THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this Circular to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Luenthai

LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

MAJOR ACQUISITION AND CONNECTED TRANSACTION

14 May 2007

CONTENTS

In this Circular, the following expressions have the following meanings unless the context otherwise requires:

"Acquired Company" or "On Time"	On Time International Limited, a private company incorporated under the laws of the British Virgin Islands;
"Acquired Group" or "On Time Group"	the Acquired Company and its subsidiaries;
"associated company"	shall have the same meaning as ascribed to it in Part XV of the SFO;
"Board"	the board of directors of the Company;
"Call Option"	a call option granted by the Vendor to the Purchaser under the Option Agreement, in respect of the purchase of a 10% interest in the Acquired Company;
"Circular"	the circular as set out herein;
"Company"	Luen Thai Holdings Limited, the shares of which are listed on the Stock Exchange;
"Completion"	completion of the Option Agreement in accordance with its terms and conditions;
"Connected Person"	shall have the meaning as ascribed to it under the Listing Rules;
"Directors"	directors of the Company for the time being;
"Enlarged Group"	the Group plus an additional 10% equity interest of the Acquired Company to be acquired pursuant to the Option Agreement
"Group"	the Company and its subsidiaries (including the existing 50% equity interest in On Time Group);
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Board Committee"	an independent committee of the Board, comprising Mr. Henry Chan, Mr. Cheung Siu Kee and Mr. Seing Nea Yie, being the independent non-executive directors of the Company;

"independent shareholders"	shall have the meaning as ascribed to it under the Listing Rules;
"Latest Practicable Date"	9 May 2007;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Option Agreement"	an option agreement dated 10 March 2006 entered into between the Vendor and the Purchaser in relation to an option to purchase a further 10% interest in the Acquired Company;
"Option Shares"	the Shares to be purchased by the Purchaser and sold by the Vendor in accordance with the terms of the Option Agreement;
"Option Price"	the exercise price to be determined, and paid by the Purchaser, in accordance with the terms of the Option Agreement;
"PRC"	the People's Republic of China. Except where the context requires, geographical references in this Circular to the PRC exclude Hong Kong, Macau and Taiwan;
"Purchaser"	Fortune Investment Overseas Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company;
"Sale and Purchase Agreement"	a sale and purchase agreement dated 10 March 2006 entered into between Vendor, the Purchaser and Luen Thai Overseas Limited (as guarantor);
"Sale and Purchase Transaction"	the acquisition of 50% interest in the issued capital of the Acquired Company by the Purchaser from the Vendor pursuant and subject to terms of the Sale and Purchase Agreement;
"Second Option Agreement"	An option agreement dated 10 March 2006 entered into between the Vendor and the Purchaser in relation to an option to the sale and purchase of a 40% interest in the Acquired Company;
"SFO"	the Securities and Future Ordinance, Cap. 571 of the Laws of Hong Kong;

"Share"	a share of US$1.00 each in the capital of the Acquired Company;
"Shareholders"	the shareholders of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Transaction"	the acquisition of a 10% interest in the issued capital of the Acquired Company in accordance with the terms of the Option Agreement; and
"Vendor"	Mr. Frank Fleischer.

LUEN THAI HOLDINGS LIMITED

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

Executive Directors:
Mr. Tan Siu Lin *(Chairman)*
Mr. Tan Henry
Mr. Tan Cho Lung, Raymond
Mr. Tan Sunny
Ms. Mok Siu Wan, Anne

Non-executive Director:
Mr. Tan Willie

Independent non-executive Directors:
Mr. Chan Henry
Mr. Cheung Siu Kee
Mr. Seing Nea Yie

Registered Office:
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman
KY1-111
Cayman Islands

Head office and Principal place of business in Hong Kong:
5/F, Nanyang Plaza
57 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Hong Kong, 14 May 2007

To the Shareholders

Dear Sir or Madam,

MAJOR ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

As stated in the announcement of the Company dated 10 April 2007, the Purchaser, an indirect wholly-owned subsidiary of the Company, exercised in full its rights under the Option Agreement to require the Vendor, a Connected Person of the Company, to sell and transfer the Option Shares, representing 10% of the issued share capital of the Acquired Company, pursuant and subject to the terms of the Option Agreement, in consideration of HK$1,000 and the Purchaser entering into the Sale and Purchase Agreement. The Option Price will be funded from the internal resources of the Group and paid by the Purchaser over four instalments. Upon Completion, the Acquired Company will become a 60% owned subsidiary of the Company and its financial information will continue to be consolidated in the Group's financial statements.

The purpose of this Circular is to provide you with details regarding the Transaction.

EXERCISE OF THE OPTION SHARES

Date of exercise: 3 April 2007

Parties: (1) The Vendor

(2) The Purchaser

As at the date of this Circular, the Acquired Company is a subsidiary of the Company as defined under the Listing Rules, the financial results of which are consolidated into those of the Group and in which the Company holds an indirect 50% equity interest. The Purchaser has exercised in full its rights under the Option Agreement to require the Vendor, to sell and transfer the Option Shares, representing 10% of the issued share capital of the Acquired Company, pursuant and subject to the terms of the Option Agreement in consideration of HK$1,000 and the Purchaser entering into the Sale and Purchase Agreement. As disclosed in the Company's announcement dated 16 March 2006, subject to completion of the Sale and Purchase Transaction, the Call Option may be exercised by the Purchaser at any time after six calendar months from the date of the Option Agreement. For further details of the terms of each of the Option Agreement and the Sale and Purchase Agreement, please refer to the Company's announcement dated 16 March 2006.

The Option Price, negotiated on an arm's length basis between the parties, shall be to the multiple of the following, pro-rated for the 10% interest being acquired:

(a) the average of the consolidated net profit after tax of the Acquired Company for the three years ending on 31 December 2008; and

(b) the price-earnings multiple of 5.5 in respect of the Acquired Company.

Although the exact amount of the Option Price cannot currently be determined, it is subject to a minimum of US$3,850,000 (equivalent to approximately HK$30,030,000) and a maximum of US$6,600,000 (equivalent to approximately HK$51,480,000), being the range agreed between the parties after arm's length negotiation. On the basis of a price-earnings multiple that is within the prevailing industry average and the track record profitability and business prospects of the Acquired Company and its subsidiaries, the Directors are of the view that the Option Price and the basis for its calculation are fair and reasonable, and are in the interest of the Group and the Shareholders as a whole.

Payment of the Option Price shall be made in cash and funded by the internal resources of the Group and shall be made in four instalments as follows:

(a) the first non-refundable instalment of US$3,850,000 (equivalent to approximately HK$30,030,000) shall be paid upon Completion;

(b) the second instalment shall be paid within 30 days after the Purchaser's receipt of the audited consolidated financial statements of the Acquired Company for the year ended on 31 December 2006 or (if such financial statements shall be available at the time of the first instalment) at the same time as the first instalment is paid, and shall be calculated as follows:

(10% x 75% x price-earnings ratio of 5.5 x the consolidated net profit of the Acquired Company for the year ended on 31 December 2006) less the first instalment;

(c) the third instalment shall be paid within 30 days after the Purchaser's receipt of the audited consolidated financial statements of the Acquired Company for the year ending on 31 December 2007 and shall be calculated as follows:

(10% x 80% x price-earnings ratio of 5.5 x averaged consolidated net profit of the Acquired Company for the two years ending on 31 December 2007) less the first and second instalments; and

(d) the final instalment shall be the remaining balance of the unpaid Option Price (calculated in accordance with the formula as described above, but less the first, second and third instalments).

Upon Completion, the Purchaser will become a majority shareholder of the Acquired Company holding a 60% interest and the Acquired Company will continue to be a subsidiary of the Company. The exercise of the Call Option, when aggregated with the Sale and Purchase Transaction, constitutes a major transaction for the Company, and is therefore subject to announcement, Circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. In addition, as the exercise of the Call Option, when aggregated with the Sale and Purchase Transaction, also results in it constituting a connected transaction for the Company, independent shareholders' approval is required to be obtained pursuant to Rule 14A.17 of the Listing Rules.

Up and until the date of this Circular, the Purchaser has paid an aggregate sum of US$19,250,000 (equivalent to approximately HK$150,150,000) to the Vendor for the Sale and Purchase Transaction.

INFORMATION ON THE ACQUIRED COMPANY

As at the date of this Circular, the Acquired Company is a private company duly incorporated under the laws of the British Virgin Islands on 13 February 2006 having an authorised share capital of US$50,000 divided into 50,000 Shares, 500 of which have been issued and are fully paid up. Out of the 500 issued Shares of the Acquired Company, 250 Shares (representing 50% of the entire issued capital of the Acquired Company) have been sold by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement and 50 shares (representing 10% of the entire issued capital of the Acquired Company) shall be sold to the Purchaser pursuant to the Option Agreement. The remaining 200 issued Shares (representing 40% of the entire issued capital of the Acquired Company) shall continue to be held by the Vendor. As at the date of this Circular, there are eight subsidiaries within the

Acquired Group. The Acquired Group is principally engaged in the design, sourcing and distribution on a worldwide basis of garments and other textile products. The business of the Acquired Group, headquartered in Hong Kong with offices in the Asia Pacific region, has been in existence since as early as the 1990s.

The Company announced on 16 March 2006 that the Vendor, the Purchaser and Luen Thai Overseas Limited (as guarantor), a wholly-owned subsidiary of the Company, entered into, amongst other things, the Sale and Purchase Agreement and the Option Agreement. The Sale and Purchase Transaction was completed on 3 April 2006, following which the Acquired Company became an associated and 50%-owned company of the Company and its financial results were not consolidated into those of the Group. Upon vesting of the Group's rights under the Option Agreement, from the accounting perspective and in accordance with paragraphs 13 and 14 of the Hong Kong Accounting Standard 27 Consolidated and Separate Financial Statements, it was considered appropriate and necessary that the financial results of the Acquired Group should be consolidated into those of the Group with effect from 10 September 2006. Since then, the Acquired Company became a subsidiary of the Company within the definition as ascribed to it under the Listing Rules. Such consolidation of financial results was disclosed and explained in the Company's announcement dated 20 November 2006 in respect of a continuing connected transaction between the Acquired Company and the Vendor.

The Purchaser had also entered into the Second Option Agreement with the Vendor, pursuant to which the Purchaser has an option to purchase the remaining 40% interest in the issued share capital of the Acquired Company. Such option will not be exercisable until after six calendar months from the date of the Second Option Agreement. As at the date of this Circular, no decision has been made by the Company as to whether or not it will exercise such option. Further announcement(s) will be made by the Company as and when appropriate in compliance with the Listing Rules.

The Vendor, introduced to the Company through business acquaintances, has more than 25 years of experience in the wholesale trade and apparel business, and is the founder of the Acquired Group. Subsequent to completion of the Sale and Purchase Agreement, the Vendor continued to take a key role in the management of the Acquired Group as its chief executive officer, and will remain to be so immediately after the Completion.

INFORMATION ON THE ACQUIRED GROUP

During the three financial years ended on 31 December 2006, the Acquired Group underwent certain significant changes in its organizational structure. On 9 March 2006, the Acquired Company acquired the entire issued share capital of Fine Sino Limited from the Vendor and an independent third party individual (the "ITP") at an aggregate consideration of approximately US$100. On 22 March 2006, the Acquired Company acquired the entire issued share capital in each of Manhattan Limited, TMS Fashion (H.K.) Limited and TMS International Limited from the Vendor at an aggregate consideration of approximately US$514,498. On 29 March 2006, the Acquired Company acquired the entire issued share capital in Best Uni Limited from the Vendor and the ITP at an aggregate consideration of approximately US$1,283.

Management Discussion and Analysis of the results of the Acquired Group

Set out below is an extract of the audited consolidated financial statements of the Acquired Group for the three financial years ended 31 December 2004, 2005 and 2006 respectively.

(Unit: USD'000)	**Year ended 31 December**		
Consolidated Income Statement Items	**2004**	**2005**	**2006**
	Audited	*Audited*	*Audited*
Turnover	91,205	102,953	118,828
Gross Profit	14,696	17,194	19,915
Operation Profit	8,185	8,397	9,877
Finance Costs	–	–	–
Profit before income tax	8,235	8,473	9,995
Profit for the year	5,129	5,236	6,376
Profit attributable to Equity holders of On Time Group	4,518	4,466	6,243

(Unit: USD'000)	**Year ended 31 December**		
Consolidated Balance Sheets Items	**2004**	**2005**	**2006**
	Audited	*Audited*	*Audited*
Non-current assets	643	871	2,504
Cash and cash equivalents	7,842	8,176	6,314
Pledged bank deposits	685	599	681
Current Assets	16,233	19,491	20,582
Total assets	16,876	20,362	23,086
Current Liabilities	9,828	15,472	22,008
Total Liabilities	9,828	15,478	22,008
Total Equity	7,048	4,884	1,077
Equity holders' Equity	6,338	4,412	1,077

Financial and Business Review

Year ended 31 December 2004

During the year, business of the Acquired Group continued to develop in a positive manner. Turnover and net profit attributable to equity shareholders amounted to approximately US$91.2 million and US$4.5 million respectively. The year 2004 signifies a year of substantial changes in the Acquired Group's structural and geographical organization. Merchandising and technical functions in respect of the Acquired Group's business in the PRC were relocated in their entirety from Hong Kong to its new marketing and merchandising head office in Beijing, the PRC. Investments in relation to the relocation of such head office were generated by the Acquired Group's internal resources.

Year ended 31 December 2005

In 2005, the Acquired Group achieved a sound double digit growth and ended the year with a turnover and net profit attributable to equity shareholders amounting to approximately US$103 million and US$4.5 million respectively. The newly established head office in Beijing had an overall positive impact on the Acquired Group. It contributed also to the improved profitability in the PRC in 2005 compared to 2004.

During the year, the Acquired Group made significant investments in line with its business strategy including the opening of a new office in New Dehli, India.

Year ended 31 December 2006

The Acquired Group continued to make significant growth during the year 2006. The turnover and net profit attributable to equity shareholders amounted to approximately US$118.8 million and US$6.2 million respectively, representing an increase of approximately 15.3% and 37.8% respectively when compared with the financial results of the previous year. In particular, turnover derived from the Acquired Group's business in the PRC increased by almost 50% from the year before.

During the year, the Acquired Group opened a new design and development centre in Dongguan, the PRC with a view to enhancing the growth of the Acquired Group's business. In addition, the Group's investments in the Acquired Group are expected to derive complementary benefits for the Group and the Acquired Group in various aspects including the penetration of the Group's clientele into the European market through the existing customers of the Acquired Group in Europe and the opening up of new business opportunities with potential customers for Acquired Group in the United States.

The Acquired Group is subject to income taxes in various jurisdictions. The Acquired Group recognizes liabilities for anticipated tax audit issues based on estimates which are determined by whether additional taxes will be due. The taxation payable balance as at the end of each of the years ended 31 December 2004, 2005 and 2006 represents the estimated taxation payable obligation for each of the respective years, all of which are based on their respective estimated assessable profits.

The balance of accruals as at 31 December 2006 has increased significantly from that as at 31 December 2005. This is mainly due to increase in business activities and turnover of the Acquired Group during the financial year 2006. The increased amount mainly comprises accruals provided for (i) claims which may arise as a result of delays in the delivery of goods to the customers of the Acquired Group and; (ii) differences in the amount of air-freight charges for the delivery of goods and the amount of shipping costs.

Business Prospects and Future Plans

The business outlook for the Acquired Group remains positive. For the year 2007, the Acquired Group targets for continued and sustained growth in turnover by way of further investments in enhancements of its organizational and personnel set up to cope with the challenges from further dynamic growth and additional business. The Acquired Group is committed to focus on its strength of providing value added services to its customers by contributing valuable resources in the design and research stages and performing to the expectations of its customers in terms of both the quality of its products and timely deliveries.

The Acquired Group will continue to adopt a prudent financial approach to support its business by way of using its own internal resources for funding of future investments instead of seeking financial support from external sources e.g. banks. Further to recent discussions between the management of the Acquired Group and the Acquired Group's principal bankers, the Acquired Group's existing credit facilities have been extended for the purpose of issuing letter of credits to its suppliers.

Human resources will continue to play a key role for purposes of assisting the Acquired Group in achieving its targets and meeting its expectations. Additional management capabilities together with continuous training and development for the Acquired Group's existing employees will remain a top priority for the management of the Acquired Group.

Liquidity, Financial Resources and Capital Structure

As of 31 December 2006, the value of the non-current assets of the Acquired Group included the value of the property, plant and equipment in the sum of US$1.5 million and the value of goodwill in the sum of US$1 million, the latter of which has arisen due to the acquisition of additional interests in subsidiaries of the Acquired Company from minority interest shareholders of such subsidiaries.

The value of the total assets of the Acquired Group has increased from US$16.9 million as at 31 December 2004 to US$23.1 million as at 31 December 2006.

As at 31 December for each of the financial years ended 2004, 2005 and 2006, the current ratios (i.e. total current assets divided by total current liabilities) of the Acquired Group were 165%, 126% and 94% respectively, whilst the cash and cash equivalents balances amounted to approximately US$7.8 million, US$8.2 million and US$6.3 million respectively. In addition, there were pledged bank deposits in the amounts of approximately US$0.7 million, US$0.6 million and US$0.7 million as at the end of each of the such financial years.

Foreign Currency Exposure

The majority of the business transactions of the Acquired Group are denominated in US dollar, Euro, India Rupees and Hong Kong dollar. Currently, the Acquired Group does not have a foreign currency hedging policy.

