,228
Balance at 1 January 2005, as previously separately reported as minority interest	–	–	–	–	298	298
Balance at 1 January 2005, as restated	9,023	71,686	8,113	85,406	298	174,526
Exchange differences arising on translation of foreign subsidiaries	–	–	(457)	–	–	(457)
Profit for the year	–	–	–	13,240	1,260	14,500
Total recognized income for 2005	–	–	(457)	13,240	1,260	14,043
Net proceeds from issuance of new shares	902	45,312	–	–	–	46,214
Dividends	–	–	–	(7,583)	–	(7,583)
Recognition of financial liability arising from acquisition of a subsidiary *(note 32)*	–	–	(6,579)	–	–	(6,579)
Fair value loss – available-for-sale financial assets *(note 20)*	–	–	(349)	–	–	(349)
Minority interest – Business combinations	–	–	–	–	3,732	3,732
Balance at 31 December 2005	9,925	116,998	728	91,063	5,290	224,004
Balance at 1 January 2004, as previously reported as equity	–	–	221	55,438	–	55,659
Balance at 1 January 2004, as previously separately reported as minority interest	–	–	–	–	217	217
Balance at 1 January 2004, as restated	–	–	221	55,438	217	55,876
Exchange differences arising on translation of foreign subsidiaries	–	–	492	–	–	492
Profit for the year	–	–	–	30,361	47	30,408
Total recognized income for 2004	–	–	492	30,361	47	30,900
Capital contribution from minority shareholders	–	–	–	–	34	34
Disposal of subsidiaries by way of distribution in specie	–	–	–	7,007	–	7,007
Net proceeds from issuance of new shares	2,273	78,436	–	–	–	80,709
Capitalization of share premium	6,750	(6,750)	–	–	–	–
Reserve from the Reorganisation	–	–	7,400	–	–	7,400
Dividends	–	–	–	(7,400)	–	(7,400)
Balance at 31 December 2004	9,023	71,686	8,113	85,406	298	174,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Luen Thai Holdings Limited (the "Company") together with its subsidiaries (collectively, the "Group") is principally engaged in the manufacturing and trading of garment and textile products, apparel manufacturing and the provision of freight forwarding and logistics services. During the year, the Group acquired 71% equity interest in Partner Joy Group Limited, a manufacturer and trader of sweaters.

The Company is a limited liability company incorporated in the Cayman Islands. Its principal place of business is at 5/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

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

These consolidated financial statements are presented in thousands of units of United States dollars (US$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20 April 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The consolidated financial statements of the Group for the year ended 31 December 2004 are prepared using the 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 and 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 when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated amortization 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 approximately 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 options in the income statement. The change in the accounting policy does not have any material effect on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 (note 2.7):

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

– Accumulated amortisation as at 31 December 2004 amounting to approximately 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 recognize, derecognize 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 recognized at 1 January 2005;

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

– 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 applied 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: Disclosures
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease

2.2 Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see note 2.7).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) *Joint ventures*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) *Transactions with minority interest*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States dollars ("US dollars"), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in income statement, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

2.5 Property, plant and equipment

The property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	5%
Leasehold improvements	6.7% – 20% or over the unexpired period of the lease, whichever is shorter
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	20% – 33$^{1}/_{3}$%
Motor vehicles	20% – 33$^{1}/_{3}$%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

2.6 Construction-in-progress

Construction-in-progress represents buildings, plants and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance such assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in note 2.5 in this Section.

2.7 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in "intangible assets". Goodwill on acquisitions of associates is included in "interests in associated companies". Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

(a) *Goodwill (continued)*

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) *Other intangible asset*

Other intangible asset representing customer relationship which has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of other intangible asset over its estimated useful life of 14 years.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as long-term investments.

Long-term investments are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value.

The impairment loss is recognized as an expense in the consolidated income statement. This impairment loss is written back to the consolidated income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (note 2.11).

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. During the year, the Group did not hold any investments in this category.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial Assets (continued)

Regular purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the income statement within "other income, net", in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognized in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as "gains and losses from investment securities". Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivable

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included in borrowings under current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax assets are realized or the deferred income tax liabilities are settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

(a) *Pension obligations*

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(a) *Pension obligations (continued)*

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the present value of the defined benefit obligation are recognized in the income statement over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Long service payments*

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at balance sheet date on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Share based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. The impact of the revision of original estimates, if any, is recognized in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of returns and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(i) *Sale of goods*

Sale of goods is recognized when products have been delivered to its customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) *Freight forwarding and logistics services income*

Freight forwarding and logistics services income are recognized when services are rendered.

(iii) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(iv) *Rental income*

Rental income is recognized on a straight-line basis over the lease period.

(v) *Management and commission income*

Management and commission income are recognized when services are rendered.

2.19 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to currency risk, interest rate risk, credit risk and liquidity risk.

(a) Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Most of the Group's operating activities are denominated in US dollars and Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group enters into foreign exchange forward contracts to reduce foreign exchange risk.

(b) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from bank borrowings. As at 31 December 2005, borrowings were primarily at floating rates. The Group generally has not used interest rate swaps to hedge its exposure to interest rate risk.

(c) Credit risk

The carrying amount of trade receivable included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible accounts receivable has been made.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. The Directors aim to maintain flexibility in funding by keeping credit lines available.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

In accordance with HKAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill by comparing its recoverable amount to its carrying amount as at 31 December 2005. The Group has conducted a valuation of the goodwill based on value-in-use calculation. The resulting values of the goodwill as at 31 December 2005 were higher than their carrying amounts. This valuation uses cash flow projections based on financial estimates covering a three-year to five-year periods, expected gross margin of 10% to 18.3% and a discount rate of 14%. The cash flows beyond the three-year/five-year periods are extrapolated using a steady 2% growth rate. This growth rate does not exceed the long-term average growth rate for apparel markets in which the Group operates. The Directors have considered the above assumptions and valuation and also taken into account the business expansion plan going forward. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amount of goodwill to exceed the aggregate recoverable amount.