REASONS FOR THE TRANSACTION

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

The Directors believe that the Transaction is in line with the Group's multi-product strategy to expand its apparel product categories and geographical coverage by way of selective acquisitions and joint ventures. Upon Completion, the Transaction will further consolidate the Group's leading position in the apparel industry. The Group's experience in acquiring and managing GJM (its sleepwear division), Tomwell Limited (the ladies career wear division) and Partner Joy Group Limited (its sweater division) shows the Group's proven track record as one of the leaders and consolidators in the industry.

On the basis that the Transaction was negotiated on arm's length basis and that the price-earnings ratio used in the calculation of the Option Price to be paid is in line with industry average, the Directors consider that the Transaction is made on normal commercial terms, that its terms are fair and reasonable, and that the Transaction and its terms are in the interests of the Group and the Shareholders as a whole. The Directors are also of the view that there has been no material adverse change in the financial or trading position of the Group since 31 December 2006 and that the working capital available to the Group is sufficient.

FINANCIAL EFFECTS

The consolidated total assets and net asset value of the Acquired Group as at 31 December 2006 amounted to approximately US$23,085,944 (equivalent to approximately HK$180,070,363) and approximately US$1,077,459 (equivalent to approximately HK$8,404,180) respectively. The consolidated revenue of the Acquired Group for the year ended 31 December 2006 amounted to approximately US$118,828,282 (equivalent to approximately HK$926,860,600). For the year ended 31 December 2005, the consolidated net profit before and after taxation of the Acquired Group amounted to approximately US$8,472,857 (equivalent to approximately HK$66,088,285) and approximately US$5,236,200 (equivalent to approximately HK$40,842,360) respectively. For the year ended 31 December 2006, the consolidated net profit before and after taxation of the Acquired Group amounted to approximately US$9,994,780 (equivalent to approximately HK$77,959,284) and approximately US$6,376,113 (equivalent to approximately HK$49,733,681) respectively.

Following Completion, the Group's effective attributable interest in the Acquired Group will increase from 50% to 60%. In view of the track record, earnings ability and customer base of the Acquired Group, the Directors believe that the Transaction will have a positive impact on the earnings of the Group in the future.

Upon Completion, according to the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to the Circular, assuming that the Option Price is US$3,850,000, the total assets of the Group will be decreased by about US$1,677,000 and the total liabilities of the Group will not be changed. Consequently, the net assets of the Group will be reduced by about US$1,677,000. Assuming the Option Price is US$6,600,000, the total assets of the Group will be increased by US$1,073,000 and the total liabilities of the Group will be increased by US$2,750,000. Consequently, the net assets of the Group will be reduced by about US$1,677,000.

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

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

For the purpose of this Circular, the gearing ratio (defined as the ratio of total debt to total equity) of the Group was about 32.4% as at 31 December 2006. However, based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this Circular, the gearing ratio would have come to approximately 32.7%. Such difference in the gearing ratio is due to a decrease in the minority interest (which forms part of the total equity) of the Group from 50% to 40%.

One of the pro forma adjustments made for purposes of preparing the pro forma statements of assets and liabilities of the Enlarged Group is, on the assumption that Completion had already taken place on 31 December 2006, that an additional receivable amounting to US$662,000 in respect of compensation will be received from the Vendor arising from the further acquisition of 10% interest in On Time Group by the Group. Such amount is recognised based on an estimate made by the Board as a result of an undertaking given by the Vendor to indemnify the Group for certain identifiable liabilities of On Time Group. Any amount in excess of US$662,000 arising from such identifiable liabilities will be indemnified by the Vendor.

Foreign Exchange Risk Management

The Group adopts a prudent approach to hedge the fluctuation of exchange rates. Most of the Group's operating activities are denominated in US dollars, Hong Kong dollars and Euro. For those activities denominated in other currencies, the Group may enter into forward contracts to hedge its receivable and payable denominated in foreign currencies against the exchange rate fluctuation.

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 25,000.

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. Moreover, 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.

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.

LISTING RULES IMPLICATIONS

The Vendor, a substantial shareholder of the Acquired Company, is a Connected Person of the Company by virtue of his 50% ownership in the Acquired Company, which in turn is a subsidiary of the Company by virtue of its financial results being consolidated in the Group's financial statements.

As the Option Price, when aggregated with the consideration for the Sale and Purchase Transaction which was completed within the last 12 months is more than HK$10,000,000, and each of the applicable percentage ratios of the Transaction, when aggregated with the Sale and Purchase Transaction which was completed within the last 12 months, exceeds 2.5%, the Transaction is subject to reporting, announcement and independent shareholders' approval requirements in accordance with Rule 14A.17 of the Listing Rules.

The Transaction, when aggregated with the Sale and Purchase Transaction which was completed within the last 12 months, also constitutes a major acquisition for the Company under the Listing Rules. It is therefore, also subject to the requirements of announcement, Circular and shareholders' approval under the Listing Rules.

The Transaction is conditional upon shareholders' approval in general meeting pursuant to Rule 14.40 of the Listing Rules as well as independent shareholders' approval in general meeting pursuant to Rule 14A.18 of the Listing Rules. However, pursuant to Rules 14.44 and 14A.43 of the Listing Rules, written approval from the Company's shareholders or independent shareholders (as the case may be) holding more than 50% of the voting rights in respect of the Transaction may be accepted in lieu of the holding of such general meeting.

Capital Glory Limited is a wholly-owned subsidiary of Helmsley Enterprises Limited, which in turn is held by a number of trusts. None of the Directors is a legal owner of the shares in Capital Glory Limited. For details of the Directors' beneficial interests in Capital Glory Limited, please refer to the paragraph headed "Disclosure of Interests" in Appendix IV to this Circular. Capital Glory, the controlling shareholder of the Company holding an approximately 61.89% interest in the issued share capital of the Company and entitled to vote and attend at the general meeting of the Company in relation to the Transaction, has irrevocably and unconditionally confirmed to the Company in a written confirmation dated 24 April 2007 that it approves the Transaction and shall vote in favour of the Transaction at any general meeting to be convened (if necessary) by the Company in relation to the Transaction. Capital Glory Limited has further confirmed to the Company that, save for its shareholding in the Company and its common directors with the Company:

(a) it and its associates do not have any interest in the Transaction; and

(b) it is not an associate (as defined under the Listing Rules) nor related to the Vendor.

On the basis of the above and that no shareholder of the Company is required to abstain from voting on the Transaction, pursuant to Rules 14.44 and 14A.43 of the Listing Rules, the Company had applied to the Stock Exchange for and has been granted a waiver from convening a general meeting of the Company's shareholders to approve the Transaction. Accordingly, no general meeting will therefore be convened for approval of the Transaction by the Company's shareholders or independent shareholders.

RECOMMENDATIONS

The Company has established the Independent Board Committee, consisting of the independent non-executive Directors, to advise the Shareholders as to whether the Transaction is fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Shareholders how to vote at any general meeting to be convened (if necessary) by the Company in relation to the Transaction. The Company has also appointed Quam Capital Limited as the independent financial adviser required to be appointed under Chapter 14A of the Listing Rules, to make recommendations to the Independent Board Committee and the Shareholders as to whether the Transaction is fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Shareholders how to vote.

A separate letter from the Independent Board Committee advising the Shareholders that, in the opinion of the Independent Board Committee, formed after taking into account the recommendation of the Independent Financial Adviser, the Transaction is fair and reasonable and in the interests of the Company and the Shareholders as a whole and advising the Shareholders to vote in favour of the Transaction at any general meeting to be convened (if necessary) by the Company in relation to the Transaction. The Shareholders' attention is drawn to the letter from the Independent Board Committee.

A separate letter from the Independent Financial Adviser, Quam Capital Limited, containing its advice to the Independent Board Committee and the Shareholders that, having considered the matters set out in detail in that letter, the Transaction is fair and reasonable and in the interests of the Company and the Shareholders as a whole and advising the Shareholders to vote in favour of the Transaction. The Shareholders' attention is also drawn to the letter from Quam Capital Limited, the Independent Financial Adviser.

The Board is of the view that the Transaction is fair and reasonable and is in the interests of the Company and the Shareholders as a whole and, accordingly, the Board recommends that the Shareholders vote in favour of the Transaction at any general meeting to be convened (if necessary) by the Company in relation to the Transaction.

WRITTEN SHAREHOLDER'S APPROVAL

To the best of the knowledge and belief of the Directors, no Shareholder has a material interest in the matters which are the subject of the Transaction such that it must abstain from voting, and, accordingly, all Shareholders are permitted to vote at a general meeting concerning the Transaction.

However, pursuant to Rules 14.44 and 14A.43 of the Listing Rules, written approval from the Company's shareholders or independent shareholders (as the case may be) holding more than 50% of the voting rights in respect of the Transaction may be accepted in lieu of the holding of such general meeting.

Capital Glory Limited is a wholly-owned subsidiary of Helmsley Enterprises Limited, which in turn is held by a number of trusts. None of the Directors is a legal owner of the shares in Capital Glory Limited. For details of the Directors' beneficial interests in Capital Glory Limited, please refer to the paragraph headed "Disclosure of Interests" in Appendix IV to this Circular. Capital Glory, the controlling shareholder of the Company holding an approximately 61.89% interest in the issued share capital of the Company and entitled to vote and attend at the general meeting of the Company in relation to the Transaction, has irrevocably and unconditionally confirmed to the Company in a written confirmation dated 24 April 2007 that it approves the Transaction and shall vote in favour of the Transaction at any general meeting to be convened (if necessary) by the Company in relation to the Transaction. Capital Glory Limited has further confirmed to the Company that, save for its shareholding in the Company and its common directors with the Company:

(a) it and its associates do not have any interest in the Transaction; and

(b) it is not an associate (as defined under the Listing Rules) nor related to the Vendor.

On the basis of the above and that no shareholder of the Company is required to abstain from voting on the Transaction (which the Directors have confirmed), pursuant to Rules 14.44 and 14A.43 of the Listing Rules, the Company had applied to the Stock Exchange for and has been granted a waiver from convening a general meeting of the

Company's shareholders to approve the Transaction. Accordingly, no general meeting will therefore be convened for approval of the Transaction by the Company's shareholders or independent shareholders.

ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the appendices to this Circular.

Yours faithfully,
For and on behalf of
Luen Thai Holdings Limited
Henry Tan
Executive Director & Chief Executive Officer

LUEN THAI HOLDINGS LIMITED

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

14 May 2007

To the Shareholders

Dear Sir or Madam,

MAJOR ACQUISITION AND CONNECTED TRANSACTION

We refer to the circular of even date with this letter issued by the Company (the "Circular") to the shareholders of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Shareholders in respect of the terms of the Transaction, details of which are set out in the letter from the Board contained in the Circular.

Having considered the terms of the Transaction and the advice and opinion of the Independent Financial Adviser in relation thereto as set out in the Circular, the Independent Board Committee considers that the Acquisition is on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Shareholders vote in favour of the Transaction at any general meeting to be convened (if necessary) by the Company in relation to the Transaction.

The Independent Board Committee draws the attention of the Shareholders to the letter from the Board and the letter from Quam Capital Limited to the Independent Board Committee and the Shareholders which sets out the considerations and factors taken into account in arriving at its recommendations, each as contained in the Circular.

Yours faithfully,
Independent Board Committee

Henry Chan
Independent Non-Executive Director

Cheung Siu Kee
Independent Non-Executive Director

Seing Nea Yie
Independent Non-Executive Director

The following is the full text of the letter of advice from Quam Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders of the Company in respect of the terms of the Option Agreement.

Quam Capital Limited 華富嘉洛企業融資有限公司
Financial Services Group
A Member of The Quam Group

14 May 2007

To the Independent Board Committee and the Independent Shareholders
Luen Thai Holdings Limited
5/F Nanyang Plaza
57 Hung To Road
Kwun Tong
Kowloon, Hong Kong

Dear Sir or Madam,

MAJOR ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE EXERCISE OF THE OPTION AGREEMENT

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the independent shareholders of the Company (the "**Independent Shareholders**") in respect of the Option Agreement. Details of the terms of the Option Agreement are set out in the "Letter from the Board" contained in the circular issued by the Company to the Shareholders dated 14 May 2007 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

Messrs. Chan Henry, Cheung Siu Kee, Seing Nea Yie, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the Option Agreement is on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable and in the interest of the Company and the Shareholders as a whole. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders.

Quam Capital Limited is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Option Agreement.

In formulating our recommendation, we have relied on the information, facts supplied by the Company, and the opinions expressed by and the representations of the Directors and management of the Company. We have assumed that all the information and representations contained or referred to in the Circular were true and accurate in all respects at the date thereof and may be relied upon. We have also assumed that all statements and representations made or referred to in the Circular are true at the time that they were made and continue to be true at the date thereof. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Directors have confirmed to us that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have performed all steps as required under Rule 13.80 of the Listing Rules including notes thereon. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of any member of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of the Option Agreement

Background

As stated in the "Letter from the Board", the Purchaser, a wholly-owned subsidiary of the Company, has interconditionally entered into the following: (i) the Sale and Purchase Agreement on 10 March 2006, pursuant to which the Purchaser acquired a 50% interest in the issued and fully paid share capital of the Acquired Company from the Vendor; and (ii) the Option Agreement, for a consideration of HK$1,000, in respect of the rights to acquire a further 10% interest in the issued share capital of the Acquired Company. The purchaser has also entered into a Second Option Agreement with the Vendor on 10 March 2006 in respect of the rights to acquire the remaining 40% interest in the issued share capital of the Acquired Company.

On 3 April 2007, the Purchaser has exercised in full its rights under the Option Agreement to require the Vendor to sell and transfer the Option Shares, representing 10% of the issued share capital of the Acquired Company, pursuant and subject to the terms of the Option Agreement.

Information on the Acquired Company

The Acquired Company, through its wholly-owned subsidiaries, is principally engaged in the design, sourcing and distribution on a worldwide basis of garments and other textile products. The business of the Acquired Group, headquartered in Hong Kong with offices in the Asia Pacific region, has been in existence since as early as the 1990s.

As stated in the circular of the Company dated 3 April 2006, the Vendor has more than 25 years of experience in the wholesale trade and apparel business, and is the founder of the Acquired Group. The Company values the Vendor's knowledge of production capabilities of garment manufacturers in the Asia Pacific regions as well as with his strong sense and understanding of fashion trends and customers' needs. Upon completion of the Sale and Purchase Agreement, the Vendor continued to take a key role in the management of the Acquired Group as its chief executive officer and would remain to be so following Completion.

The consolidated total assets and net asset value of the Acquired Group as at 31 December 2006 amounted to US$23,085,944 (or about HK$180,070,363) and US$1,077,459 (or about HK$8,404,180) respectively. The consolidated revenue of the Acquired Group for the year ended 31 December 2006 amounted to US$118,828,282 (or about HK$926,860,600). For the year ended 31 December 2005, the consolidated net profit before and after taxation of the Acquired Group amounted to US$8,472,857 (or about HK$66,088,285) and US$5,236,200 (or about HK$40,842,360) respectively. For the year ended 31 December 2006, the consolidated net profit before and after taxation of the Acquired Group amounted to US$9,994,780 (or about HK$77,959,284) and US$6,376,113 (or about HK$49,733,681) respectively.

Reasons for exercising the Option Agreement

The Group is principally engaged in the manufacturing and trading of garment and textile products, and the provision of freight forwarding and logistics services. The Sale and Purchase Transaction was completed on 3 April 2006, following which the Acquired Company became an associated and 50%-owned company of the Company and its financial results were consolidated into those of the Group with effect from 10 September 2006. Since then, the Acquired Company became a subsidiary of the Company within the definition ascribed to it under the Listing Rules. As stated in the section headed "Business Prospects and Future Plans" in the "Letter from the Board", the business outlook for the Acquired Group remains positive. It is also noted that the Acquired Group is committed to focus on its strength of providing value added services to its customers and in meeting customers' expectations in terms of product quality and timely deliveries.

It is also noted in the "Letter from the Board" of the Circular that the Directors believe that the Transaction is in line with the Group's multi-product strategy to expand its product categories and geographical coverage by way of selective acquisitions and joint ventures and will further consolidate the Group's leading position in the apparel industry.

We concur with the Directors' view that the exercising of the Option Agreement is in line with the Group's strategy to expand its apparel product category and geographical coverage and provide the Group with a source of income to be generated by increasing its shareholdings in a profit-making subsidiary. This conforms with the business objective and strategy of the Group as mentioned above and we are of the view that the exercising of the Option Agreement is within its usual and ordinary course of business, in line with its core business and is in the interests of both the Company and the Shareholders as a whole in this respect.

2. Principal Terms of the Option Agreement

(i) Terms of the Option Agreement

Set out below is the summary of the major terms of the Option Price.

The Option Price, negotiated on an arm's length basis between the parties, shall be to the multiple of the following, pro-rated for the 10% interest being acquired:

(a) the average of the consolidated net profit after tax of the Acquired Company for the three years ending on 31 December 2008; and

(b) the price-earnings multiple ("**PE**") of 5.5 in respect of the Acquired Company.

Although the exact amount of the Option Price cannot currently be determined, it is subject to a minimum of US$3,850,000 (or about HK$30,030,000) and a maximum of US$6,600,000 (or about HK$51,480,000), being the range agreed between the parties after arm's length negotiation. On the basis of a PE that is within the prevailing industry average and the track record profitability and business prospects of the Acquired Company and its subsidiaries, the Directors are of the view that the Option Price and the basis for its calculation are fair and reasonable, and are in the interest of the Group and the Shareholders as a whole.

Payment of the Option Price shall be made in cash and funded by the internal resources of the Group and shall be made in four installments; details of which are set out under the section headed "Exercise of the Option Shares" in the "Letter from the Board".

(ii) The Option Price

As stated in the section above, the exact amount of the Option Price cannot currently be determined; however, it is subject to a minimum and maximum Option Price range.

For illustrative purpose, the minimum and maximum Option Price of US$3,850,000 (or about HK$30,030,000) and US$6,600,000 (or about HK$51,480,000) represent a PE of about 6.17 times and a PE of about 10.57 times respectively to the share of the consolidated net profit attributable to the equity holders of the Acquired Group for the year ended 31 December 2006 of US$6,242,843 (or about HK$ 48,694,175).

In order to assess the fairness and reasonableness of the Option Price, we have made reference to the PE of the companies whose shares are listed on the Stock Exchange. To perform a relevant comparison, the Acquired Group would ideally be compared with companies listed on the Stock Exchange which are principally engaged in design, sourcing and distribution of garment and textile products. However, we could not find any company listed on the Stock Exchange that is principally engaged in the design, sourcing and distribution of garment and textile products on a worldwide basis. Alternatively, based on our best knowledge and best efforts, we have identified four companies with their shares listed on the Stock Exchange ("**Comparable Companies**") which their business activities include some of the Acquired Group principal business activities. The following table summarises our findings:

Name of the companies (Stock Code)	**Principal businesses**	**Closing share price** *(HK$)*	**Market capitalisation** *(HK$ million)*	**PE** *(times)*
Hembly International Holdings Limited ("**Hembly**") (3989)	Provision of supply chain services for companies involved in the supply of apparel and accessories to international brand apparel makers, distribution and retailing of apparel and footwear	2.65	672.04	8.6 *(Note 1)*
SAS Dragon Holdings Limited ("**SAS**") (1184)	Distribution of electronic goods and sportswear	0.82	198.88	5.0 *(Note 2)*
Linmark Group Limited ("**Linmark**") (915)	Provision of chain management solutions to retail chain operators, brands, garments wholesalers and department stores.	1.04	697.76	12.6 *(Note 3)*

Name of the companies (Stock Code)	Principal businesses	Closing share price	Market capitalisation	PE
		(HK$)	*(HK$ million)*	*(times)*
Li & Fung Limited ("**Li & Fung**") (494)	Operation of export trading of business and consumer products such as garments, fashion accessories and shoes.	25	85,305.06	38.5 *(Note 4)*

Average PE of the Comparable Companies is 16.18.

Source: Annual reports of the Comparable Companies and website of the Stock Exchange

Notes:

(1) Based on the net profit attributable to shareholders of Hembly of approximately HK$78.1 million for the year ended 31 December 2006 and 253,600,000 shares in issue as at 31 March 2007, the earnings per share ("**EPS**") of Hembly was about HK$0.308. Based on the EPS of Hembly and the closing shares price of Hembly of about HK$2.65 as at 3 April 2007, Hembly had PE of about 8.6 times.

(2) Based on the net profit attributable to shareholders of SAS of approximately HK$40.1 million and 242,540,720 shares in issue as at 28 February 2007, the EPS of SAS was about HK$0.165. Based on the EPS of SAS and the closing shares price of SAS of about HK$0.82 as at 3 April 2007, SAS had PE of about 5.0 times.

(3) According to the annual report of Linmark for the financial year ended 30 April 2006, Linmark's profit for the year included an one-time non-cash income of approximately US$3.4 million, representing the excess of interest in fair value of acquired subsidiaries' net assets over cost of investment in relation to the acquisition of 60% interest in Dowry Peacock. By excluding such one-off non-cash income, the net profit after tax of Linmark reported a decline and adjusted to approximately US$7,100,000 (or about HK$55,380,000) and accordingly the PE is adjusted to about 12.6 times. Based on such adjusted net profit of Linmark and 670,920,009 shares in issue as at 28 February 2007, the EPS of Linmark was about US$0.0106 (or about HK$0.0827). Accordingly, the PE of Linmark was about 12.6 times based on the closing price of Linmark of about HK$ 1.04 as at 3 April 2007.

(4) Based on the net profit attributable to shareholders of Li & Fung of approximately HK$2,201,800,000 for the year ended 31 December 2006 and 3,412,202,586 shares in issue as at 31 March 2007, the EPS of Li & Fung was about HK$0.65. Based on the EPS of Li & Fung and the closing shares price of Li & Fung of about HK$25 as at 3 April 2007, Li & Fung had PE of about 38.5 times.

As shown in the above, the PE of the Comparable Companies range from 5 to 38.5 times with an average PE of about 16.18 times. The PE of 5.5 times set out in the terms of the Option Agreement and the PE of about 6.17 and 10.57 times represented by the respective minimum and maximum Option Price based on the net profit of the Acquired Group for the year ended 31 December 2006 is lower than the average of the Comparable Companies. In view of the above, we concur with the Directors' view that the basis for the calculations using the average of the consolidated net profit after tax of the Acquired Company and PE of the Option Price, and consider the terms of the Option Agreement, are fair and reasonable, and are in the interest of the Company and the Shareholders as a whole are concerned.

3. Possible Financial Effects

Upon Completion, the Company will hold an aggregate of 60% shareholdings of the Acquired Company and the Acquired Company's results will continue to be consolidated into the financial statements of the Group. It should be noted that the financial effects of the exercise of the Option Agreement on the Group shown in this section are for illustrative purpose only.

(i) Earnings

According to the financial information of the Acquired Group set out in Appendix II to the Circular, the net profit attributable to the equity holders of the Acquired Group for the year ended 31 December 2006 amounted to US$6,242,843 (or about HK$48,694,175). According to the financial information of the Group set out in Appendix I to the Circular, the net profit attributable to the equity holders of the Company for the year ended 31 December 2006 amounted to US$2,509,000 (or about HK$19,570,200).

Given that, upon Completion, the Acquired Group's results will continue to be consolidated into the financial statements of the Group, the profit-making history of the Acquired Group and in the event that it can sustain its profitability, the earnings of the Group as enlarged upon Completion (the "**Enlarged Group**") is expected to be improved after having consolidated the Acquired Group's results into the financial statements of the Group. As such, further improvement in the Group's earnings is expected to be recorded upon Completion.

Based on the potential improvements in the Group's earnings upon Completion, we consider that the exercise of the Option agreement is in the interests of the Company and the Shareholders as a whole.

(ii) Net Asset

According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to the Circular, assuming that the Option Price is US$3,850,000 (or about HK$30,030,000), upon Completion, the total assets of the Group will be decreased by about US$1,677,000 (or about HK$13,080,600) and the total liabilities of the Group will not be changed. Consequently, the net assets of the Group will be reduced by about US$1,677,000 (or about HK$13,080,600). Assuming the Option Price is US$6,600,000 (or about HK$51,480,000), the total assets of the Group will be increased by US$1,073,000 (or about HK$8,369,400) and the total liabilities of the Group will be increased by US$2,750,000 (or about HK$21,450,000). Consequently, the net assets of the Group will be reduced by about US$1,677,000 (or about HK$13,080,600).

Having considered the reduction in net assets and the positive impact on the earnings of the Group following Completion, we consider that the Acquisition, on the whole, is fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

(iii) Working capital position

As stated in the "Letter from the Board" of the Circular, the Option Price, ranging from approximately US$3,850,000 (or about HK$30,030,000) to approximately US$6,600,000 (or about HK$51,480,000), will be satisfied by the internal resources of the Group. According to the Company's consolidated balance sheet for the fiscal year 2006 set out in Appendix I to the Circular, the Group had cash and cash equivalents of approximately US$107,076,000 (or about HK$835,192,800) as at 31 December 2006.

(iv) Gearing ratio

Based on the annual report of the Company for the year ended 31 December 2006, the gearing ratio (defined as the ratio of total debt to total equity) of the Group was about 32.4% as at 31 December 2006. Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group set out in Appendix III to the Circular, the gearing ratio, calculated with reference to total borrowings of US$69,434,000 (or about HK$541,585,200) and the Shareholders' equity of about US$212,556,000 (or about HK$1,657,936,800), would have been 32.7% assuming Completion had taken place. It is noted in the Letter from the Board that the increase in the gearing ratio is due to a decrease in the minority interest (which forms part of the total equity) of the Group from 50% to 40%. It should also be noted that the Enlarged Group would maintain a net cash position (defined as cash and cash equivalents minus borrowings). In light of the foregoing, the increase in the gearing ratio of the Enlarged Group upon Completion will not have any material adverse impact on its financial position.

RECOMMENDATION

Taking into consideration of the above mentioned principal factors and reasons, we consider that the terms of the Option Agreement were entered into on normal commercial terms in the ordinary and usual course of business of the Group, and it is fair and reasonable and in the interests of the Company and the Shareholders as a whole and so far as the Independent Shareholders are concerned.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Sandy Yip
Director

FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial information on the Company for each of the three years ended 31 December 2004, 2005 and 2006 as extracted from the relevant annual report of the Company. For accounting period commencing on 1 January 2005, the Group has adopted the new Hong Kong Financial Reporting Standards ("HKFRS") and the comparatives for the year ended 31 December 2004 have been restated as required in the consolidated financial statements of the Company for the year ended 31 December 2005. These restated figures have been adopted for the purpose of this summary.

Results

	For the year ended 31 December		
	2004	**2005**	**2006**
	(restated)		
	US$'000	*US$'000*	*US$'000*
Revenue	553,766	593,118	661,836
Operating profit	38,363	21,075	13,533
Finance costs	(1,432)	(3,474)	(6,608)
Profit before income tax	36,613	17,433	10,044
Income tax	(6,205)	(2,933)	(5,000)
Profit for the year	30,408	14,500	5,044
Minority interest	(47)	(1,260)	(2,535)
Profit attributable to the equity holders of the Company	30,361	13,240	2,509

Assets and liabilities

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
Total assets	353,759	415,420	445,894
Total liabilities	(179,233)	(191,416)	(231,661)
Total equity	174,526	224,004	214,233

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 US$'000	2005 US$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	6	4,286	4,727
Property, plant and equipment	7	90,643	84,309
Intangible assets	8	52,857	21,852
Interests in associated companies	10	287	231
Interests in jointly controlled entities	11	2,045	2,560
Deferred income tax assets	12	311	792
Other non-current assets	13	3,627	4,558
		154,056	119,029
Current assets			
Inventories	14	65,332	64,783
Trade and bills receivables	13	93,852	71,318
Financial assets at fair value through profit and loss		122	–
Amounts due from related companies	13 & 33	2,397	3,273
Amounts due from jointly controlled entities and associated companies	13 & 33	6,778	2,045
Deposits, prepayments and other receivables	13	15,600	6,934
Pledged bank deposits	15	681	–
Cash and bank deposits	15	107,076	148,038
		291,838	296,391
Total assets		445,894	415,420
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	16	9,925	9,925
Other reserves	17	98,628	117,726
Retained earnings			
– Proposed final dividend		–	1,548
– Others		90,178	89,515
		198,731	218,714
Minority interest		15,502	5,290
Total equity		214,233	224,004

	Notes	2006 US$'000	2005 US$'000
LIABILITIES			
Non-current liabilities			
Borrowings	*18*	38,250	386
Retirement benefit obligations	*19*	2,295	2,041
Deferred income tax liabilities	*12*	3,849	401
Other long-term liabilities	*20*	22,073	10,296
		66,467	13,124
Current liabilities			
Trade and bills payables	*21*	43,906	31,558
Borrowings	*18*	31,184	83,301
Current income tax liabilities		12,489	2,590
Amounts due to related companies	*21 & 33*	1,499	2,775
Amounts due to jointly controlled entities and associated companies	*21 & 33*	84	–
Other payables and accruals	*21*	76,032	58,068
		165,194	178,292
Total liabilities		231,661	191,416
Total equity and liabilities		445,894	415,420
Net current assets		126,644	118,099
Total assets less current liabilities		280,700	237,128

BALANCE SHEET
As at 31 December 2006

	Note	2006 US$'000	2005 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	199,626	201,626
Current assets			
Deposits, prepayments and other receivables		–	27
Cash and bank deposits	15	430	73
		430	100
Total assets		200,056	201,726
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	16	9,925	9,925
Other reserves	17	189,101	188,562
Retained earnings			
– Proposed final dividend		–	1,548
– Others		841	1,319
Total equity		199,867	201,354
LIABILITIES			
Current liabilities			
Other payables and accruals		189	372
Total equity and liabilities		200,056	201,726

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006
(By function of expense)

	Note	2006 US$'000	2005 US$'000
Revenue	22	661,836	593,118
Cost of sales	23	(537,565)	(479,445)
Gross profit		124,271	113,673
Selling and distribution expenses	23	(19,168)	(14,325)
General and administrative expenses	23	(91,570)	(78,273)
Operating profit		13,533	21,075
Finance income	25	3,500	1,980
Finance costs	25	(6,608)	(3,474)
Share of profit/(loss) of associated companies		54	(1,891)
Share of loss of jointly controlled entities		(435)	(257)
Profit before income tax		10,044	17,433
Income tax expense	26	(5,000)	(2,933)
Profit for the year		5,044	14,500
Attributable to:			
Equity holders of the Company		2,509	13,240
Minority interest		2,535	1,260
		5,044	14,500
Earnings per share for profit attributable to the equity holders of the Company, expressed in US cents per share	28		
– Basic		0.3	1.3
– Diluted		0.3	1.3
Dividends	29	1,846	3,970

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to equity holders of the Company						
	Share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000	Minority interest US$'000	Total equity US$'000
Balance at 1 January 2005	9,023	71,686	8,113	85,406	174,228	298	174,526
Currency translation differences	–	–	(457)	–	(457)	–	(457)
Revaluation deficit	–	–	(349)	–	(349)	–	(349)
Net expense recognized directly in equity	–	–	(806)	–	(806)	–	(806)
Profit for the year	–	–	–	13,240	13,240	1,260	14,500
Total recognized income for 2005	–	–	(806)	13,240	12,434	1,260	13,694
Issuance of new shares	902	45,312	–	–	46,214	–	46,214
Dividends paid	–	–	–	(7,583)	(7,583)	–	(7,583)
Recognition of financial liability arising from acquisition of a subsidiary *(Note 20)*	–	–	(6,579)	–	(6,579)	–	(6,579)
Minority interest – Business combinations	–	–	–	–	–	3,732	3,732
Balance at 31 December 2005	9,925	116,998	728	91,063	218,714	5,290	224,004
Balance at 1 January 2006	9,925	116,998	728	91,063	218,714	5,290	224,004
Currency translation differences	–	–	2,196	–	2,196	–	2,196
Net income recognized directly in equity	–	–	2,196	–	2,196	–	2,196
Profit for the year	–	–	–	2,509	2,509	2,535	5,044
Total recognized income for 2006	–	–	2,196	2,509	4,705	2,535	7,240
Dividends paid	–	–	–	(3,394)	(3,394)	–	(3,394)
Acquisition of a subsidiary	–	–	(1,450)	–	(1,450)	–	(1,450)
Recognition of financial liability arising from acquisition of a subsidiary *(Note 20)*	–	–	(20,383)	–	(20,383)	–	(20,383)
Share based compensation expense	–	–	539	–	539	–	539
Minority interest – Business combinations	–	–	–	–	–	7,677	7,677
Balance at 31 December 2006	9,925	116,998	(18,370)	90,178	198,731	15,502	214,233

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 US$'000	2005 US$'000
Cash flow from operating activities			
Cash generated from operations	30(a)	17,558	57,574
Interest paid		(4,091)	(3,474)
Income tax paid		(1,268)	(1,483)
Overseas taxation paid		(1,416)	(4,459)
Net cash generated from operating activities		10,783	48,158
Cash flow from investing activities			
Purchase of property, plant and equipment		(19,813)	(23,009)
Purchase of leasehold land and land use rights		–	(1,359)
Purchase of available for sale financial assets		–	(724)
Decrease in bank deposits maturing beyond three months		56,674	–
Increase in pledged bank deposits		(681)	–
Proceeds from disposal of property, plant, equipment and leasehold land		1,470	1,255
Proceeds from disposal of an associate		–	661
Acquisition of a subsidiary, net of cash acquired	30(b)	(13,683)	(5,733)
Disposal of subsidiaries, net of cash disposed	30(c)	196	–
Payment of consideration payable for acquisition of a subsidiary		(5,739)	–
Increase in investment in jointly controlled entities		(1,289)	–
Increase in long-term loans to a jointly controlled entity		–	(1,856)
Interest received		3,500	1,980
Decrease in other non-current assets		931	823
Net cash generated from/(used in) investing activities		21,566	(27,962)
Net cash generated before financing activities		32,349	20,196
Cash flows from financing activities			
Decrease in trust receipts bank loans		(8,943)	(11,631)
Decrease in short-term bank loans		(413)	–
Increase in long-term bank loans		45,000	–
Repayment of long-term bank loans		(48,635)	(12,655)
Net proceeds from issue of new shares		–	46,214
Dividends paid		(3,394)	(7,583)
Net cash (used in)/generated from financing activities		(16,385)	14,345
Increase in cash and cash equivalents		15,964	34,541
Cash and cash equivalents at 1 January		80,003	46,204
Effect of foreign exchange rate changes		1,010	(742)
Cash and cash equivalents at 31 December	15	96,977	80,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Luen Thai Holdings Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the manufacturing and trading of garment and textile products, apparel manufacturing and the provision of freight forwarding and logistics services. During the year, the Group acquired 50% equity interest in On Time International Limited ("On Time"), a company incorporated in the British Virgin Islands (the "BVI"). On Time is principally engaged in the design, sourcing and distribution of garments and other textile products.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 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 19 April 2007.

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.

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 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.

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

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

– HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;

– HKAS 21 (Amendment), Net Investment in a Foreign Operation;

– HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

– HKAS 39 (Amendment), The Fair Value Option;

– HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts;

– HKFRS 6, Exploration for and Evaluation of Mineral Resources;

- HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

- HK(IFRIC) – Int 4, Determining whether an Arrangement contains a Lease;

- HK(IFRIC) – Int 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

- HK(IFRIC) – Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

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

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

- HK(IFRIC) – Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC) – Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC) - Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements;

- HK(IFRIC) – Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC) – Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC) – Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements; and

- HKFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). HKAS 1, Amendments to capital disclosures (effective for annual periods beginning on or after 1 January 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 January 2007.