(b) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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 derecognized. Consequently, the amount of US$3,338,000 was taken to the consolidated income statement for the year ended 31 December 2005.

5 TURNOVER, REVENUES AND SEGMENT INFORMATION

(a) Analysis of turnover and revenues

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 recognized during the year are as follows:

	2005	2004
	US$'000	US$'000
Turnover –		
Sales of garment and textile products to		
– third parties	**565,436**	537,933
– a jointly controlled entity *(note 33)*	**12,926**	3,465
Provision of freight forwarding and logistic services to		
– third parties	**10,574**	10,659
– related companies and a jointly controlled entity *(note 33)*	**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 from		
– third parties	**–**	189
– related companies, a jointly controlled entity and an associated company *(note 33)*	**594**	540
Rental income from a related company and a jointly controlled entity *(note 33)*	**176**	144
Commission income from a related company and an associated company *(note 33)*	**998**	1,005
Others	**70**	94
	3,818	2,643
Total revenues	**594,052**	556,409

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information

(i) 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 the equity holders of the Company			13,240

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

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 the equity holders of the Company				30,361

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

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

	Year ended 31 December 2005				Year ended 31 December 2004			
	Garment	**Freight forwarding/ logistics services**	**System consultancy**	**Total**	Garment	Freight forwarding/ logistics services	System consultancy	Total
	US$'000	**US$'000**	**US$'000**	**US$'000**	US$'000	US$'000	US$'000	US$'000
Depreciation *(note 14)*	**10,690**	**542**	**–**	**11,232**	8,882	553	167	9,602
Amortisation *(notes 13 & 15)*	**572**	**–**	**–**	**572**	486	–	–	486
Impairment of trade receivable	**66**	**22**	**–**	**88**	815	44	–	859
(Write-back of)/provision for inventory obsolescence	**(980)**	**–**	**–**	**(980)**	428	–	–	428

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

	Garment	**Freight forwarding/ logistics services**	**Group total**
	US$'000	US$'000	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 *(notes 13, 14 and 15)*	43,486	1,033	44,519

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

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

	Garment	Freight forwarding/ logistics services	System consultancy	Group
	US$'000	US$'000	US$'000	US$'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 *(notes 13, 14 and 15)*	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 (note 13), property, plant and equipment (note 14), and intangible assets (note 15), including additions resulting from acquisitions through business combinations (notes 13, 14, 15 and 32).

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(ii) Secondary reporting format – geographical segments

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

Sales

	2005	2004
	US$'000	US$'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.

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

Total assets

	2005	2004
	US$'000	US$'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	2004
	US$'000	US$'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.

6 EXPENSES BY NATURE

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

	2005 US$'000	2004 US$'000
Exchange gains, net	–	(677)
Write-back of other payables *(note a)*	(5,407)	–
Write-back of provision for inventory obsolescence	(980)	–
Auditors' remuneration	689	633
Amortization of leasehold land and land use rights	82	24
Amortization of goodwill (included in general and administrative expenses)	–	462
Amortization of other intangible asset (included in general and administrative expenses)	490	–
Depreciation of property, plant and equipment	11,232	9,602
Provision for claims	2,173	3,725
Exchange losses, net	638	–
Loss on disposal of property, plant and equipment, net	426	214
Operating leases		
– office premises and warehouses	4,222	4,467
– plant and machinery	156	161
Provision for impairment of receivables	88	859
Provision for inventory obsolescence	–	428
Quota expenses	231	8,382
Employee benefit expenses *(note 12)*	113,985	112,612

(a) In prior years, the Group had made provision of approximately 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 approximately US$5,407,000 would no longer be required and should be derecognised. Consequently, the amount of approximately US$5,407,000 was taken to the consolidated income statement for year ended 31 December 2005.

7 FINANCE COSTS

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

8 TAXATION

Hong Kong profits tax has been provided at the rate 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 (As restated)
Current taxation:		
– Hong Kong profits tax	**742**	913
– Overseas taxation	**5,102**	7,753
Over-provision in prior years	**(3,338)**	(1,994)
Deferred taxation relating to the origination and reversal of temporary differences *(note 21)*	**427**	(467)
	2,933	6,205

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2005 US$'000	2004 US$'000
Profit before taxation	**17,433**	36,613
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**3,051**	6,407
Effect of different taxation rates in other countries	**3,090**	2,801
Income not subject to tax	**(1,991)**	(2,057)
Expenses not deductible for taxation purposes	**871**	774
Tax losses for which no deferred income tax asset was recognized	**1,284**	952
Utilization of previously unrecognized tax lossess	**(34)**	(678)
Over-provision in prior years	**(3,338)**	(1,994)
Tax expense	**2,933**	6,205

9 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately US$4,459,000 (2004: US$5,991,000).

10 EARNINGS PER SHARE

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

	2005 **US$'000**	2004 US$'000
Profit attributable to equity holders of the Company	**13,240**	30,361
Weighted average number of ordinary shares in issue	**983,356,000**	780,117,000
Basic earnings per share (US cents per share)	**1.3**	3.9

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

11 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
Dividend 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 capitalized 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.