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

- HK(IFRIC) – Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC) - Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) – Int 7 is not relevant to the Group's operations; and

- HK(IFRIC) – Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC) - Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC) – Int 9 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December.

(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 (Note 2.7). 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.

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 (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) 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 associates 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 recognize 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.

(d) 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.

2.3 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 US dollars ("US$"), 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 analyzed 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 related to changes in the amortized cost are recognized in profit and loss, 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 profit or loss 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 available-for-sale reserve in equity.

(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 shareholders' 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.

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	20 years
Leasehold improvements	5-15 years or over the unexpired period of the lease,whichever is shorter
Plant and machinery	5-10 years
Furniture, fixtures and equipment	3-5 years
Motor vehicles	3-5 years

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 the asset's 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 these 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 and jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill on acquisitions of jointly controlled entities is included in "interests in jointly controlled entities" and is tested annually for impairment as part of the overall balance. 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.

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 assets

Other intangible assets, representing customer relationship, have definite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of other intangible assets over its estimated useful life of 14 to 15 years.

2.8 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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).

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within 'finance cost', in the period in which they arise.

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.

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. 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 (FIFO) 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 a 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

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.

2.14 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. 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.

2.16 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 by the balance sheet date and are expected to apply when the related deferred income tax assets is realized or the deferred income tax liability is 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.

2.17 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 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. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define 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.

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 charged or credited to the income over the employees' expected average remaining working lives.

Past-service costs are recognized immediately as income, 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 obligation once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. 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.

(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 vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable 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.

2.19 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.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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 service income

Freight forwarding and logistics service income is 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 periods.

(v) Management and commission income

Management and commission income is recognized when services are rendered.

2.20 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 charged to the income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(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 United States dollars, Hong Kong dollars and Euro. 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 with external financial institutions to partially hedge against such 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 2006, borrowings were primarily at floating rates. The Group generally has not used interest rate swaps to hedge its exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Scenarios are simulated taking into consideration of the change in interest rate.

(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.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision for trade receivables and payables is a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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 significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) 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.

(b) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives, and related depreciation and amortization charges for its property, plant and equipment and intangible assets. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortization charges where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortizable lives and therefore depreciation and amortization expense in future periods.

(c) Impairment of property, plant and equipment, leasehold land and land use rights and intangible assets (other than goodwill)

Property, plant and equipment, leasehold land and land use rights, and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. The calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on two to four-year financial budgets approved by management and estimated terminal value at the end of the two to four-year period. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions could affect these cash flow projections and therefore the results of the impairment reviews.

(e) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(f) Trade, bills and other receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

(g) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining, among others, the expected volatility of the share price, the expected dividend yield, the risk-free interest rate for the life of the option, and the number of options that are expected to become exercisable as stated in Note 16. Where the outcome of the number of options that are exercisable is different, such difference will impact the income statement in the subsequent remaining vested period of the relevant share options.

5 SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 31 December 2006, the Group is principally engaged in the manufacturing and trading of garment and textile products and the provision of freight forwarding and logistics services. Revenue consists of sales from garment and textile products, and provision of freight forwarding and logistics services.

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

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

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

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

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

	Year ended 31 December 2006			Year ended 31 December 2005		
	Garment	Freight forwarding/ logistics services	Group	Garment	Freight forwarding/ logistics services	Group
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Depreciation *(Note 7)*	12,778	711	13,489	10,690	542	11,232
Amortization *(Notes 6 & 8)*	1,166	–	1,166	572	–	572
Impairment of trade receivables	343	25	368	66	22	88
Provision for/(write-back) of inventory obsolescence	1,047	–	1,047	(980)	–	(980)
Provision for impairment of intangible assets	827	–	827	–	–	–
Provision for impairment of property, plant and equipment	1,273	–	1,273	–	–	–

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

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

	Garment	Freight forwarding/ logistics services	Group
	US$'000	*US$'000*	*US$'000*
Segment assets	414,194	28,935	443,129
Associated companies	8	279	287
Jointly controlled entities	2,045	–	2,045
	416,247	29,214	445,461
Unallocated assets			433
Total assets			445,894
Segment liabilities	160,942	11,231	172,173
Unallocated liabilities			59,488
Total liabilities			231,661
Capital expenditure *(Notes 6, 7 and 8)*	49,003	2,548	51,551

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

	Garment	Freight forwarding/ logistics services	Group
	US$'000	*US$'000*	*US$'000*
Segment assets	387,712	24,125	411,837
Associated companies	8	223	231
Jointly controlled entities	2,560	–	2,560
	390,280	24,348	414,628
Unallocated assets			792
Total assets			415,420
Segment liabilities	127,198	14,442	141,640
Unallocated liabilities			49,776
Total liabilities			191,416
Capital expenditure *(Notes 6, 7 and 8)*	43,486	1,033	44,519

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

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

Capital expenditure comprises additions to leasehold land and land use rights (Note 6), property, plant and equipment (Note 7) and intangible assets (Note 8), including additions resulting from acquisitions through business combinations (Notes 6, 7, 8 and 32).

(b) Secondary reporting segments – geographical segments

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

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

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

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

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

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

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

6 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 values are analyzed as follows:

	2006	2005
	US$'000	*US$'000*
Leases of between 10 to 50 years held outside Hong Kong	4,286	4,727
Opening	4,727	3,515
Additions	–	1,359
Amortization of prepaid operating lease payments	(102)	(82)
Disposal	–	(65)
Exchange differences	(339)	–
	4,286	4,727

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixture 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 2005							
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

	Buildings *US$'000*	Leasehold improvements *US$'000*	Plant and machinery *US$'000*	Furniture, fixture and equipment *US$'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 (b))*	–	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

	Buildings *US$'000*	Leasehold improvements *US$'000*	Plant and machinery *US$'000*	Furniture, fixture and equipment *US$'000*	Motor vehicles *US$'000*	Construction-in-progress *US$'000*	Total *US$'000*
Year ended 31 December 2006							
Opening net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309
Acquisition of a subsidiary *(Note 30 (b))*	–	671	–	597	339	–	1,607
Disposal of a subsidiary *(Note 30 (c))*	–	(1)	(48)	(129)	(19)	–	(197)
Additions	148	2,024	3,524	4,672	980	8,465	19,813
Disposals	–	(571)	(704)	(230)	(80)	–	(1,585)
Transfer from construction in progress	10,807	62	2,978	65	–	(13,912)	–
Depreciation	(2,069)	(2,108)	(4,835)	(3,862)	(615)	–	(13,489)
Provision for impairment	–	(738)	(339)	(135)	(61)	–	(1,273)
Exchange differences	738	24	422	65	4	205	1,458
Closing net book amount	36,572	6,548	28,988	13,747	1,909	2,879	90,643
At 31 December 2006							
Cost	44,060	22,768	55,456	38,546	5,280	2,879	168,989
Accumulated depreciation and impairment	(7,488)	(16,220)	(26,468)	(24,799)	(3,371)	–	(78,346)
Net book amount	36,572	6,548	28,988	13,747	1,909	2,879	90,643

(a) Depreciation expense of US$6,505,000 (2005: US$6,300,000) has been expensed in cost of sales, and US$6,984,000 (2005: US$4,932,000) 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.

8 INTANGIBLE ASSETS

	Goodwill *US$'000*	Other intangible assets *US$'000*	Total *US$'000*
At 1 January 2005			
Cost	3,965	–	3,965
Accumulated amortization and impairment	–	–	–
Net book value	3,965	–	3,965
Year ended 31 December 2005			
Opening net book amount	3,965	–	3,965
Acquisition of a subsidiary *(Note 30(b))*	8,098	10,279	18,377
Amortization *(Note 23)*	–	(490)	(490)
Closing net book amount	12,063	9,789	21,852
At 31 December 2005			
Cost	12,063	10,279	22,342
Accumulated amortization and impairment	–	(490)	(490)
Net book value	12,063	9,789	21,852
Year ended 31 December 2006			
Opening net book amount	12,063	9,789	21,852
Adjustment to contingent consideration	2,765	–	2,765
Acquisition of a subsidiary *(Note 30(b))*	10,991	19,140	30,131
Amortization *(Note 23)*	–	(1,064)	(1,064)
Provision for impairment *(Note 23)*	(827)	–	(827)
Closing net book amount	24,992	27,865	52,857
At 31 December 2006			
Cost	25,819	29,419	55,238
Accumulated amortization and impairment	(827)	(1,554)	(2,381)
Net book value	24,992	27,865	52,857

Amortization of US$1,064,000 (2005: US$ 490,000) is expensed in the general and administrative expenses.

The carrying amount of the goodwill has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in the general and administrative expenses in the consolidated income statement.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified. A summary of the goodwill allocation to different CGUs is presented below:

	2006	**2005**
	US$'000	*US$'000*
Sweater division	10,863	8,098
Sleepwear division	2,380	2,380
Trading and sourcing division	10,991	–
Ladies' career wear division	758	1,585
	24,992	12,063

The recoverable amount of a CGU is determined based on the value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by management covering a two to four-year periods. Cash flows beyond the two to four-year periods are extrapolated using the estimated growth rates stated below.

The key assumptions other than the financial budgets covering a two to four-year periods used for value-in-use calculations are as follows:

	Sweater division	**Sleepwear division**	**Trading and sourcing division**	**Ladies' career wear division**
Growth rate *(a)*	2.0%	2.0%	3.5%	2.0%
Discount rate *(b)*	15.0%	15.0%	16.93%	15.0%

Notes:

a) Weighted average growth rate used to extrapolate cash flows beyond the budget period

b) Discount rate applied to the cash flow projections

These assumptions have been used for the analysis of each CGU.

Management has performed sensitivity analysis based on the following revised assumptions:

	Sweater division	**Sleepwear division**	**Trading and sourcing division**	**Ladies' career wear division**
Growth rate	1.0%	1.0%	2.5%	1.0%
Discount rate	16.0%	16.0%	17.93%	16.0%

Based on the above assumptions, the Group does not have to recognize further impairment loss.

9 INVESTMENTS IN SUBSIDIARIES

	2006	2005
	US$'000	*US$'000*
Unlisted shares	71,564	71,564
Amounts due from subsidiaries	128,062	130,062
	199,626	201,626

Particulars of the principal subsidiaries as at 31 December 2006:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Best Uni Limited	Hong Kong	Garment trading and sourcing overseas and in Hong Kong	10,000 ordinary share of HK$1 each	50%
Chelton Force Limited	British Virgin Islands ("BVI")	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Concorde Garment Manufacturing Corporation	Commonwealth of Northern Mariana Islands ("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%
CTSI Holdings Limited	BVI	Investment holding in the Philippines	1 ordinary share of US$1 each	100%
CTSI Logistics, Inc.	U.S.A.	Provision of freight forwarding and logistics services in the U.S.A.	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%

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
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$225,350,000	100%
Dongguan Quan Thai Garment Co., Ltd.	The PRC	Garment manufacturing in the PRC	HK$8,000,000	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%
GJM (Qingyuan) Light Industrial Development Limited	The PRC	Garment manufacturing in the PRC	Registered capital of HK$102,000,000 with total paid-in capital of HK$77,458,757	100%
GJM (UK) Limited	United Kingdom (“UK”)	Distribution of garment in the UK	1 ordinary share of GBP 1 each	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%

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Kingsmere, Inc.	U.S.A.	Investment holding in the U.S.A.	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	Sourcing, manufacturing and trading of textile and garment products in Macau	MOP$25,000	100%
Luen Thai Overseas Limited	Bahamas	Investment holding in Hong Kong	16,685,804 ordinary share of US$1 each	100%
Manhattan Limited	Hong Kong	Garment trading and sourcing overseas and inHong Kong	10,000 ordinary shares of HK$1 each	50%
On Time International Limited	BVI	Investment holding in Hong Kong	500 ordinary share of US$1 each	50%
Panyu G.J.M. Garment Manufacturing Factory	The PRC	Garment manufacturing in the PRC	Registered capital of US$5,700,000 with total paid-in capital of US$4,874,560	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%

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
TellaS Ltd.	U.S.A.	Import and distribution of garments in the U.S.A.	100 ordinary shares with total paid-in capital of US$100,000	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%
TMS Fashion (H.K.) Limited	Hong Kong	Garment trading and investment holding in Hong Kong	3,000,000 shares of HK$1 each	50%
TMS International Limited	Hong Kong	Garment trading in Hong Kong	2,000 ordinary shares of HK$500 each	50%

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

The outstanding balances with subsidiaries are interest free and not repayable in the coming twelve months.

10 INTERESTS IN ASSOCIATED COMPANIES

	2006	2005
	US$'000	*US$'000*
Share of net assets	287	231
Unlisted investments, at cost	156	156

The Group's interest in its principal associated companies as at 31 December 2006 were as follows:

Name	Particulars of issued share capital	Place of issued shares held	Principal activities and place of operations	Interest held
CTSI Logistics (Taiwan), Inc.	1,420,000 ordinary shares of TWD 10 each	Taiwan	Provision of freight forwarding and logistics services in Taiwan	49%
LT Investment Co. Ltd.	25 ordinary shares of US$8,000 each	Cambodia	Property holding in Cambodia	49%

11 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 *US$'000*	2005 *US$'000*
Share of net liabilities	(599)	(84)
Loan to a jointly controlled entity	2,644	2,644
	2,045	2,560
Unlisted investments, at cost	3,750	2,461

The loan to a jointly controlled entity is unsecured, non-interest bearing and not repayable within the next twelve months.

The Group's interest in its principal jointly controlled entities as at 31 December 2006 were as follows:

Name	Place of issued shares held	Principal activities and place of operations	Particulars of issued share capital	Interest held	Assets *US$'000*	Liabilities *US$'000*	Revenues *US$'000*	Profit/(loss) *US$'000*
Shenzhen Guangthai International Co. Ltd.	The PRC	Garment trading in the PRC	HK$20,000,000	50%	2,379	313	–	(563)
Shenzhen Li Da Silk Garment Company Limited	The PRC	Garment manufacturing in the PRC	RMB2,400,000	25%	1,918	1,493	4,743	2
Wuxi Liantai Garments Co., Ltd.	The PRC	Garment manufacturing in the PRC	US$2,050,000	50%	3,350	983	4,145	78
Yuen Thai Industrial Company Limited	Hong Kong	Sourcing, manufacturing and trading of sports and active wear in the PRC	2 ordinary shares of HK$1 each	50%	17,979	21,116	20,556	(971)
Yuen Thai Holdings Limited	BVI	Investment holding in Hong Kong and in the Philippines	2 ordinary shares of US$1 each	50%	5,639	5,641	–	(1)
Yuenthai Philippines, Inc.	The Philippines	Garment manufacturing in the Philippines	Peso 4,000,000	50%	2,936	4,628	2,976	(1,711)

12 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:

	2006	**2005**
	US$'000	*US$'000*
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	311	792
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	3,849	401

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

	2006	**2005**
	US$'000	*US$'000*
Beginning of the year	(391)	(822)
Recognized in the income statement *(Note 26)*	525	427
Acquisition of a subsidiary *(Note 30(b))*	3,350	4
Exchange differences	16	–
Disposal of subsidiary *(Note 30(c))*	38	–
End of the year	3,538	(391)

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:

	Provision	**Accelerated tax depreciation**	**Intangible assets**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2005	280	63	–	479	822
(Charged)/credited to the income statement	(18)	(414)	–	5	(427)
Acquisition of a subsidiary	–	(4)	–	–	(4)
At 31 December 2005	262	(355)	–	484	391
Charged to the income statement	(224)	(171)	–	(130)	(525)
Acquisition of a subsidiary	–	–	(3,350)	–	(3,350)
Disposal of a subsidiary	–	(38)	–	–	(38)
Exchange difference	–	(1)	–	(15)	(16)
At 31 December 2006	38	(565)	(3,350)	339	(3,538)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of US$7,091,000 (2005: US$4,705,000) in respect of losses amounting to US$17,246,000 (2005: US$11,443,000) that can be carried forward against future taxable income. These tax losses have expiry dates from 2006 to 2013.

13 TRADE AND OTHER RECEIVABLES

	2006	2005
	US$'000	*US$'000*
Trade and bills receivables	95,102	73,217
Less: provision for impairment of receivables	(1,250)	(1,899)
Trade and bills receivables – net	93,852	71,318
Deposits, prepayments and other receivables	19,227	11,492
Amounts due from related companies	2,397	3,273
Amounts due from associated companies and jointly controlled entities	6,778	2,045
	122,254	88,128
Less: non-current portion	(3,627)	(4,558)
Current portion	118,627	83,570

The carrying amount of trade receivables approximates its fair value.

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

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

The Group has recognized a loss of US$368,000 (2005: US$88,000) for the impairment of its trade receivables during the year ended 31 December 2006. The loss has been included in general and administrative expenses in the consolidated income statement.

As at 31 December 2006, certain of the Group's trade and bills receivable with an amount of US$11,863,000 was denominated in Euro, which is subject to currency risk.

The creation and release of provision for impaired receivables have been included in the general and administrative expenses in the consolidated income statement (Note 23).

14 INVENTORIES

	2006	2005
	US$'000	*US$'000*
Raw materials	30,986	29,270
Work-in-progress	20,378	15,175
Finished goods	13,968	20,338
	65,332	64,783

The cost of inventories recognized as expense and included in cost of sales amounted to US$444,219,000 (2005: US$386,939,000).

As at 31 December 2006, certain inventories were held under trust receipts bank loan arrangement.

15 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cash at bank and in hand	42,951	53,047	430	73
Short-term bank deposits	64,125	94,991	–	–
Cash and cash equivalents in the balance sheets	107,076	148,038	430	73
Time deposit with maturity beyond three months but less than one year	–	(56,674)		
Bank overdrafts *(Note 18)*	(10,099)	(11,361)		
Cash and cash equivalents in the consolidated cash flow statement	96,977	80,003		

As at 31 December 2006, certain of the Group's bank deposits with an amount of US$1,969,000 and US$2,376,000 were denominated in Euro and Chinese Renminbi, respectively, which are subject to currency risk.

The effective interest rate on short-term bank deposits was 4.33% (2005: 2.7%) per annum; these deposits have an average maturity of 62 days (2005: 62 days).

As at 31 December 2006, a pledged bank deposit has a maturity period of 90 days. Certain of the Group's banking facilities were pledged by such bank deposit of US$681,000 (2005: Nil).

16 SHARE CAPITAL

	Number of shares	**Nominal value**
		US$'000
Authorized – ordinary shares of US$0.01 each		
At 31 December 2005 and 2006	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	90,200,000	902
At 31 December 2005 and 2006	992,500,000	9,925

Share option

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

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

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

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

Movements in the number of share options are as follows:

Date of grant	Exercisable period	Subscription price per share	Beginning of year	Granted	Cancelled	End of year
			Number of shares			
			'000	*'000*	*'000*	*'000*
28 December 2004	From 28 December 2004 to 27 December 2007	HK$4.10	7,757	–	(137)	7,620
26 January 2006	From 26 January 2007 to 25 January 2011	HK$2.52	–	8,710	(290)	8,420
10 November 2006	From 10 November 2007 to 9 November 2011	HK$1.28	–	9,031	–	9,031
			7,757	17,741	(427)	25,071

On 26 January 2006 and 10 November 2006, the Group has granted 8,710,000 and 9,031,000 share options to directors and employees, respectively. The weighted average fair value of options granted during the year determined using the Binomial Lattice Model was HK$0.78 and HK$0.46 per option, respectively. The significant inputs into the model were as follows:

	Share options granted at 26 January 2006	Share options granted at 10 November 2006
Weighted average share price at grant date	HK$2.50	HK$1.28
Volatility	37%	43%
Dividend yield	2.1%	1.7%
Expected option life	3 to 5 years	3 to 5 years
Annual risk free interest rate	4.0%	3.76% for the first 3 years and 3.9% for the next 2 years

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price	Number of share options 2006	2005
27 December 2007	HK$4.10	7,620	7,757
25 January 2011	HK$2.52	8,420	–
9 November 2011	HK$1.28	9,031	–
		25,071	7,757

17 OTHER RESERVES

(a) Group

	Share premium US$'000	Capital reserve (Note (i)) US$'000	Other reserves US$'000	Share based compensation reserve US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2005	71,686	11,722	–	–	(3,609)	79,799
Net proceeds from issuance of new shares	45,312	–	–	–	–	45,312
Recognition of financial liability arising from acquisition of a subsidiary *(Note 20)*	–	–	(6,579)	–	–	(6,579)
Revaluation deficit	–	–	(349)	–	–	(349)
Exchange differences arising from translation of foreign subsidiaries	–	–	–	–	(457)	(457)
As at 31 December 2005	116,998	11,722	(6,928)	–	(4,066)	117,726
At 1 January 2006	116,998	11,722	(6,928)	–	(4,066)	117,726
Recognition of financial liability arising from acquisition of a subsidiary *(Note 20)*	–	–	(20,383)	–	–	(20,383)
Acquisition of a subsidiary	–	–	(1,450)	–	–	(1,450)
Share based compensation expense	–	–	–	539	–	539
Exchange differences arising from translation of foreign subsidiaries	–	–	–	–	2,196	2,196
As at 31 December 2006	116,998	11,722	(28,761)	539	(1,870)	98,628

(b) Company

	Share premium US$'000	Capital reserve *(Note (ii))* US$'000	Share based compensation reserve US$'000	Total US$'000
At 1 January 2005	71,686	71,564	–	143,250
Net proceeds from issuance of new shares	45,312	–	–	45,312
At 31 December 2005	116,998	71,564	–	188,562
At 1 January 2006	116,998	71,564	–	188,562
Share based compensation expense	–	–	539	539
At 31 December 2006	116,998	71,564	539	189,101

Notes:

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

(ii) The Company's capital reserve represents the difference between the aggregate net asset value of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition of the subsidiaries through the share exchange under the Group's IPO reorganization.

18 BORROWINGS

	2006 US$'000	2005 US$'000
Non-current		
Bank borrowings	38,250	386
Current		
Bank overdrafts	10,099	11,361
Collateralized borrowings	327	740
Current portion of non-current bank loans	4,900	46,399
Trust receipt bank loans	15,858	24,801
	31,184	83,301
Total borrowings	69,434	83,687

At 31 December 2006, the Group's borrowings were repayable as follows:

	Bank overdrafts		Trust receipt bank loans		Bank loans		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Within 1 year	10,099	11,361	15,858	24,801	5,227	47,139	31,184	83,301
Between 1 to 2 years	–	–	–	–	4,500	386	4,500	386
Between 2 to 5 years	–	–	–	–	13,500	–	13,500	–
Wholly repayable within 5 years	10,099	11,361	15,858	24,801	23,227	47,525	49,184	83,687
Over 5 years	–	–	–	–	20,250	–	20,250	–
	10,099	11,361	15,858	24,801	43,477	47,525	69,434	83,687

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

	2006	**2005**
	US$'000	*US$'000*
Hong Kong dollars	7,301	10,459
US dollars	62,133	73,228
	69,434	83,687

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

	2006		**2005**	
	US$	*HK$*	*US$*	*HK$*
Bank loans	4.62%	–	4.08%	–
Trust receipt bank loans	5.23%	4.07%	4.78%	3.03%
Bank overdrafts	8.00%	8.00%	6.75%	6.25%

Bank borrowings are secured by the corporate guarantee provided by the Company. Collateralized borrowings are secured by trade receivables.

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

19 RETIREMENT BENEFIT OBLIGATIONS

	2006	2005
	US$'000	*US$'000*
Balance sheet obligation for:		
Defined benefit plans	1,813	1,667
Provision for long service payments	482	374
	2,295	2,041
Income statement charge for *(Note 24):*		
– Defined benefit plans	838	523
– Provision for long service payment	80	74
	918	597

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 Real Actuarial Consulting Limited, an independent qualified actuary valuer.

(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$636,000 for the year ended 31 December 2006 (2005: US$603,000).

(b) Defined benefit plans

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

	2006	2005
	US$'000	*US$'000*
Present value of unfunded obligations	1,791	1,199
Unrecognized actuarial gains	22	468
Liability in the consolidated balance sheet	1,813	1,667

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

	2006	2005
	US$'000	*US$'000*
Current service cost	372	374
Interest cost	137	148
Actuarial (gain)/loss recognized during the year	(35)	1
Curtailment/settlement loss	364	–
Total, included in staff costs *(Note 24)*	838	523

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

	2006	**2005**
	US$'000	*US$'000*
At 1 January	1,667	1,129
Total expense – included in staff costs as shown above	838	523
Contributions paid	(809)	(2)
Exchange difference	117	17
At 31 December	1,813	1,667

The principal actuarial assumptions used are as follows:

	2006	**2005**
Discount rate	9.0%	12.0%
Future salary increase rate	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 Real Actuarial Consulting Limited, an independent qualified actuary valuer.

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

	2006	**2005**
	US$'000	*US$'000*
Present value of unfunded obligations	605	656
Unrecognized actuarial losses	(123)	(282)
Liability in the consolidated balance sheet	482	374

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

	2006	**2005**
	US$'000	*US$'000*
Current service cost	19	16
Interest cost	24	18
Net actuarial losses recognized	37	40
Total, included in employee benefit expense *(Note 24)*	80	74

The above charges were included in general and administrative expenses.

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

	2006 *US$'000*	2005 *US$'000*
At 1 January	374	468
Total expenses – included in staff costs as shown above	80	74
Contributions paid	(106)	(168)
MPF refund received	134	–
At 31 December	482	374

The principal actuarial assumptions used are as follows:

	2006	2005
Discount rate	3.7%	4.0%
Future salary increase rate	3.0%	3.5%

20 OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprised:

	2006 *US$'000*	2005 *US$'000*
Consideration payable for acquisition of subsidiaries	1,690	3,717
Financial liabilities in connection with the put options granted for the acquisition of subsidiaries	20,383	6,579
	22,073	10,296

The consideration payable represented the balance of consideration payable for the acquisition of 50% equity interest in On Time International Limited ("On time") and 71% equity interest in Partner Joy Group Limited ("Partner Joy"). Financial liabilities represented the amounts payable for the put options granted to the vendors of On Time and Partner Joy to sell their 40% and 29% interest in On Time and Partner Joy, respectively to the Group.

The repayment schedule of the consideration payable and financial liabilities is as follows:

	2006	2005
	US$'000	*US$'000*
Consideration payable:		
– Within one year	6,302	5,559
– Between two and five years	1,905	3,973
Financial liabilities:		
– Within one year	9,097	–
– Between two and five years	26,004	6,825
	43,308	16,357
Less: Amount representing interest element	(5,836)	(502)
Present value of consideration payable and financial liabilities	37,472	15,855
Less: Current portion included in other payables and accruals	(15,399)	(5,559)
	22,073	10,296

21 TRADE AND OTHER PAYABLES

	2006	2005
	US$'000	*US$'000*
Trade and bills payables	43,906	31,558
Amounts due to related companies	1,499	2,775
Amount due to jointly controlled entities and associated companies	84	–
Other payables and accruals	76,032	58,068
	121,521	92,401

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

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

As at 31 December 2006, certain of the Group's trade and bills payables with an amount of US$8,130,000 and US$927,000, were denominated in Euro and Chinese Renminbi respectively, which are subject to currency risk.

22 REVENUE

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

23 EXPENSES BY NATURE

	2006 *US$'000*	2005 *US$'000*
Changes in inventories of finished goods and work-in-progress	161,949	100,312
Raw materials used	282,270	286,627
Provision for/(write-back of) inventory obsolescence	1,047	(980)
Exchange difference, net	727	638
Loss on disposal of property, plant and equipment and leasehold land	115	426
Auditors' remuneration	733	689
Amortization of leasehold land and land use rights	102	82
Amortization of intangible assets	1,064	490
Provision for impairment of intangible asset	827	–
Depreciation of property, plant and equipment	13,489	11,232
Provision for impairment of property, plant and equipment	1,273	–
Provision for claims	2,082	2,173
Provision for impairment of receivables	368	88
Operating leases		
– office premises and warehouses	5,539	4,222
– plant and machinery	1,717	1,559
Quota expenses	2,343	280
Employee benefit expense *(Note 24)*	118,033	113,985
Transportation	3,886	2,981
Commission	1,527	1,384
Legal and professional fee	2,904	3,740
Communication, supplies and utilities	21,737	26,472
Write-back of other payables	(778)	(5,401)
Other expenses	25,349	21,044
	648,303	572,043
Representing:		
Cost of sales	537,565	479,445
Selling and distribution expenses	19,168	14,325
General and administrative expenses	91,570	78,273
	648,303	572,043

24 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS

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

	2006 *US$'000*	2005 *US$'000*
Wages, salaries and allowances	113,195	110,282
Termination benefits	2,207	502
Share options granted to directors and employees	539	–
Pension costs		
– Defined contribution plans *(Note 19(a))*	636	603
– Defined benefit plans *(Note 19(b))*	838	523
– Long service payments *(Note 19(c))*	80	74
Others	538	2,001
	118,033	113,985

(b) Directors' and senior management

The remuneration of each Director for the year ended 31 December 2006 is set out below:

Name of Director	Fees *US$'000*	Salary *US$'000*	Discretionary bonuses *US$'000*	Other benefits [1] *US$'000*	Employer's contribution to pension scheme *US$'000*	Total *US$'000*
Executive directors						
Mr. Tan Siu Lin	–	128	–	–	–	128
Mr. Tan Henry	–	332	–	13	2	347
Mr. Tan Cho Lung, Raymond	–	289	–	9	2	300
Ms. Mok Siu Wan Anne	–	414	–	32	18	464
Mr. Tan Sunny [3]	–	112	–	19	2	133
Non-executive director						
Mr. Tan Willie [2]	88	149	–	17	–	254
Independent non-executive directors						
Mr. Chan Henry	13	–	–	–	–	13
Mr. Cheung Siu Kee	13	–	–	–	–	13
Mr. Seing Nea Yie	13	–	–	–	–	13

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

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits [1]	Employer's contribution to pension scheme	Total
	US$'000	*US$'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	–	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

1 Other benefits include leave pay, share option, insurance premium and club membership.

2 Mr. Tan Willie resigned as an executive Director and was redesignated as a non-executive Director with effect from 26 May 2006.

3 Mr. Tan Sunny was appointed as an executive Director with effect from 26 May 2006.

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year (2005: three) are as follows:

	2006	2005
	US$'000	*US$'000*
Basic salaries, other allowances and benefit in kind	733	654
Discretionary bonuses	480	609
Pension scheme contributions	12	12
Others	28	–
	1,253	1,275

The emoluments fell within the following bands:

	Number of individuals 2006	2005
Emolument bands		
US$258,001 to US$323,000 (equivalent to HK$2,000,001 to HK$2,500,000)	–	–
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
US$452,001 to US$516,000 (equivalent to HK$3,500,001 to HK$4,000,000)	2	–
	3	3

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

25 FINANCE INCOME AND COSTS

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

26 INCOME TAX EXPENSE

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

	2006 *US$'000*	2005 *US$'000*
Current income tax:		
– Hong Kong profits tax	1,774	742
– Overseas taxation	3,213	5,102
Over-provision in prior years	(512)	(3,338)
Deferred income tax *(Note 12)*	525	427
	5,000	2,933

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

	2006 *US$'000*	2005 *US$'000*
Profit before income tax	10,044	17,433
Calculated at a taxation rate of 17.5% (2005: 17.5%)	1,758	3,051
Effect of different taxation rates in other countries	(90)	3,090
Income not subject to tax	(790)	(1,991)
Expenses not deductible for taxation purposes	1,818	871
Tax losses for which no deferred income tax asset was recognized	3,356	1,284
Utilization of previously unrecognized tax losses	(22)	(34)
Tax effect of share of results of associated companies and jointly controlled entities	(518)	–
Over-provision in prior years	(512)	(3,338)
Tax charge	5,000	2,933

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

27 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 US$1,368,000 (2005: US$4,459,000).

28 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.

	2006 *US$'000*	2005 *US$'000*
Profit attributable to equity holders of the Company	2,509	13,240
Weighted average number of ordinary shares in issue	992,500,000	983,356,000
Basic earnings per share (US cents per share)	0.3	1.3

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

29 DIVIDENDS

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

30 CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2006	2005
	US$'000	*US$'000*
Profit before income tax	10,044	17,433
Adjustment for:		
Share of (profits)/losses of associated companies	(54)	1,891
Share of losses of jointly controlled entities	435	257
Finance income *(Note 25)*	(3,500)	(1,980)
Finance costs *(Note 25)*	6,608	3,474
Amortization of intangible assets *(Note 8)*	1,064	490
Amortization of leasehold land and land use rights *(Note 6)*	102	82
Depreciation of property, plant and equipment *(Note 7)*	13,489	11,232
Impairment of property, plant and equipment	1,273	–
Impairment of intangible asset	827	–
Loss on disposal of property, plant and equipment, net	115	361
Loss on disposal of leasehold land	–	65
Gain on disposal of a subsidiary	(35)	–
Gain on disposal of an associate	–	(98)
Share based compensation expense	539	–
Operating profit before working capital changes	30,907	33,207
Inventories	(554)	9,390
Trade and bills receivables	(5,709)	12,774
Amounts due from related companies	458	(859)
Amounts due from associated companies and jointly controlled entities	(4,733)	2,638
Deposits, prepayments and other receivables	(5,032)	3,395
Amounts due to related companies	(479)	(4,223)
Amounts due to associated companies and jointly controlled entities	84	(644)
Trade and bills payables	(2,456)	(6,927)
Other payables and accruals	4,818	8,379
Retirement benefit obligation	254	444
Cash generated from operations	17,558	57,574

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2006	**2005**
	US$'000	*US$'000*
Net book amount *(Note 7)*	1,585	1,616
Loss on disposal of property, plant and equipment	(115)	(361)
Proceeds from disposal of property, plant and equipment	1,470	1,255

(b) Acquisition of a subsidiary

	2006	**2005**
	US$'000	*US$'000*
Property, plant and equipment	1,607	1,774
Inventories	–	11,605
Bank deposits maturing beyond three months	–	4,448
Trade and bills receivables	16,825	8,977
Deposits, prepayments and other receivables	469	1,451
Amount due from related companies	452	–
Intangible asset	19,140	10,279
Goodwill	1,037	–
Cash and bank deposits	5,567	2,226
Trade and bills payables	(14,804)	(8,419)
Other payables and accruals	(3,307)	(586)
Taxation payable	(8,108)	(531)
Amount due to related companies	(174)	(6,503)
Bank borrowings	–	(11,848)
Deferred tax liabilities	(3,350)	(4)
Net assets	15,354	12,869
Minority interest	(7,677)	(3,732)
	7,677	9,137
Reimbursement receivable	3,309	–
Total net assets acquired	10,986	9,137
Goodwill	9,954	8,098
	20,940	17,235
Satisfied by:		
Cash	19,250	7,959
Balance of consideration payable	1,690	9,276
	20,940	17,235

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

	2006	**2005**
	US$'000	*US$'000*
Acquisition consideration settled in cash	19,250	7,959
Cash and cash equivalents in the subsidiary acquired	(5,567)	(2,226)
Net cash outflow in respect of the acquisition of a subsidiary	13,683	5,733

(c) Disposal of a subsidiary

	2006
	US$'000
Property, plant and equipment	197
Inventories	5
Deferred tax assets	38
Deposits, prepayment and other receivables	22
Cash and bank balances	4
Amount due from related companies	870
Amounts due to related companies	(971)
Net assets disposed	165
Gain on disposal of a subsidiary	35
Satisfied by:	
Cash	200

Analysis of the net cash inflow in respect of the disposal of a subsidiary:

	2006
	US$'000
Cash consideration	200
Cash and bank balances transferred	(4)
Net cash inflow in respect of the disposal of a subsidiary	196

31 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2006	**2005**
	US$'000	*US$'000*
Property, plant and equipment		
– Contracted but not provided for	3,545	3,878

(b) Operating lease commitments

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

	2006	2005
	US$'000	*US$'000*
Land and buildings		
– No later than 1 year	2,066	4,292
– Later than 1 year but no later than 5 years	2,024	5,614
– Later than 5 years	3,877	3,287
	7,967	13,193
Facilities and equipment		
– No later than 1 year	73	218
– Later than 1 year but no later than 5 years	89	623
	162	841

32 BUSINESS COMBINATIONS

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

In addition, certain call options have been granted to the Group in connection with the acquisition of On Time which allow the Group to acquire the remaining 50% of the entire share capital in On Time from the other shareholder of On Time under certain terms and conditions as stipulated in the shareholders' agreement. The call options were exercisable starting from 10 September 2006. In the circumstances, the Group is able to control the financial and operating policies of On Time with the additional voting right in On Time's Board of Directors upon the exercise of the first 10% call option. In addition, certain put options have also been granted to the other shareholder which allow the other shareholder to sell its 40% of equity interests in On Time to the Group under certain terms and conditions as stipulated in the shareholders' agreement.