12 EMPLOYEE BENEFIT EXPENSES – INCLUDING DIRECTORS' EMOLUMENTS

(a) Employee benefit expenses during the year are as follows:

	2005	2004
	US$'000	US$'000
Wages, salaries and allowances	**110,282**	108,378
Unutilized annual leave	**13**	461
Termination benefits	**502**	679
Pension costs		
– Defined contribution plans *(note 27(a))*	**603**	669
– Defined benefit plans *(note 27(b))*	**523**	388
– Long service payments *(note 27(c))*	**74**	57
Others	**1,988**	1,980
	113,985	112,612

(b) **Directors' and senior management**

The remuneration of each Director for the year ended 31 December 2005 is set out below:

Name of Director	**Fees**	**Salary**	**Discretionary bonuses**	**Employer's contribution to pension scheme**	**Total**
	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors					
Mr. Tan Siu Lin	–	128	–	–	128
Mr. Tan Henry	–	331	–	2	333
Mr. Tan Willie	–	321	–	–	321
Mr. Tan Cho Lung, Raymond	–	240	19	2	261
Ms. Mok Siu Wan, Anne *(note (ii))*	–	433	300	2	735
Independent non-executive Directors					
Mr. Chan Henry	13	–	–	–	13
Mr. Cheung Siu Kee	13	–	–	–	13
Mr. Seing Nea Yie	13	–	–	–	13
Mr. Fok Kwan Wing *(deceased on 21 January 2005)*	1	–	–	–	1

12 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(b) Directors' and senior management (continued)

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors					
Mr. Tan Siu Lin	–	124	7	–	131
Mr. Tan Henry	–	287	23	2	312
Mr. Tan Willie	–	281	4	2	287
Mr. Tan Cho Lung, Raymond	–	204	21	2	227
Ms. Mok Siu Wan, Anne *(note (i))*	–	384	–	2	386
Independent non-executive Directors					
Mr. Chan Henry	9	–	–	–	9
Mr. Cheung Siu Kee	9	–	–	–	9
Mr. Seing Nea Yie *(note (i))*	–	–	–	–	–
Mr. Fok Kwan Wing *(deceased on 21 January 2005)*	9	–	–	–	9

(i) Ms. Mok Siu Wan, Anne and Mr. Seing Nea Yie were appointed as an executive Director and independent non-executive Director respectively in 2005. Their 2004 remuneration information is presented for comparative purpose.

(ii) Ms. Mok Siu Wan, Anne's 2005 remuneration disclosed on page 82 included the remuneration paid and payable to her prior to her appointment as a Director in the same year.

None of the Directors of the Company waived any emoluments paid by the group companies during the year.

12 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year (2004: two) are as follows:

	2005 **US$'000**	2004 US$'000
Fees	**–**	–
Basic salaries and allowances	**654**	704
Bonuses	**609**	–
Pension scheme contributions	**12**	2
	1,275	706

(d) Five highest paid individuals

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Emolument bands		
US$258,001 to US$323,000 (equivalent to HK$2,000,001 to HK$2,500,000)	**–**	1
US$323,001 to US$387,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**–**	1
US$387,001 to US$452,000 (equivalent to HK$3,000,001 to HK$3,500,000)	**3**	–
	3	2

During the year, no emoluments have been paid to the Directors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office.

13 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

	2005	2004
	US$'000	US$'000
Leases of 10 to 50 years held outside Hong Kong	**4,727**	3,515
Opening	**3,515**	2,624
Additions	**1,359**	915
Amortization of prepaid operating lease payments	**(82)**	(24)
Disposal	**(65)**	–
	4,727	3,515

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	**Leasehold improve-ments**	**Plant and machinery**	**Furniture, fixtures and equipment**	**Motor vehicles**	**Construction-in-progress**	**Total**
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2004							
Cost	17,633	19,913	39,118	21,474	3,507	4,121	105,766
Accumulated depreciation	(3,296)	(12,417)	(16,560)	(14,664)	(2,468)	–	(49,405)
Net book amount	14,337	7,496	22,558	6,810	1,039	4,121	56,361
Year ended 31 December 2004							
Opening net book amount	14,337	7,496	22,558	6,810	1,039	4,121	56,361
Additions	8,892	2,250	9,584	7,295	527	3,112	31,660
Acquisition of a subsidiary	–	78	–	164	3	–	245
Disposals	–	(296)	(1,303)	(314)	(44)	–	(1,957)
Transfer from construction-in–progress	3,368	489	–	–	–	(3,857)	–
Disposal of a subsidiary	–	(247)	(608)	(28)	–	–	(883)
Disposal of subsidiaries by way of distribution in specie	(1,347)	(287)	(1,173)	(827)	(26)	–	(3,660)
Depreciation	(1,199)	(1,840)	(3,060)	(3,085)	(418)	–	(9,602)
Exchange differences	(1)	(8)	(3)	26	17	–	31
Closing net book amount	24,050	7,635	25,995	10,041	1,098	3,376	72,195
At 31 December 2004							
Cost	28,103	21,403	43,157	27,037	3,595	3,376	126,671
Accumulated depreciation	(4,053)	(13,768)	(17,162)	(16,996)	(2,497)	–	(54,476)
Net book amount	24,050	7,635	25,995	10,041	1,098	3,376	72,195

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land and buildings US$'000	Leasehold improve-ments US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction-in-progress US$'000	Total US$'000
Year ended 31 December 2005							
Opening net book amount	24,050	7,635	25,995	10,041	1,098	3,376	72,195
Acquisition of a subsidiary *(note 30(c))*	–	238	1,221	261	54	–	1,774
Additions	151	1,049	5,006	6,196	680	9,927	23,009
Disposals	(118)	(776)	(605)	(59)	(58)	–	(1,616)
Transfer from construction-in-progress	4,256	921	(3)	16	–	(5,190)	–
Depreciation	(1,443)	(1,994)	(3,669)	(3,700)	(426)	–	(11,232)
Exchange differences	52	112	45	(51)	13	8	179
Closing net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309
At 31 December 2005							
Cost	32,542	22,780	47,476	33,110	3,960	8,121	147,989
Accumulated depreciation	(5,594)	(15,595)	(19,486)	(20,406)	(2,599)	–	(63,680)
Net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309

(a) Depreciation expense of US$6,300,000 (2004: US$5,635,000) has been expensed in cost of sales, and US$4,932,000 (2004: US$3,967,000) has been expensed in general and administrative expenses.

(b) The construction in-progress mainly represents factories and office buildings under construction in the PRC. Upon completion, the accumulated cost under construction-in-progress will be transferred to other property, plant and equipment.

15 INTANGIBLE ASSETS

	Goodwill	Other intangible asset	Total
	US$'000	US$'000	US$'000
At 1 January 2004			
Cost	3,765	–	3,765
Accumulated amortization and impairment	(1,036)	–	(1,036)
Net book amount	2,729	–	2,729
Year ended 31 December 2004			
Opening net book amount	2,729	–	2,729
Acquisition of a subsidiary *(note 30(c))*	1,698	–	1,698
Amortization *(note 6)*	(462)	–	(462)
Closing net book amount	3,965	–	3,965
At 31 December 2004			
Cost	5,089	–	5,089
Accumulated amortization	(1,124)	–	(1,124)
Net book amount	3,965	–	3,965
Year ended 31 December 2005			
Opening net book amount	3,965	–	3,965
Acquisition of a subsidiary *(note 30(c))*	8,098	10,279	18,377
Amortization *(note 6)*	–	(490)	(490)
Closing net book amount	12,063	9,789	21,852
At 31 December 2005			
Net book amount/cost	12,063	10,279	22,342
Accumulated amortization	–	(490)	(490)
Net book amount	12,063	9,789	21,852

16 INVESTMENTS IN SUBSIDIARIES

	2005 US$'000	2004 US$'000
Unlisted shares	**71,564**	71,564
Amounts due from subsidiaries	**127,562**	86,679
	199,126	158,243

Particulars of the principal subsidiaries as at 31 December 2005:

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Asialink Shipping Lines, Inc.	The Philippines	Provision of freight forwarding and logistics services in the Philippines	5,000 ordinary shares of Peso 100 each	100%
Chatelaine, Inc.	USA	Import and distribution of apparel in the USA	100 ordinary shares with total paid-in capital of US$10,000	100%
Chelton Force Limited	British Virgin Islands ("BVI")	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Concorde Garment Manufacturing Corporation	CNMI	Garment manufacturing in CNMI	1,510,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services, Inc.	CNMI	Provision of freight forwarding and logistics services in CNMI	1,000,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services (FSM), Inc.	Pohnpei	Provision of freight forwarding and logistics services in Pohnpei	100,000 ordinary shares of US$1 each	90%
Consolidated Transportation Services, Incorporated (Guam)	Guam	Provision of freight forwarding and logistics services in Guam	400,000 ordinary shares of US$1 each	100%
Consolidated Transportation Services, Inc. (Palau)	Palau	Provision of freight forwarding and logistics services in Palau	100,000 ordinary shares of US$1 each	80%

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
CTSI Holdings Limited	BVI	Investment holding in the Philippines	1 ordinary share of US$1 each	100%
CTSI Logistics, Inc.	USA	Provision of freight forwarding and logistics services in the USA	10,000 ordinary shares with total paid-in capital of US$100,000	100%
CTSI Logistics Inc.	Cambodia	Provision of freight forwarding and logistics services in Cambodia	100 ordinary shares of Riels 380,000 each	100%
CTSI Logistics (Korea), Inc.	Korea	Provision of freight forwarding and logistics services in Korea	60,000 ordinary shares of Won 5,000 each	60%
CTSI Logistics Limited	Hong Kong	Provision of freight forwarding and logistics services in Hong Kong	100,000 ordinary shares of HK$10 each	100%
CTSI Logistics Phils., Inc.	The Philippines	Provision of freight forwarding and logistics services in the Philippines	100,000 ordinary shares of Peso 100 each	100%
Dongguan Luen Thai Garment Co., Ltd.	The PRC	Garment manufacturing in the PRC	Registered capital of HK$225,350,000 with total paid-in capital of HK$211,970,611	100%
Fortune Investment Overseas Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
GJM (HK) Limited	Hong Kong	Sourcing, manufacturing and trading of garment products in Hong Kong	2 ordinary shares of HK$1 each	100%
G.J.M. (H.K.) Manufacturing Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$100 each	100%

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
GJM (Qingyuan) Light Industrial Development Limited	The PRC	Garment manufacturing in the PRC	Registered capital of HK$62,000,000 with total paid-in capital of HK$54,813,757	100%
GJM (UK) Limited	United Kingdom	Distribution of garments in the UK	1 ordinary share of GBP 1 each	100%
GJM (USA), Inc.	USA	Distribution of garments in the USA	200 ordinary shares with total paid-in capital of US$100,000	100%
Golden Dragon Apparel, Inc.	The Philippines	Garment manufacturing in the Philippines	62,000 ordinary shares of Peso 100 each	100%
Hongquan Consulting Services (Shenzhen) Co., Ltd.	The PRC	Provision of consultancy services in the PRC	HK$1,000,000	100%
Kingsmere, Inc.	USA	Investment holding in the USA	100 ordinary shares with total paid-in capital of US$310,000	100%
L & T International Group Phils., Inc.	The Philippines	Garment manufacturing in the Philippines	20,000 ordinary shares of Peso 100 each	100%
L & T Macao Garment Manufacturing Company Limited	Macau	Garment manufacturing in Macau	MOP$25,000	100%
Luen Thai International Group Limited	Hong Kong	Sourcing, manufacturing and trading of textile and garment products in Hong Kong	2 ordinary shares of HK$1 each	100%
Luen Thai Macao Commercial Offshore Company Limited	Macau	Souring, manufacturing and trading of textile and garment products in Macau	MOP$25,000	100%

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Luen Thai Overseas Limited	Bahamas	Investment holding in Hong Kong	16,685,804 ordinary shares of US$1 each	100%
Panyu G.J.M. Garment Manufacturing Factory	The PRC	Garment manufacturing in the PRC	US$5,500,000	100%
Philippine Luen Thai Holdings Corporation	The Philippines	Investment holding in the Philippines	260,000 ordinary shares of Peso 100 each	100%
Partner Joy Group Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US$1 each	71%
Power Might Limited	BVI	Investment holding in Hong Kong	12,207,164 ordinary shares of US$1 each	100%
Sunny Force Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
TellaS Ltd.	USA	Import and distribution of garments in the USA	100 ordinary shares with total paid-in capital of US$100,000	100%
Tomwell Limited	Hong Kong	Provision of subcontracting services in Hong Kong	2 ordinary shares of HK$10 each	100%
Tien-Hu Knitters Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%
Tien-Hu Trading (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%
Tien-Hu Knitting Factory (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	71%

All subsidiaries of the Company are indirectly held except for Luen Thai Overseas Limited.