Details of net assets acquired and goodwill are as follows:

	US$'000
Acquisition consideration:	
– Cash paid	19,250
– Balance of consideration payable	1,690
Total acquisition consideration	20,940
Fair value of net assets acquired	(10,986)
Goodwill *(Note 30(b))*	9,954

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 On Time.

Details of the assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	US$'000	*US$'000*
Property, plant and equipment	1,607	1,607
Trade and bills receivables	16,825	16,825
Deposits, prepayments and other receivables	469	469
Amount due from related companies	452	452
Intangible asset	19,140	–
Goodwill	1,037	1,037
Cash and bank deposits	5,567	5,567
Trade and bills payables	(14,804)	(14,804)
Other payables and accruals	(3,307)	(3,307)
Taxation payable	(8,108)	(8,108)
Amount due to related companies	(174)	(174)
Deferred tax liabilities	(3,350)	–
	15,354	(436)
Minority interest	(7,677)	
	7,677	
Reimbursement receivable	3,309	
Net assets acquired	10,986	

33 RELATED PARTY TRANSACTIONS

Capital Glory Limited, a company incorporated in the BVI, owns 61.89% in the Company's shares. The directors regard the ultimate holding company of the 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 Cho Lung, Raymond and Mr. Tan Sunny, executive Directors of the Company, individually, jointly or collectively, or together with their close family members (collectively referred to as the "Tan's Family").

(i) Provision of goods and services

	2006	2005
	US$'000	*US$'000*
Management fee income from		
– related companies	146	–
– an associated company	–	261
– a jointly controlled entity	281	333
	427	594
Commission income from		
– a related company	1,749	36
– an associated company	–	962
	1,749	998
Freight forwarding and logistics service income from		
– related companies	426	1,288
– an associated company	27	–
– a jointly controlled entity	66	10
	519	1,298
Sales to a jointly controlled entity	8,074	12,926
Subcontracting income from a jointly controlled entity	–	53
Rental income from		
– a related company	198	173
– a jointly controlled entity	–	3
	198	176
Recharge of administrative expenses from related companies	308	–

(ii) Purchases of goods and services

	2006	2005
	US$'000	*US$'000*
Management fee charged by related companies	1	10
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	1,546	1,001
Office supplies charged by related companies	95	267
Packaging expenses charged by related companies	658	1,001
Insurance expenses charged by related companies	504	888
Traveling related service fees charged by related companies	567	967
Professional and technological support service fees to related companies	2,018	2,068
Repair and maintenance expenses charged by related companies	107	182
Freight forwarding and logistics services charged by related companies	634	1,059
Property, plant and machinery acquired from a related company	777	–
Subcontracting fees charged by jointly controlled entities	1,416	1,592
Administrative and support service fees charged by related companies	2,530	5,320
Recharge of material costs and other expenses to		
– related companies	–	528
– associated company and jointly controlled entities	2,657	5,738
	2,657	6,266
Handling service fee paid/payable to PT. Best Indo*	918	–
Property, plant and machinery acquired from PT. Best Indo* and PT. Bestex*	412	–

* PT. Best Indo and PT. Bestex are companies incorporated in Indonesia and owned by Mr. Frank Fleischer, a minority shareholder of On Time and his family member.

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

(b) Key management compensation

	2006	2005
	US$'000	*US$'000*
Basic salaries and allowance	3,492	3,049
Bonus	511	1,114
Pension scheme contributions	38	26
Others	191	–
	4,232	4,189

(c) Banking facilities

As at 31 December 2006, certain banking facilities of certain subsidiaries of the Group were secured by the corporate guarantees given by the Company.

The Company also provided corporate guarantees to the extent of HK$30,000,000 to Yuen Thai Industrial Co. Ltd., a jointly controlled entity of the Group.

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

As at 31 December 2006, the outstanding balances with the related companies, jointly controlled entities and associated companies are unsecured, interest-free and repayable on demand.

34 CONTINGENT LIABILITIES AND LITIGATION

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

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

A) INDEBTEDNESS

Borrowings

As at the close of business on 31 March 2007, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of US$105.9 million, comprising long-term bank loans of US$37.1 million, current portion of long-term bank loan of US$4.5 million, bank overdrafts of US$12.4 million, collarteralised borrowings of US$0.3 million, trust receipt bank loans of US$13.9 million, and balance of consideration payable for acquisitions of subsidiaries (the "Consideration Payable") of approximately US$37.7 million (of which approximately US$15.4 million will be due within one year and of approximately US$22.3 million will be due between two and five years).

The Consideration Payable comprises balance of consideration payable for the acquisition of certain subsidiaries, namely, the Acquired Company and Partner Joy Group Limited, and the amounts payable upon the exercise of the put options granted to the vendors of those subsidiaries acquired.

Collateral

As at the close of business on 31 March 2007, being the latest practicable date for the purpose of this indebtedness statement, the outstanding bank loans of the Group were secured by the corporate guarantee of Luen Thai, and certain pledged bank deposits of the Group with an amount of US$1.3 million.

Contingent liabilities and litigation

At the close of business on 31 March 2007, the Group was 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 consolidated financial statements. Save as aforesaid, the Group had no material contingent liabilities as at 31 March 2007.

Moreover, the Group provided corporate guarantees to the extent of HK$30,000,000 to Yuen Thai Industrial Co. Ltd, a jointly controlled entity of the Group.

Disclaimers

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding indebtedness at the close of business on 31 March 2007 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into US Dollars at the rates of exchange prevailing at the close of business on 31 March 2007.

B) WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Directors of the Company are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

C) FINANCIAL AND TRADING PROSPECT

The Group is principally engaged in the manufacturing and trading of garment and textile products, and the provision of freight forwarding and logistics services. Upon Completion, it is expected that the Enlarged Group will further strengthen its market position in the apparel industry. The Directors believe that the Transaction is in line with the Group's multi-product strategy to expand its apparel product categories and geographical coverage by way of selective acquisitions and joint ventures. The Group's experience in acquiring and managing GJM (its sleepwear division), Tomwell Limited (the ladies career wear division) and Partner Joy Group Limited (its sweater division) shows the Group's proven track record as one of the leaders and consolidators in the industry. Looking forward, the Directors are confident in the future prospect of the Enlarged Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE ACQUIRED GROUP

Set out below is an extract of the audited consolidated financial statements of the Acquired Group for the three financial years ended 31 December 2004, 2005 and 2006 respectively.

(Unit: USD'000)	**Year ended 31 December**		
Consolidated Income Statement Items	**2004**	**2005**	**2006**
	Audited	*Audited*	*Audited*
Turnover	91,205	102,953	118,828
Gross Profit	14,696	17,194	19,915
Operation Profit	8,185	8,397	9,877
Finance Costs	–	–	–
Profit before income tax	8,235	8,473	9,995
Profit for the year	5,129	5,236	6,376
Profit attributable to Equity holders of On Time Group	4,518	4,466	6,243

(Unit: USD'000)	**Year ended 31 December**		
Consolidated Balance Sheets Items	**2004**	**2005**	**2006**
	Audited	*Audited*	*Audited*
Non-current assets	643	871	2,504
Cash and cash equivalents	7,842	8,176	6,314
Pledged bank deposits	685	599	681
Current Assets	16,233	19,491	20,582
Total assets	16,876	20,362	23,086
Current Liabilities	9,828	15,472	22,008
Total Liabilities	9,828	15,478	22,008
Total Equity	7,048	4,884	1,077
Equity holders' Equity	6,338	4,412	1,077

FINANCIAL AND BUSINESS REVIEW

Year ended 31 December 2004

During the year, business of the Acquired Group continued to develop in a positive manner. Turnover and net profit attributable to equity shareholders amounted to approximately US$91.2 million and US$4.5 million respectively. The year 2004 signifies a year of substantial changes in the Acquired Group's structural and geographical organization. Merchandising and technical functions for the PRC business were relocated in their entirety from Hong Kong to its new marketing and merchandising head office in Beijing, the PRC. Investments in relation to the relocation of such head office were generated by the Acquired Group's internal resources.

Year ended 31 December 2005

In 2005, the Acquired Group achieved a sound double digit growth and ended the year with a turnover and net profit attributable to equity shareholders amounting to approximately US$103 million and US$4.5 million respectively. The newly established head office in Beijing had an overall positive impact on the Acquired Group, it contributed also to the improved profitability in the PRC in 2005 compared to 2004.

During the year, the Acquired Group made significant investments in line with its business strategy including the opening of a new office in New Dehli, India.

Year ended 31 December 2006

The Acquired Group continued to make significant growth during the year 2006. The turnover and net profit attributable to equity shareholders amounted to approximately US$118.8 million and US$6.2 million respectively, representing an increase of approximately 15.3% and 37.8% respectively when compared with the financial results of the previous year. In particular, turnover derived from the Acquired Group's business in the PRC increased by almost 50% from the year before.

During the year, the Acquired Group opened a new design and development centre in Dongguan, the PRC with a view to enhancing the growth of the Acquired Group's business. In addition, the Group's investments in the Acquired Group are expected to derive complementary benefits for the Group and the Acquired Group in various aspects including the penetration of the Group's clientele into the European market through the existing customers of the Acquired Group in Europe and the opening up of new business opportunities with potential customers for Acquired Group in the United States.

BUSINESS PROSPECT AND FUTURE PLANS

The business outlook for the Acquired Group remains positive. For the year 2007, the Acquired Group targets for continued and sustained growth in turnover by way of further investments in enhancements of its organizational and personnel set up to cope with the challenges from further dynamic growth and additional business. The Acquired Group is committed to focus on its strength of providing value added services to its customers by contributing valuable resources in the design and research stages and performing to the expectations of its customers in terms of both the quality of its products and timely deliveries.

The Acquired Group will continue to adopt a prudent financial approach to support its business by way of using its own internal resources for funding of future investments instead of seeking financial support from external sources e.g. banks. Further to recent discussions between the management of the Acquired Group and the Acquired Group's principal bankers, the Acquired Group's existing credit facilities have been extended for the purpose of issuing letter of credits to its suppliers.

Human resources will continue to play a key role for purposes of assisting the Acquired Group in achieving its targets and meeting its expectations. Additional management capabilities together with continuous training and development for the Acquired Group's existing employees will remain a top priority for the management of the Acquired Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2006, the value of the non-current assets of the Acquired Group included the value of the property, plant and equipment in the sum of US$1.5 million and the value of goodwill in the sum of US$1 million, the latter of which has arisen due to the acquisition of additional interests in a subsidiaries of the Acquired Company from minority interest shareholders of such subsidiaries.

The value of the total assets of the Acquired Group has increased from US$16.9 million as at 31 December 2004 to US$23.1 million as at 31 December 2006.

As at 31 December for each of the financial years ended 2004, 2005 and 2006, the current ratios (i.e. total current assets divided by total current liabilities) of the Acquired Group were 165%, 126% and 94% respectively, whilst the cash and cash equivalents balances amounted to approximately US$7.8 million, US$8.2 million and US$6.3 million respectively. In addition, there were pledged bank deposits in the amounts of approximately US$0.7 million, US$0.6 million and US$0.7 million as at the end of each of the financial years.

FOREIGN CURRENCY EXPOSURE

The majority of the business transactions of the Acquired Group are denominated in US dollar, Euro, India Rupees and Hong Kong dollar. Currently, the Acquired Group does not have a foreign currency hedging policy.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants to On Time International Limited.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

14 May 2007

The Directors
Luen Thai Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to On Time International Limited ("On Time") and its subsidiaries (hereinafter collectively referred to as "On Time Group") as at and for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") for inclusion in the circular of Luen Thai Holdings Limited ("Luen Thai") dated 14 May 2007 (the "Circular") in connection with the proposed acquisition of the additional 10% of the issued shares of On Time by Fortune Investment Overseas Limited, a wholly-owned subsidiary of Luen Thai.

On Time was incorporated in the British Virgin Islands on 13 February 2006 with limited liability under the International Business Companies Ordinance of the British Virgin Islands. Pursuant to a group reorganisation ("Reorganisation") as described in Note 1 of Section I of this report, which was completed on 29 March 2006, On Time became the holding company of the subsidiaries now comprising On Time Group. Particulars of the subsidiaries now comprising On Time Group are set out in Note 8 of Section I. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

Except for TMS Fashion(s) Pte Limited which has financial year end date of 30 June and TMS Fashion (Dehli) PVT Limited and TMS (Fashion) PVT Limited which have financial year end date of 31 March, all companies comprising On Time Group have adopted 31 December as their financial year end date.

The audited financial statements of the companies now comprising On Time Group for which there is a statutory audit requirement have been prepared in accordance with the relevant accounting principles generally accepted in the place of incorporation/establishment of those companies. The names of the statutory auditors of these companies are set out in Note 8 of Section I.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

For the purpose of this report, the directors of On Time have prepared the consolidated financial statements of On Time for the years ended 31 December 2004, 2005 and 2006 in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "HKFRS Financial Statements"). We have audited the HKFRS Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA. The financial information as set out in Section I below (the "Financial Information") has been prepared based on the audited HKFRS Financial Statements.

The directors of the respective companies now comprising On Time Group, during the Relevant Periods, are responsible for preparing the financial statements for the respective companies which give a true and fair view. In preparing the financial statements which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of Luen Thai and On Time are responsible for the Financial Information and the HKFRS Financial Statements, respectively, which give a true and fair view.

It is our responsibility to express an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

BASIS OF OPINION

We examined the Financial Information for the Relevant Periods and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of On Time as at 31 December 2006 and of On Time Group as at 31 December 2004, 2005 and 2006, and of On Time Group's results and cash flows for the Relevant Periods.