The outstanding balances with subsidiaries, except for the amount due from a subsidiary of approximately US$2,500,000 (2004: Nil), which is repayable within the coming twelve months, are interest-free and not repayable in the coming twelve months.

17 INTERESTS IN ASSOCIATED COMPANIES

	2005 **US$'000**	2004 US$'000
Beginning of year	**2,688**	2,148
Share of (loss)/profit of associated companies	**(1,891)**	529
Disposal of an associated company	**(563)**	–
Exchange difference	**(3)**	11
End of year	**231**	2,688

Particulars of the Group's interest in its principal associated companies as at 31 December 2005:

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
CTSI Logistics (Taiwan), Inc.	Taiwan	Provision of freight forwarding and logistics services in Taiwan	10,000,000 ordinary shares of TWD 10 each	49%
LT Investment Co. Ltd.	Cambodia	Property holding in Cambodia	25 ordinary shares of US$8,000 each	49%

The investments are unlisted.

The aggregate amount of profits retained by the associated companies included in the Group's retained earnings amounted to approximately US$75,000 as at 31 December 2005 (2004: US$2,312,000).

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005 **US$'000**	2004 US$'000
Share of net (liabilities)/assets	**(84)**	208
Loan to a jointly controlled entity	**2,644**	644
	2,560	852
Unlisted investments, at cost	**2,461**	2,370

The aggregate amount of accumulated losses retained by the jointly controlled entities included in the Group's retained earnings amounted to approximately US$1,522,000 as at 31 December 2005 (2004: US$1,246,000).

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

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

Particulars of the Group's interest in its principal jointly controlled entities as at 31 December 2005:

Name	Place of Incorporation/establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Shenzhen Li Da Silk Garment Company Limited	The PRC	Garment manufacturing in the PRC	Rmb2,400,000	25%
Suzhou F&T Garments Manufacture Co., Ltd.	The PRC	Garment manufacturing in the PRC	US$210,000	80%
Suzhou Nantai Garments Co., Ltd.	The PRC	Garment manufacturing in the PRC	US$210,000	50%
Wuxi Liantai Garments Co., Ltd.	The PRC	Garment manufacturing in the PRC	Registered capital of US$2,050,000 with total paid-in capital of US$1,241,400	50%
Yuen Thai Industrial Company Limited	Hong Kong	Manufacturing of sports and active wear in the PRC	2 ordinary shares of HK$1 each	50%

The investments are unlisted.

19 LONG-TERM INVESTMENTS

	2005 **US$'000**	2004 US$'000
Unlisted club debentures, at cost	–	1,795
Less: provision for impairment losses	–	(147)
	–	1,648

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2005 **US$'000**	2004 US$'000
Beginning of the year	**1,648**	–
Additions	**724**	–
Revaluation deficit charged to equity *(note 29)*	**(349)**	–
End of the year	**2,023**	–

21 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2005 **US$'000**	2004 US$'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(792)**	(822)
Deferred tax liabilities		
– Deferred tax liabilities to be settled after more than 12 months	**401**	–

The gross movement on the deferred income tax account is as follows:

	Group	
	2005 **US$'000**	2004 US$'000
Beginning of the year	**(822)**	(345)
Recognized in the income statement *(note 8)*	**427**	(467)
Acquisition of a subsidiary	**4**	–
Exchange differences	**–**	(10)
End of the year	**(391)**	(822)

21 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Group			
	Provision	**Accelerated tax depreciation**	**Others**	**Total**
	US$'000	US$'000	US$'000	US$'000
At 1 January 2004	213	(1)	133	345
Recognized in the income statement	69	64	334	467
Exchange differences	(2)	–	12	10
At 31 December 2004	280	63	479	822
Recognized in the income statement	(18)	(414)	5	(427)
Acquisition of a subsidiary	–	(4)	–	(4)
At 31 December 2005	262	(355)	484	391

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of US$4,705,000 (2004: US$3,421,000) in respect of losses to carry forward against future taxable income. These tax losses have expiry dates from 2006 to 2011.

22 INVENTORIES

	2005	2004
	US$'000	US$'000
Raw materials	**29,270**	23,016
Work-in-progress	**15,175**	13,431
Finished goods	**20,338**	26,121
	64,783	62,568

As at 31 December 2005, certain inventories were held under trust receipts bank loan arrangement.

23 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 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:

	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 recognized 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 administrative expenses in the consolidated income statement.

24 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

25 BANK BORROWINGS

	2005 US$'000	2004 US$'000
Non-current		
Bank loans	**386**	54,000
Current		
Bank overdrafts	**11,361**	12,628
Collateralised borrowings	**740**	–
Bank loans	**45,000**	–
Current portion of non-current bank loans	**1,399**	1,600
Trust receipt bank loans	**24,801**	29,164
	83,301	43,392
Total borrowings	**83,687**	97,392

	Bank overdraft and trust receipt bank loans		Bank loans		Total	
	2005 US$'000	2004 US$'000	2005 US$'000	2004 US$'000	2005 US$'000	2004 US$'000
Within one year	**36,162**	41,792	**47,139**	1,600	**83,301**	43,392
Between 1 and 2 years	**–**	–	**386**	54,000	**386**	54,000
	36,162	41,792	**47,525**	55,600	**83,687**	97,392

As at 31 December 2005, the Group's bank loans were secured by the corporate guarantee provided by the Company and certain related parties.

The effective interest rates at the balance sheet date were as follows:

	2005 US$'000	2004 US$'000
Bank loans	**4.08%**	4.08%
Trust receipt bank loans	**4.78%**	3.47%
Bank overdraft	**6.25%**	5.00%

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

25 BANK BORROWINGS (CONTINUED)

The carrying amounts of the borrowings are denominated in the following currencies:

	2005 **US$'000**	2004 US$'000
Hong Kong dollars	**10,459**	3,999
US dollars	**73,228**	93,393
	83,687	97,392

26 OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprised:

	Group	
	2005 **US$'000**	2004 US$'000
Consideration payable for acquisition of a subsidiary *(note a)*	**3,717**	–
Financial liability in connection with the put options granted for the acquisition of a subsidiary *(note 32)*	**6,579**	–
	10,296	–

Note a:

The consideration payable related to the acquisition of 71% equity interest in Partner Joy Group Limited ("Partner Joy") (note 32). Such consideration is payable in 2006 and 2007, and the amounts of consideration are subject to adjustments by reference to the average consolidated net profit of Partner Joy for the years ended/ending 31 December 2005 and 31 December 2006.

26 OTHER LONG-TERM LIABILITIES (CONTINUED)

The repayment schedule is as follows:

	Group	
	2005	2004
	US$'000	US$'000
Consideration payable:		
Within one year	**5,559**	–
Between two and five years	**3,973**	–
	9,532	–
Less: Amount representing interest element	**(256)**	–
Present value of consideration payable	**9,276**	–
Less: Current portion included in other payables and accruals	**(5,559)**	–
	3,717	–

27 RETIREMENT BENEFIT OBLIGATIONS

	2005	2004
	US$'000	US$'000
Balance sheet obligations for:		
Defined benefits plans	**1,667**	1,129
Provision for long service payments	**374**	468
	2,041	1,597
Expensed in the consolidated income statement for		
– Defined benefits plan	**523**	388
– Provision for long service payment	**74**	57
	597	445

The assets of the defined benefit plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefit plans in the Philippines are valued by Mercer Human Resource Company Ltd, an independent qualified actuary valuer.

27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(a) Defined contribution plans

During the year, the Group maintained various defined contribution retirement schemes for its employees, which are managed by independent trustees. Employees' and employer's contributions are based on various percentages of employees' gross salaries and length of service. The total contributions to the defined contribution retirement schemes were approximately US$603,000 for the year ended 31 December 2005 (2004: US$669,000) (note 12).

(b) Defined benefit plans

The amounts recognized in the consolidated balance sheet are determined as follows:

	2005 **US$'000**	2004 US$'000
Present value of unfunded obligations	**1,199**	1,270
Unrecognized actuarial gains/(losses)	**468**	(141)
Liability in the consolidated balance sheet	**1,667**	1,129

The amounts recognized in the consolidated income statement are as follows:

	2005 **US$'000**	2004 US$'000
Current service cost	**374**	300
Interest cost	**148**	88
Actuarial loss recognized during the year	**1**	–
Total, included in staff costs *(note 12)*	**523**	388

27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Defined benefit plans (continued)

The movements of the liability recognized in the consolidated balance sheet are as follows:

	2005 US$'000	2004 US$'000
At 1 January	**1,129**	832
Total expense – included in staff costs as shown above	**523**	388
Contributions paid	**(2)**	(91)
Exchange difference	**17**	–
At 31 December	**1,667**	1,129

The principal actuarial assumptions used are as follows:

	2005	2004
Discount rate	**12.0%**	12.0%
Future salary increases	**7.5%**	7.5%

(c) Long service payments

Provision for long service payments represents the Group's obligations for long service payments to its employees in Hong Kong on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. Such long service payment obligations are valued by Mercer Human Resource Consulting Ltd, an independent qualified actuary valuer.

The amounts recognized in the consolidated balance sheet are determined as follows:

	2005 US$'000	2004 US$'000
Present value of unfunded obligations	**656**	737
Unrecognized actuarial losses	**(282)**	(269)
Liability in the consolidated balance sheet	**374**	468

27 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Long service payments (continued)

The amounts recognized in the consolidated income statement are as follows:

	2005 **US$'000**	2004 US$'000
Current service cost	**16**	18
Interest cost	**18**	34
Net actuarial losses recognized	**40**	5
Total, included in employee benefit expense *(note 12)*	**74**	57

The above charges were included in general and administrative expenses.

Movements of the provision for long service payments of the Group are as follows:

	2005 **US$'000**	2004 US$'000
At 1st January	**468**	746
Total expenses – included in staff costs as shown above	**74**	57
Contributions paid	**(168)**	(335)
At 31 December	**374**	468

The principal actuarial assumptions used are as follows:

	2005	2004
Discount rate	**4.0%**	3.0%
Future salary increases	**3.5%**	3.0%

28 SHARE CAPITAL

	Number of shares	Nominal value US$'000
Authorized – ordinary shares of US$0.01 each		
At 31 December 2004 and 2005	1,500,000,000	15,000
Issued and fully paid – ordinary shares of US$0.01 each		
At 1 January 2005	902,300,000	9,023
Issue of new shares (a)	90,200,000	902
At 31 December 2005	992,500,000	9,925

Note:

(a) On 7 February 2005, the Company issued 90,200,000 new ordinary shares at approximately HK$4.070 (equivalent to approximately US$0.52) per share pursuant to the Subscription and Placing Agreements signed on 24 January 2005 for additional working capital. These shares rank pari passu with the existing shares. This resulted in a net proceed of approximately US$46,214,000.

28 SHARE CAPITAL (CONTINUED)

Share option

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

Under the Scheme, the Company may grant options to selected full-time employees and directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of the listing of the shares, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the date of such grant, without prior approval from the Company's shareholders.