I. FINANCIAL INFORMATION OF ON TIME GROUP

(a) Consolidated balance sheets

	Note	As at 31 December 2004 US$	2005 US$	2006 US$
ASSETS				
Non-current assets				
Property, plant and equipment	6	642,983	871,253	1,464,816
Intangible asset	7	–	–	1,036,620
Deferred income tax assets	14	–	–	2,819
		642,983	871,253	2,504,255
Current assets				
Trade and bills receivable	9	6,110,163	9,386,994	12,488,634
Financial assets at fair value through profit or loss	10	89,049	298,996	121,870
Amount due from a related company	11	1,114,211	706,644	137,913
Amount due from a director	11	114,043	–	4,155
Prepayments, deposits and other receivables		277,979	322,740	834,372
Cash and cash equivalents	12	7,842,269	8,176,452	6,314,067
Pledged bank deposits	12	684,815	598,979	680,678
Total current assets		16,232,529	19,490,805	20,581,689
Total assets		16,875,512	20,362,058	23,085,944
EQUITY AND LIABILITIES				
Capital and reserves attributable to On Time's equity holders				
Share capital	15	500	500	500
Reserves	16	6,337,637	4,411,756	1,076,959
		6,338,137	4,412,256	1,077,459
Minority interests		709,753	472,070	–
Total equity		7,047,890	4,884,326	1,077,459
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	14	–	6,050	–
Current liabilities				
Trade and bills payable	13	6,063,321	8,428,219	10,033,508
Amount due to directors	11	–	241,561	111,659
Accrued liabilities and other payables		758,265	659,509	2,310,130
Income tax payable		3,006,036	6,142,393	9,553,188
Total current liabilities		9,827,622	15,471,682	22,008,485
Total liabilities		9,827,622	15,477,732	22,008,485
Total equity and liabilities		16,875,512	20,362,058	23,085,944
Net current assets/(liabilities)		6,404,907	4,019,123	(1,426,796)
Total assets less current liabilities		7,047,890	4,890,376	1,077,459

(b) Balance sheet

	Note	**As at 31 December 2006** *US$*
ASSETS		
Non-current assets		
Investments in subsidiaries	*8*	515,881
Current assets		
Cash and cash equivalents		2,718
Total assets		518,599
EQUITY AND LIABILITIES		
Capital and reserves attributable to On Time's equity holders		
Share capital	*15*	500
Reserves	*16*	512,933
Total equity		513,433
LIABILITIES		
Current liabilities		
Accrued liabilities and other payables		5,166
Total equity and liabilities		518,599
Net current liabilities		(2,448)
Total assets less current liabilities		513,433

(c) Consolidated income statements – by function of expense

		Year ended 31 December		
		2004	**2005**	**2006**
	Note	*US$*	*US$*	*US$*
Revenue	*17*	91,205,069	102,952,879	118,828,282
Cost of sales	*19*	(76,509,265)	(85,759,085)	(98,912,868)
Gross profit		14,695,804	17,193,794	19,915,414
Other gains	*17*	180,859	221,577	278,324
Selling and distribution expenses	*19*	(533,483)	(744,377)	(848,919)
Administrative expenses	*19*	(6,157,759)	(8,274,283)	(9,467,970)
Operating profit		8,185,421	8,396,711	9,876,849
Interest income		49,252	76,146	117,931
Profit before income tax		8,234,673	8,472,857	9,994,780
Income tax expense	*21*	(3,105,766)	(3,236,657)	(3,618,667)
Profit for the year		5,128,907	5,236,200	6,376,113
Attributable to:				
Equity holders of On Time		4,518,230	4,465,883	6,242,843
Minority interests		610,677	770,317	133,270
		5,128,907	5,236,200	6,376,113
Earnings per share for profit attributable to equity holders of On Time (US$)	*22*			
– Basic		9,036	8,932	12,486
– Diluted		9,036	8,932	12,486
Dividends	*23*	8,520,000	8,380,000	3,039,600

(d) Consolidated statements of changes in equity

	Attributable to equity holders of On Time						
	Share capital *US$*	Retained earnings *US$*	Capital reserve *US$*	Exchange translation reserve *US$*	Total *US$*	Minority interests *US$*	Total *US$*
Balance at 1 January 2004	500	4,797,470	515,381	141	5,313,492	1,133,767	6,447,259
Profit for the year	–	4,518,230	–	–	4,518,230	610,677	5,128,907
Exchange reserve arising from translation of foreign subsidiaries	–	–	–	10	10	–	10
Total recognised income and expense in 2004	–	4,518,230	–	10	4,518,240	610,677	5,128,917
Dividends paid	–	(3,493,595)	–	–	(3,493,595)	(1,034,691)	(4,528,286)
Balance at 31 December 2004	500	5,822,105	515,381	151	6,338,137	709,753	7,047,890
Balance at 1 January 2005	500	5,822,105	515,381	151	6,338,137	709,753	7,047,890
Profit for the year	–	4,465,883	–	–	4,465,883	770,317	5,236,200
Exchange reserve arising from translation of foreign subsidiaries	–	–	–	236	236	–	236
Total recognised income and expense in 2005	–	4,465,883	–	236	4,466,119	770,317	5,236,436
Dividends paid	–	(6,392,000)	–	–	(6,392,000)	(1,008,000)	(7,400,000)
Balance at 31 December 2005	500	3,895,988	515,381	387	4,412,256	472,070	4,884,326
Balance at 1 January 2006	500	3,895,988	515,381	387	4,412,256	472,070	4,884,326
Profit for the year	–	6,242,843	–	–	6,242,843	133,270	6,376,113
Exchange differences arising from translation of foreign subsidiaries	–	–	–	–	–	–	–
Total recognised income and expense in 2006	–	6,242,843	–	–	6,242,843	133,270	6,376,113
Acquisition of minority interests	–	–	–	–	–	1,036,620	1,036,620
Dividends paid	–	(9,577,640)	–	–	(9,577,640)	(1,641,960)	(11,219,600)
Balance at 31 December 2006	500	561,191	515,381	387	1,077,459	–	1,077,459

(e) Consolidated cash flow statements

		Year ended 31 December		
	Note	**2004**	**2005**	**2006**
		US$	*US$*	*US$*
Cash flows from operating activities				
Net cash generated from operations	*24(a)*	9,080,894	8,440,041	10,001,038
Income tax paid		(81,654)	(94,250)	(216,741)
Net cash generated from operating activities		8,999,240	8,345,791	9,784,297
Cash flows from investing activities				
Proceeds from disposals of financial assets at fair value through profit and loss		222,464	43,584	382,691
Purchase of financial assets at fair value through profit and loss		(311,013)	(253,358)	(197,338)
Purchase of property, plant and equipment		(430,721)	(479,516)	(733,899)
Proceeds from disposal of property, plant and equipment	*24(b)*	14,940	1,457	3,894
Interest received		49,252	76,146	117,931
Net cash used in investing activities		(455,078)	(611,687)	(426,721)
Net cash flows used in financing activities				
Dividends paid		(4,528,286)	(7,400,000)	(11,219,600)
Net increase/(decrease) in cash and cash equivalents		4,015,876	334,104	(1,862,024)
Effect of foreign exchange rate changes		2,032	79	(361)
Cash and cash equivalents at beginning of the year		3,824,361	7,842,269	8,176,452
Cash and cash equivalents at end of the year	*12*	7,842,269	8,176,452	6,314,067
Analysis of cash and cash equivalents:				
Cash and bank balances		7,842,269	8,176,452	6,314,067

NOTES TO THE FINANCIAL INFORMATION

(Amount expressed in US Dollars)

1 Group structure, reorganisation and principal activities

General information

On Time was incorporated in the British Virgin Islands on 13 February 2006 with limited liability under the International Business Companies Ordinance of the British Virgin Islands. On 3 March 2006, 500 ordinary shares of US$1 each were alloted and issued to Mr. Frank Fleischer. All issued shares are fully paid.

On 3 April 2006, 50% of the issued share capital of On Time was transferred to Fortune Investment Overseas Limited, by Mr. Frank Fleischer. Thereafter and as of the date of this report, On Time Group is beneficially 50% owned by Fortune Investment Overseas Limited and 50% owned by Mr. Frank Fleischer.

The address of On Time's registered office is P.O Box 957 Offshore Incorporations Centre, Road Town Tortola, British Virgin Island.

On Time Group is engaged in trading of garment products.

Reorganisation

Significant changes in the organisational structure of On Time Group during the Relevant Periods are summarised below:

(a) On 9 March 2006, On Time acquired the 82% and 18% equity interests in Fine Sino Limited from Mr. Frank Fleischer and a third party at a consideration of US$82 and US$18, respectively.

(b) On 22 March 2006, On Time acquired the 100% equity interests in Manhattan Limited, TMS Fashion (H.K.) Limited and TMS International Limited from Mr. Frank Fleischer at a consideration amounting to US$514,498.

(c) On 29 March 2006, On Time acquired the 82% equity interests in Best Uni Limited from Mr. Frank Fleischer at consideration amounting to US$1,052. On Time acquired the remaining 18% of the equity interest in Best Uni Limited at a consideration of US$231 from a third party.

Manhattan Limited, TMS Fashion (H.K.) Limited, TMS International Limited, Best Uni Limited and Fine Sino Limited are collectively referred to as "the Acquired Companies".

After the aforesaid Reorganisation, On Time became the holding company of the subsidiaries now comprising On Time Group. A list of these subsidiaries is set out on Note 8 below.

2 Application of merger accounting

On Time and the companies now comprising On Time Group as described above were under common control of Mr. Frank Fleischer both before and after the Reorganisation. The Reorganisation is therefore regarded as common control combinations and this Financial Information has been prepared using the principles of merger accounting in accordance with the Accounting Guideline No. 5 "Merger Accounting for Common Control Combination" issued by the HKICPA.

Except for the acquisition of 18% of equity interests in Best Uni Limited and Fine Sino Limited, which resulted in goodwill of US$1,036,620, being the difference between the consideration paid and the relevant share of the carrying values of net assets of Best Uni Limited and Fine Sino Limited, the Financial Information includes the financial position, results and cash flows of the companies comprising On Time Group as if the current group structure had been in existence since 1 January 2004, or their respective dates of incorporation/establishment.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of Financial Information are set out below. These policies have been consistently applied to all the Relevant Periods presented, unless otherwise stated.

3.1 Basis of preparation

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). On Time Group has adopted all new/revised HKFRSs which are effective for accounting periods commencing from 1 January 2005 and 2006 during the Relevant Periods. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the Financial Information in conformity with the new HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying On Time Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

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

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

- HK(IFRIC) – Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC) – Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. On Time Group will apply HK(IFRIC) – Int 8 from 1 January 2007, but it is not expected to have any impact on On Time Group's financial statements;

- HK(IFRIC) – Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC) – Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. On Time Group will apply HK(IFRIC) – Int 10 from 1 January 2007, but it is not expected to have any impact on On Time Group's financial statements; and

- HKFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). HKAS 1, Amendments to capital disclosures (effective for annual periods beginning on or after 1 January 2007). On Time Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. On Time Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 January 2007.

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

- HK(IFRIC) – Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC) – Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) – Int 7 is not relevant to On Time Group's operations; and

- HK(IFRIC) – Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC) – Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC) – Int 9 is not relevant to On Time Group's operations.

3.2 Merger accounting for common control combination

The Financial Information incorporates the financial statements of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in the consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a short period, regardless of the date of the common control combination.

The Financial Information is presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc. incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

3.3 Consolidation

The Financial Information includes the financial statements of On Time and all its subsidiaries made up to 31 December.

Subsidiaries are all entities over which On Time 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 On Time Group controls another entity.

Except for the Reorganisation, subsidiaries are fully consolidated from the date on which control is transferred to On Time Group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation, the purchase method of accounting is used to account for the acquisition of subsidiaries by On Time 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 On Time 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 recognised directly in the income statement.

On Time Group applies a policy of treating transactions with minority interests as transactions with parties external to On Time Group. Disposals to minority interests result in gains and losses for On Time Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

3.4 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.

3.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of On Time 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 Stated Dollars, which is On Time's functional 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 recognised in the income statement.

(c) Group companies

The results and financial position of all On Time Group's 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 recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.6 Property, plant and equipment

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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to On Time Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

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:

– Leasehold improvements	4 years
– Furniture, fixtures and equipment	4 years
– Motor vehicles	5 years

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 the asset's carrying amount is greater than its estimated recoverable amount *(Note 3.7)*.

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

3.7 Impairment of investment in subsidiaries and assets

Assets that have an indefinite useful life are not subject to amortisation, 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 recognised 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.

3.8 Financial assets

On Time Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivable. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assts at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

(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 3.9)*.

Regular purchases and sales of investments are recognised on trade-date - the date on which On Time Group commits to purchase or sell the asset. Investments are initially recognised 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 recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and On Time Group has transferred substantially all risks and rewards of ownership.

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 gains', in the period in which they arise.

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), On Time 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.

3.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that On Time 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

3.10 Cash and cash equivalents

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

3.11 Share capital

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

3.12 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.13 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 financial statements. However, if the deferred income tax 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, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by On Time Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.14 Employee benefits

(a) Retirement benefits

Certain group companies operate defined contribution plans, which are generally funded through payments to separate trustee - administered funds at pre-determined rates. On Time Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liabilities for annual leave as a result of services rendered by employees up to the balances sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(c) Bonus plans

On Time Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.15 Provisions

Provisions are recognised when On Time 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 recognised 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 recognised 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 recognised as interest expense.

3.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of discounts and after eliminating sales within On Time Group.

On Time Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of On Time Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. On Time Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods and samples

Sales of goods and samples are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, On Time 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 recognised using the original effective interest rate.

3.17 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.

3.18 Dividend distribution

Dividend distribution to On Time's equity holders is recognised as a liability in On Time Group's financial statements in the period in which the dividends are approved by On Time's equity holders or directors as appropriate.

4 Financial risk management

4.1 Financial risk factors

The principal types of risks inherent in On Time Group's business are foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Management regularly manages the financial risks of On Time Group. Because of the simplicity of the financial statements and the current operation of On Time Group, no major hedging activities are undertaken by management.

(a) Foreign exchange risk

On Time Group's business operations are exposed to foreign exchange risk, primarily with respect to Euro and Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. On Time Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. On Time Group manages its foreign exchange risks by performing regular review.

(b) Interest rate risk

On Time Group has bank deposits of approximately US$8,527,000, US$8,775,000 and US$6,995,000 as at 31 December 2004, 2005 and 2006, respectively. These bank deposits are interest-bearing. On Time Group has no interest-bearing liabilities.

The changes in market interest rates has no significant impact to On Time Group's income and operating cash flows.

(c) Credit risk

On Time Group's trade receivables due from one customer represents approximately 74%, 80% and 63% of the total trade receivables as at 31 December 2004, 2005 and 2006, respectively. On Time Group's sales are mainly covered by letters of credit. The remaining portion of the sales is on open account and On Time Group has polices in place to ensure that sales are made to customers with an appropriate credit history.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. On Time Group continues to maintain a healthy net cash position by keeping credit lines available and to maintain flexibility in future funding.

(e) Price risk

On Time Group is exposed to equity securities price risk because investments held by On Time Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, On Time Group appointed independent portfolio manager to monitor the investments.

4.2 Fair value estimation

The fair value of financial assets traded in active markets (such as financial assets at fair value through profit or loss securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by On Time Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to On Time Group for similar financial instruments.

5 Critical accounting estimates

On Time 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.

5.1 Estimated impairment of property, plant and equipment

On Time Group assesses annually whether property, plant and equipment has any indication of impairment, in accordance with the accounting policy stated in Note 3.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

5.2 Estimated impairment of goodwill

In accordance with HKAS 36 "Impairment of Assets", On Time Group completed its annual impairment test for goodwill by comparing its recoverable amount to its carrying amount as at 31 December 2006. On Time Group has conducted a valuation of the goodwill based on value-in-use calculation. The resulting values of the goodwill as at 31 December 2006 were higher than their carrying amounts. This valuation uses cash flow projections based on financial estimates covering a three years period and a discount rate of 16.93%. The cash flows beyond the three years period are extrapolated using a steady 3.5% growth rate. This growth rate does not exceed the long-term average growth rate for apparel markets in which the subsidiaries acquired by On Time operate. The Directors have considered the above assumptions and valuation and also taken into account the business expansion plan going forward. The Directors believes 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.

5.3 Estimated impairment of trade and other receivables

On Time Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of trade receivables. Provision for impairment are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade receivables and provision for impairment expense of trade and other receivables is recognised in the years in which such estimate has been changed.

5.4 Income taxes and deferred tax

On Time Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. On Time Group recognises 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 provision in the years in which such determination is made.

6 Property, plant and equipment

	Leasehold improvements US$	Furniture, fixtures and equipment US$	Motor vehicles US$	Total US$
At 1 January 2004				
Cost	157,375	422,373	89,167	668,915
Accumulated depreciation	(73,612)	(124,180)	(15,483)	(213,275)
Net book amount	83,763	298,193	73,684	455,640
Year ended 31 December 2004				
Opening net book amount	83,763	298,193	73,684	455,640
Additions	306,778	114,389	9,554	430,721
Disposal *(Note 24)*	(63,257)	(7,692)	(3,344)	(74,293)
Depreciation	(43,946)	(104,878)	(18,239)	(167,063)
Exchange differences	–	(2,022)	–	(2,022)
Closing net book amount	283,338	297,990	61,655	642,983
At 1 January 2005				
Cost	400,896	529,071	95,377	1,025,344
Accumulated depreciation	(117,558)	(231,081)	(33,722)	(382,361)
Net book amount	283,338	297,990	61,655	642,983
Year ended 31 December 2005				
Opening net book amount	283,338	297,990	61,655	642,983
Additions	300,652	171,772	7,092	479,516
Disposal *(Note 24)*	–	(1,946)	–	(1,946)
Depreciation	(99,454)	(129,894)	(20,109)	(249,457)
Exchange differences	–	157	–	157
Closing net book amount	484,536	338,079	48,638	871,253
At 1 January 2006				
Cost	701,548	699,054	102,469	1,503,071
Accumulated depreciation	(217,012)	(360,975)	(53,831)	(631,818)
Net book amount	484,536	338,079	48,638	871,253
Year ended 31 December 2006				
Opening net book amount	484,536	338,079	48,638	871,253
Additions	310,399	245,751	177,749	733,899
Transferred from a related company	34,431	208,614	168,699	411,744
Disposal *(Note 24)*	(9,292)	(3,695)	(2,641)	(15,628)
Depreciation	(219,906)	(227,679)	(89,228)	(536,813)
Exchange differences	–	361	–	361
Closing net book amount	600,168	561,431	303,217	1,464,816

	Leasehold improvements *US$*	Furniture, fixtures and equipment *US$*	Motor vehicles *US$*	Total *US$*
At 31 December 2006				
Cost	1,037,086	1,150,085	446,276	2,633,447
Accumulated depreciation	(436,918)	(588,654)	(143,059)	(1,168,631)
Net book amount	600,168	561,431	303,217	1,464,816

Depreciation expense of US$ 167,063, US$ 249,457 and US$ 536,813 for the years ended 31 December 2004, 2005 and 2006 have been included in administrative expenses.

7 Intangible asset

	Goodwill *US$*
At 1 January 2004, 2005 and 2006	–
Acquisition of additional interests of subsidiaries from minority interests	1,036,620
At 31 December 2006	1,036,620

8 Investments in subsidiaries

	As at 31 December 2006 *US$*
Investments, at cost:	
Unlisted shares	515,881

The directors are of the opinion that the underlying values of the subsidiaries were not less than their carrying values as at 31 December 2006.