Options may be exercised at any time within the relevant exercise period. The exercise price is determined by the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Movements in the number of share options are as follows:

			Number of shares		
Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted	End of year
			'000	'000	'000
28 December 2004	From 28 December 2004 to 27 December 2007	HK$4.1	7,757	–	7,757
			7,757	–	7,757

29 RESERVES

(a) Group

	Share premium US$'000	Capital reserve *(note (i))* US$'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 *(note (ii))*	–	–	–	–	7,007	7,007
Net proceeds from issuance of new shares	78,436	–	–	–	–	78,436
Capitalization of share premium	(6,750)	–	–	–	–	(6,750)
Profit attributable to the 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 *(note 28)*	45,312	–	–	–	–	45,312
Profit attributable to the equity holders of the Company	–	–	–	–	13,240	13,240
Recognition of financial liability arising from acquisition of a subsidiary *(note 32)*	–	–	(6,579)	–	–	(6,579)
Revaluation deficit *(note 20)*	–	–	(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

29 RESERVES (CONTINUED)

(b) Company

	Share premium US$'000	Capital reserve *(note (iii))* US$'000	Retained earnings US$'000	Total US$'000
At 15 March 2004 (date of incorporation)	–	–	–	–
Reserve from the Reorganisation	–	71,564	–	71,564
Net proceeds from issuance of new shares	78,436	–	–	78,436
Capitalization of share premium	(6,750)	–	–	(6,750)
Profit attributable to the equity holders of the Company	–	–	5,991	5,991
At 31 December 2004	71,686	71,564	5,991	149,241
At 1 January 2005	71,686	71,564	5,991	149,241
Net proceeds from issuance of new shares	45,312	–	–	45,312
Profit attributable to the equity holders of the Company	–	–	4,459	4,459
Dividends	–	–	(7,583)	(7,583)
At 31 December 2005	116,998	71,564	2,867	191,429

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$7,007,000 resulting from such distribution in specie was recognized in retained earnings.

(iii) The Company's capital reserve represents the difference between the aggregate net asset value of the subsidiaries acquired and the norminal value of the Company's shares issued for the acquisition of the subsidiaries through the share exchange under the Reorganisation.

(iv) The Group's retained earnings of approximately US$91,063,000 (2004: US$85,406,000) included the proposed final dividend of approximately US$1,548,000 (2004: US$5,161,000) for the year.

(v) The Company's retained earnings of approximately US$2,867,000 (2004: US$5,991,000) includes the proposed final dividend of approximately US$1,548,000 (2004: US$5,161,000) for the year.

30 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2005 US$'000	2004 US$'000
Profit before taxation	**17,433**	36,613
Share of losses/(profits) of associated companies	**1,891**	(529)
Share of losses of jointly controlled entities	**257**	847
Interest income	**(1,980)**	(671)
Interest expense	**3,474**	1,432
Amortization of intangible assets	**490**	462
Amortization of leasehold land	**82**	24
Depreciation of property, plant and equipment	**11,232**	9,602
Loss on disposal of property, plant and equipment, net	**426**	214
Gain on disposal of an associate	**(98)**	–
Operating profit before working capital changes	**33,207**	47,994
Inventories	**9,390**	2,908
Trade receivables	**12,774**	(18,290)
Deposits, prepayments and other receivables	**3,395**	1,157
Amount due from related companies	**(859)**	(2,285)
Amount due from associated companies and jointly controlled entities	**2,638**	(3,523)
Amount due to related companies	**(4,223)**	(15,935)
Amount due to associated companies and jointly controlled entities	**(644)**	312
Trade and bills payables	**(6,927)**	457
Other payables and accruals	**8,379**	2,996
Retirement benefit obligations	**444**	19
Net cash inflow generated from operations	**57,574**	15,810

30 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of changes in financing during the year:

	Share capital and share premium US$'000	Long-term bank loans US$'000	Short-term bank loans US$'000	Long-term loans from related companies US$'000	Total US$'000
Balance at 1 January 2004	–	5,500	2,322	43,029	50,851
New loans	–	67,581	877	–	68,458
Repayment of loans	–	(17,281)	–	(37,605)	(54,886)
Distribution in specie	–	(200)	(3,199)	(5,424)	(8,823)
Net proceeds from issuance of new shares	80,709	–	–	–	80,709
Balance at 31 December 2004	80,709	55,600	–	–	136,309
Acquisition of a subsidiary	–	3,840	–	–	3,840
Repayment of loans	–	(12,655)	–	–	(12,655)
New proceeds from issuance of new shares	46,214	–	–	–	46,214
Balance at 31 December 2005	126,923	46,785	–	–	173,708

30 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Acquisition of a subsidiary

	2005 US$'000	2004 US$'000
Property, plant and equipment	**1,774**	245
Inventories	**11,605**	1,027
Bank deposits maturing beyond three months	**4,448**	–
Trade receivables	**8,977**	44
Deposits, prepayments and other receivables	**1,451**	45
Intangible asset	**10,279**	–
Bank balances and cash	**2,226**	22
Trade and bills payables	**(8,419)**	(330)
Other payables and accruals	**(586)**	(236)
Taxation payable	**(531)**	(15)
Amount due to related companies	**(6,503)**	–
Bank borrowings	**(11,848)**	–
Deferred tax liabilities	**(4)**	–
Net assets	**12,869**	802
Minority interest	**(3,732)**	–
Net assets acquired	**9,137**	802
Goodwill	**8,098**	1,698
	17,235	2,500
Satisfied by		
Cash	**7,959**	2,500
Balance of purchase consideration payable *(note 26)*	**9,276**	–
	17,235	2,500

Analysis of the net cash outflow in respect of the acquisition of a subsidiary:

	2005 US$'000	2004 US$'000
Purchase consideration settled in cash	**7,959**	2,500
Cash and cash equivalents in the subsidiary acquired	**(2,226)**	(22)
Net cash outflow in respect of the purchase of the subsidiary	**5,733**	2,478

(d) Bank balances and cash

The effective interest rate on bank deposits was 1.84% (2004: 2.06%).

As at 31 December 2005, bank deposits (consolidated) of approximately US$1,954,000 (2004: US$1,028,000) were denominated in Chinese Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the Government of the People's Republic of China.

31 COMMITMENTS

(a) Capital commitments

	2005 US$'000	2004 US$'000
Contracted but not provided for	**3,878**	5,643

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005 US$'000	2004 US$'000
Land and buildings		
– Not later than one year	**4,292**	2,703
– Later than one year and not later than five years	**5,614**	6,333
– Later than five years	**3,287**	3,132
	13,193	12,168
Facilities and equipment		
– Not later than one year	**218**	65
– Later than one year and not later than five years	**623**	37
	841	102

32 BUSINESS COMBINATIONS

On 3 May 2005, the Group acquired 71% of the entire issued capital of Partner Joy Group Limited ("Partner Joy"), a company incorporated in the BVI and is principally engaged in the business of manufacturing and trading of sweaters through its three wholly owned subsidiaries in Hong Kong, namely: Tien-Hu Knitters Limited; Tien-Hu Knitting Factory (Hong Kong) Limited; and Tien-Hu Trading (Hong Kong) Limited (collectively, "Tien-Hu group"). The acquired business contributed revenues of approximately US$83,792,000 and net profit of approximately US$3,063,000 to the Group for the period from 3 May 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, turnover of the group and profit attributable to equity holders of the Company would have been approximately US$601,324,000 and US$13,983,000 respectively.

32 BUSINESS COMBINATIONS (CONTINUED)

Details of net assets acquired and goodwill are as follows:

	2005
	US$'000
Purchase consideration:	
– Cash paid	7,959
– Balance of purchase consideration payable	9,276
Total purchase consideration	17,235
Fair value of net assets acquired	(9,137)
Goodwill *(note 15)*	8,098

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Partner Joy.

For the assets and liabilities arising from the acquisitions, please refer to note 30(c).

Certain call options have been granted to the Group in connection with the acquisition of Partner Joy which allow the Group to acquire the remaining 29% of the entire share capital of Partner Joy from its minority shareholders of Partner Joy under certain terms and conditions as stipulated in the shareholders' agreement. In addition, certain put options have been granted to the minority shareholders of Partner Joy which allow the minority shareholders to sell their 29% of equity interests in Partner Joy to the Group under similar terms and conditions as stipulated in the shareholders' agreement. These options are recognized as financial liability, which amount to US$6,579,000 and are recognized in equity (notes 26 and 29).

33 RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

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

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

	2005 US$'000	2004 US$'000
Management fee income from		
– related companies	–	74
– an associated company	261	149
– a jointly controlled entity	333	317
	594	540
Commission income from		
– a related company	36	78
– an associated company	962	927
	998	1,005
Freight forwarding and logistics services income from		
– related companies	1,288	1,388
– a jointly controlled entity	10	26
	1,298	1,414
Sales to a jointly controlled entity	12,926	3,465
Subcontracting income from a jointly controlled entity	53	148
Rental income from		
– a related company	173	141
– a jointly controlled entity	3	3
	176	144

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

	2005 US$'000	2004 US$'000
Management fee charged by a related company	**10**	32
Rental expenses for occupying office premises, warehouses and staff quarters charged by		
– related companies	**1,001**	887
– an associated company	**–**	5
	1,001	892
Office supplies charged by related companies	**267**	456
Packaging expenses charged by a related company	**1,001**	1,321
Insurance expenses charged by related companies	**888**	1,230
Travel-related services charged by related companies	**967**	863
Professional and technological support service fees to a related company	**2,068**	1,526
Repair and maintenance expenses charged by a related company	**182**	296
Subcontracting fees charged by jointly controlled entities	**1,592**	1,700
Administrative and support service charged by related companies	**5,320**	9,236
Recharge of material costs and other expenses to		
– related companies	**528**	390
– an associated company and jointly controlled entities	**5,738**	3,048
	6,266	3,438

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

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management compensation

	2005 **US$'000**	2004 US$'000
Basic salaries and allowances	**3,049**	2,759
Bonuses	**1,114**	298
Pension scheme contributions	**26**	12
	4,189	3,069

(c) On 3 September 2005, CTSI Holdings Limited, a wholly owned subsidiary of the Group, disposed of its 45% interest in Mariana Express Lines, Ltd., an associated company to Luen Thai Direct Investment Limited, a company beneficially owned by Tan's Family at approximately US$661,000. Such disposal resulted a disposal gain of approximately US$98,000.

(d) Bank facilities

As at 31 December 2005, certain bank facilities of certain subsidiaries of the Group were secured by the following:

(i) Personal guarantees to the extent of US$8,000,000 given by certain directors of the subsidiaries of the Group; and

(ii) Corporate guarantees given by Tien-Hu Enterprises Limited, a company beneficially owned by certain directors of certain subsidiaries of the Group.

(e) **Amount due from/(to) related companies, jointly controlled entities and associated companies**

As at 31 December 2005, the outstanding balances with the related companies, associated companies and jointly controlled entities are unsecured, interest-free and repayable on demand.

34 CONTINGENT LIABILITIES AND LITIGATIONS

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

35 EVENTS AFTER THE BALANCE SHEET DATE

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 BVI 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.

FINANCIAL SUMMARY

For the year ended 31 December 2005

	2001	2002	2003	2004	**2005**
Financial highlights (US$'000)					
Total assets	227,193	279,195	244,643	353,759	**415,420**
Total liabilities	156,735	204,904	188,767	179,233	**191,416**
Bank borrowings	35,388	47,839	33,637	97,392	**83,687**
Capital and reserves attributable to the equity holders of the Company	70,358	74,081	55,659	174,228	**218,714**
Working capital	41,985	53,745	33,435	88,854	**118,099**
Turnover	462,491	563,658	544,924	553,766	**590,234**
Profit attributable to the equity holders of the Company	21,466	14,052	23,566	30,361	**13,240**
Key ratios					
Current ratio	1.36	1.36	1.24	1.72	**1.66**
Gross profit margin	25.6%	24.7%	25.2%	22.7%	**18.8%**
Profit margin attributable to the equity holders of the Company	4.6%	2.5%	4.3%	5.5%	**2.2%**

Note: The Company was incorporated on 15 March 2004. The summary has been presented on the basis that the Company had been the holding company of the Group from the beginning of the earliest period presented.