As at the date of this report, On Time has direct and indirect interests in the following subsidiaries:

Name	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to On Time Group	Principal activities and place of operations	Statutory auditors 2004 *(Note)*	2005 *(Note)*	2006 *(Note)*
Best Uni Limited	Hong Kong	HK$10,000 of HK$1 each	100%[1,2]	Garment trading and sourcing overseas/ Hong Kong	(b)	(b)	(a)
Fine Sino Limited	British Virgin Islands	US$100 of US$1 each	100%[1,2]	Garment trading and sourcing overseas/ Hong Kong	N/A	N/A	N/A
Manhattan Limited	Hong Kong	HK$10,000 of HK$1 each	100%[1]	Garment trading and sourcing overseas/ Hong Kong	(b)	(b)	(a)
TMS Fashion (Dehli) PVT Limited	India	INR10,000 of INR10 each	100%	Garment trading/India	(c)	(c)	(c)
TMS Fashion (H.K) Limited	Hong Kong	HK$3,000,000 of HK$1 each	100%[1]	Garment trading and investment holding/ Hong Kong	(b)	(b)	(a)
TMS Fashion (S) Pte Limited	Singapore	SGD10,000 at SGD1 each	100%	Garment trading/ Singapore	(d)	(d)	(d)
TMS (Fashion) PVT Limited	India	INR10,000 of INR10 each	100%	Garment trading/India	(e)	(e)	(e)
TMS International Limited	Hong Kong	HK$1,000,000 of HK$500 each	100%[1]	Garment trading/Hong Kong	(b)	(b)	(a)

1 Shares held directly by On Time.

2 The equity interest attributable to On Time Group as at 31 December 2004 and 2005 were 82%.

Notes:

(a) PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

(b) A Ho Sung & Co., Certified Public Accountants, Hong Kong.

(c) A. K. Gutgutia & Co., Certified Public Accountants, India.

(d) David Yeung & Co., Certified Public Accountants, Singapore.

(e) M/S. Jaganathan & Sarabeswaran, Certified Public Accountants, India.

9 Trade and bills receivable

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Trade and bills receivable	7,004,293	10,304,749	12,702,238
Less: provision for impairment of trade and bills receivable	(894,130)	(917,755)	(213,604)
Trade and bills receivable – net	6,110,163	9,386,994	12,488,634

The carrying amounts of the trade and bills receivable as at 31 December 2004, 2005 and 2006 approximated their fair values.

On Time Group grants to its customers credit terms of maximum 90 days. The ageing analysis of the trade and bills receivables was as follows:

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
0 – 30 days	5,836,050	7,576,766	9,966,466
31 to 60 days	293,957	1,637,657	1,406,331
61 to 90 days	–	31,654	152,296
Over 90 days	874,286	1,058,672	1,177,145
	7,004,293	10,304,749	12,702,238

Trade and bills receivable were denominated in the following currencies:

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Euro	5,626,039	9,278,004	11,862,977
US dollar	1,369,139	1,009,818	777,831
Others	9,115	16,927	61,430
	7,004,293	10,304,749	12,702,238

10 Financial assets at fair value through profit or loss

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Investment funds	89,049	298,996	121,870

11 Amounts due from/(to) directors and a related company

(i) Balances with a director and a related company comprise:

	2004	2005	2006
	US$	*US$*	*US$*
On Time Group:–			
Amount due from a related company			
PT. Best Indo	1,114,211	706,644	137,913
Amount due from/(to) a director			
Mr. Frank Fleischer	114,043	(241,561)	(111,659)
Mr. Joerg Reiner Kornblum	–	–	4,155

PT. Best Indo is a company incorporated in Indonesia and owned by Mr. Frank Fleischer, a director of On Time and his family member.

Balances with directors and a related company are unsecured, interest free and repayable on demand.

(ii) Maximum balances outstanding due from a related company and a director disclosed pursuant to section 161B of the Hong Kong Companies Ordinance, are as follows:

	2004	2005	2006
	US$	*US$*	*US$*
PT. Best Indo	2,313,235	3,723,096	825,290
Mr. Frank Fleischer	227,531	555,951	–
Mr. Joerg Reiner Kornblum	38,391	50,256	4,155

12 Cash and cash equivalents and pledged bank deposits

	As at 31 December		
	2004	2005	2006
	US$	*US$*	*US$*
Cash at bank and on hand	7,842,269	8,176,452	6,314,067
Pledged bank deposits	684,815	598,979	680,678
	8,527,084	8,775,431	6,994,745
Effective interest rate on pledged bank deposits	0.90% p.a	0.92% p.a	0.92% p.a
Average maturity days of pledged bank deposit	90 days	90 days	90 days

Cash and cash equivalents and pledged bank deposits were denominated in the following currencies:

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Euro	7,393,366	8,312,388	1,969,396
US dollar	796,569	222,422	4,804,246
Hong Kong dollar	193,429	183,619	135,251
Chinese Renminbi ("RMB")	9,640	9,520	21,806
Others	134,080	47,482	64,046
	8,527,084	8,775,431	6,994,745

On Time Group's banking facilities were pledged by bank deposits of US$684,815, US$598,979 and US$680,678 as at 31 December 2004, 2005 and 2006, respectively.

13 Trade and bills payable

The ageing analysis of the trade and bills payables was as follows:

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
0 – 30 days	3,846,584	6,566,004	7,807,703
31 to 60 days	830,897	1,523,188	1,236,874
61 to 90 days	427,423	32,723	123,338
Over 90 days	958,417	306,304	865,593
	6,063,321	8,428,219	10,033,508

Trade and bills payable were denominated in the following currencies

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Euro	3,932,594	7,041,744	8,130,164
US dollar	2,062,017	1,297,946	1,776,750
Others	68,710	88,529	126,594
	6,063,321	8,428,219	10,033,508

14 Deferred income tax liabilities/(assets)

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Deferred income tax liabilities/(assets)			
– to be settled/(recovered) after more than 12 months	–	6,050	(2,819)

The gross movement in deferred income tax account is as follows:

	As at 31 December		
	2004	2005	2006
	US$	*US$*	*US$*
Beginning of the year	(15,012)	–	6,050
Charged/(credited) in the income statement *(Note 21)*	15,012	6,050	(8,869)
End of the year	–	6,050	(2,819)

On Time Group did not recognise deferred income tax assets of US$185,396, US$64,669, US$63,669 as at 31 December 2004, 2005 and 2006, respectively, in respect of the tax losses to carry forward against future taxable income. These tax losses can be carried forward indefinitely.

15 Share capital

a. On Time

	Number of ordinary shares of US$1 each	Total
		US$
At 31 December 2006	500	500

On Time was incorporated in the British Virgin Islands on 13 February 2006. The total authorised number of ordinary shares is 500 shares. On 3 March 2006, 500 ordinary shares of US$1 each were allotted and issued to Mr. Frank Fleischer. All issued shares are fully paid.

b. On Time Group

	Total
	US$
At 31 December 2004, 2005 and 2006	500

The share capital in respect of 500 shares issued for the purposes of the Reorganisation is included in the Financial Information as if it had always been issued.

16 Reserves

a. *On Time Group*

	Capital reserve *(i)* *US$*	Exchange translation reserve *US$*	Retained earnings *US$*	Total *US$*
Balance at 1 January 2004	515,381	141	4,797,470	5,312,992
Profit for the year	–	–	4,518,230	4,518,230
Exchange reserve arising from translation of foreign subsidiaries	–	10	–	10
Total recognised income for the year	–	10	4,518,230	4,518,240
Dividends	–	–	(3,493,595)	(3,493,595)
Balance at 31 December 2004	515,381	151	5,822,105	6,337,637
Balance at 31 December 2004	515,381	151	5,822,105	6,337,637
Profit for the year	–	–	4,465,883	4,465,883
Exchange reserve arising from translation of foreign subsidiaries	–	236	–	236
Total recognised income for the year	–	236	4,465,883	4,466,119
Dividends	–	–	(6,392,000)	(6,392,000)
Balance at 31 December 2005	515,381	387	3,895,988	4,411,756
Balance at 31 December 2005	515,381	387	3,895,988	4,411,756
Profit for the year	–	–	6,242,843	6,242,843
Exchange reserve arising from translation of subsidiaries	–	–	–	–
Total recognised income for the year	–	–	6,242,843	6,242,843
Dividends	–	–	(9,577,640)	(9,577,640)
Balance at 31 December 2006	515,381	387	561,191	1,076,959

(i) Capital reserve represents the net effect arising from the application of merger accounting for business combinations resulting from transactions amongst entities under common control.

b. On Time

	Capital reserve	Accumulated losses	Total
	US$	*US$*	*US$*
Balance at 13 February 2006	–	–	–
Loss for the period	–	(2,448)	(2,448)
Contribution from a shareholder	515,381	–	515,381
Balance at 31 December 2006	515,381	(2,448)	512,933

17 Revenue and other gains

	Year ended 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
On Time Group is primarily engaged in trading of garment products			
Revenue represented:			
Sale of finished garments	91,205,069	102,952,879	118,828,282
Other gain represented:			
Gain on disposal of financial assets at fair value through profit or loss	500	173	8,227
Others	180,359	221,404	270,097
	180,859	221,577	278,324

18 Segment information

No segment information is provided as On Time Group is only engaged in one business segment of trading of garment products; and over 90% of On Time Group's turnover and results contribution and of its total assets are attributable to trading of garment products to Europe.

19 Expenses by nature

	Year ended 31 December		
	2004	2005	2006
	US$	*US$*	*US$*
Cost of sales	76,509,265	85,759,085	98,912,868
Depreciation of property, plant and equipment *(Note 6)*	167,063	249,457	536,813
Net loss on disposal of property, plant and equipment	59,353	489	11,734
Employee benefit expense *(Note 20)*	2,483,754	2,941,759	3,991,180
Net exchange (gain)/loss	(619,333)	981,452	(720,132)
Provision for impairment of trade and bills receivables	894,130	23,625	60,795
Operating lease rentals of premises	258,801	375,402	562,191
Auditors' remuneration	46,736	60,547	76,923
Travelling and entertainment expense	548,919	625,421	853,574
Bank charges	481,532	451,656	456,957
Handling service fee paid to PT. Best Indo *(Note 26)*	1,148,304	2,897,805	3,128,796
Other expenses	1,221,983	411,047	1,358,058
Total cost of sales, selling and distribution expenses and administrative expenses	83,200,507	94,777,745	109,229,757

20 Employee benefit expense

	Year ended 31 December		
	2004	2005	2006
	US$	*US$*	*US$*
Wages, salaries and allowances	2,403,213	2,773,272	3,802,211
Pension costs – defined contribution	80,541	168,487	188,969
	2,483,754	2,941,759	3,991,180

(a) Directors' emoluments

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

Name of director	Fees	Wages, salaries and allowances	Pension costs – defined contribution	Total
	US$	*US$*	*US$*	*US$*
Frank Fleischer	–	248,105	1,670	249,775
Sanjeev Wadhwa	–	118,935	–	118,935
Joerg Reiner Kornblum	–	232,102	1,540	233,642
Tan Henry	–	–	–	–
Tan Cho Lung Raymond	–	–	–	–
Tan Sunny	–	–	–	–
	–	599,142	3,210	602,352

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

Name of director	Fees	Wages, salaries and allowances	Pension costs – defined contribution	Total
	US$	*US$*	*US$*	*US$*
Frank Fleischer	–	260,441	3,341	263,782
Sanjeev Wadhwa	–	159,414	–	159,414
Joerg Reiner Kornblum	–	232,101	1,540	233,641
Tan Henry	–	–	–	–
Tan Cho Lung Raymond	–	–	–	–
Tan Sunny	–	–	–	–
	–	651,956	4,881	656,837

The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name of director	Fees	Wages, salaries and allowances	Pension costs – defined contribution	Total
	US$	*US$*	*US$*	*US$*
Frank Fleischer	–	266,539	3,865	270,404
Sanjeev Wadhwa	–	124,590	–	124,590
Joerg Reiner Kornblum	–	246,610	1,540	248,150
Tan Henry	–	–	–	–
Tan Cho Lung Raymond	–	–	–	–
Tan Sunny	–	–	–	–
	–	637,739	5,405	643,144

No director waived any emolument during the Relevant Periods.

(b) *Five highest paid individual*

The five individuals whose emoluments were the highest in On Time Group for the three years ended 31 December 2004, 2005 and 2006 include three directors whose emoluments are reflected in the analysis presented above for the year ended 31 December 2004, 2005, and 2006 respectively. The emoluments payable to the remaining two individuals for the years ended 31 December 2004, 2005, 2006 respectively, are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Basic salaries and allowances	174,751	129,600	131,160
Pensions – defined contribution	–	–	–
	175,751	129,600	131,160

	Number of individuals Year ended 31 December		
	2004	2005	2006
Emolument bands			
Nil – US$128,000 (equivalent to nil – HK$1,000,000)	2	2	2

(c) On Time Group operates several defined contribution retirement plans for its local and overseas subsidiaries and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis.

In Hong Kong, On Time Group participates in the Mandatory Provident Fund Scheme operated by HSBC Provident Fund Trustee (Hong Kong) Limited. Contributions at a fixed rate of 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the scheme and are vested immediately.

As stipulated by rules and regulations in Mainland China, representative offices operating in Mainland China contribute to state-sponsored retirement plans for their employees. The employees contribute 7% to 11% of their basic salaries, while the employers contribute 31% to 37% of the employees' basic salaries and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

As stipulated by rules and regulations in India, On Time Group's companies in India participate in Employees' Provident Funds (PF) Scheme. Both the employees and the employer contribute 12% of the employees' basic salaries, subject to a cap of monthly relevant income of INR6500 per employee and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions.

As stipulated by rules and regulations in Indonesia, On Time Group's companies in Indonesia participate in Jamsostek Scheme. The employees contribute 2% of their basic salaries, while the employer contributes 12% of the employees' basic salaries and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions.

21 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the years ended 31 December 2004, 2005 and 2006. Taxation on overseas profits has been calculated on the estimated assessable profit for the years at the rates of taxation prevailing in the countries in which On Time Group operates.

	Year ended 31 December		
	2004	2005	2006
	US$	*US$*	*US$*
Current income tax			
– Hong Kong profits tax	–	–	141,964
– Overseas income tax	3,090,754	3,230,607	3,485,572
Deferred income tax *(Note 14)*	15,012	6,050	(8,869)
	3,105,766	3,236,657	3,618,667

The tax on On Time Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of On Time Group companies, as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Profit before income tax	8,234,673	8,472,857	9,994,780
Tax calculated at domestic tax rates applicable to profits in the respective countries	3,504,033	3,599,454	4,253,440
Income not subject to tax	(224,062)	(334,944)	(634,773)
Expenses not deductible for tax purposes	24,152	5,528	–
Utilisation of previously unrecognised tax losses	(198,357)	(33,381)	–
Tax expense	3,105,766	3,236,657	3,618,667

22 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of On Time by the weighted average number of ordinary shares in issue during the years as if the share capital of On Time outstanding immediately after the share issued for the purpose of the Reorganisation as described in Note 15 had been in existence throughout the years.

	2004	**2005**	**2006**
	US$	*US$*	*US$*
Profit attributable to equity holders of On Time	4,518,230	4,465,883	6,242,843
Weighted average number of ordinary shares in issue	500	500	500
Basic earnings per share (US$ per share)	9,036	8,932	12,486

There was no dilutive effect on earnings per share since there was no dilutive potential ordinary shares in existence during the years.

23 Dividends

No dividend has been paid or declared by On Time since its incorporation

The following dividends were declared by subsidiaries out of their retained earnings to their then shareholders in respect of the years ended 31 December 2004, 2005 and 2006:

	On Time Group	The other shareholders	Total
	US$	*US$*	*US$*
Year ended 31 December 2004			
Best Uni Limited	5,510,400	1,209,600	6,720,000
Fine Sino Limited	82,000	18,000	100,000
Manhattan Limited	1,000,000	–	1,000,000
TMS International Limited	700,000	–	700,000
	7,292,400	1,227,600	8,520,000
Year ended 31 December 2005			
Best Uni Limited	5,740,000	1,260,000	7,000,000
Fine Sino Limited	311,600	68,400	380,000
Manhattan Limited	1,000,000	–	1,000,000
	7,051,600	1,328,400	8,380,000
Year ended 31 December 2006			
Best Uni Limited	1,428,440	313,560	1,742,000
Manhattan Limited	522,600	–	522,600
TMS International Limited	775,000	–	775,000
	2,726,040	313,560	3,039,600

The rates of dividend and the number of shares ranking for dividend are not presented as such information is not considered meaningful for the purpose of this report.

24 Consolidated cash flow statement

(a) Reconciliation of profit before income tax to net cash generated from operations:

	Year ended 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Profit before income tax	8,234,673	8,472,857	9,994,780
Adjustments for:			
– Depreciation *(Note 6)*	167,063	249,457	536,813
– Loss on disposal of property, plant and equipment *(see below)*	59,353	489	11,734
– Interest income	(49,252)	(76,146)	(117,931)
– Gain on disposal of financial assets at fair value through profit or loss *(Note 17)*	(500)	(173)	(8,227)
Changes in working capital:			
– Trade and bills receivable	(374,411)	(3,276,831)	(3,101,640)
– Pledged bank deposit	(59,379)	85,836	(81,699)
– Prepayments, deposits and other receivables	(139,754)	(44,761)	(511,632)
– Amounts due from/(to) a related company	(400,337)	407,567	156,987
– Trade and bills payable	1,401,041	2,364,898	1,605,289
– Amounts due from/(to) director	(37,911)	355,604	(134,057)
– Accrued liabilities and other payables	280,308	(98,756)	1,650,621
Net cash generated from operations	9,080,894	8,440,041	10,001,038

(b) In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Net book amount *(Note 6)*	74,293	1,946	15,628
Loss on disposal of property, plant and equipment	(59,353)	(489)	(11,734)
Proceeds from disposal of property, plant and equipment	14,940	1,457	3,894

(c) Major non-cash transaction

During the year ended 31 December 2006, a related company transferred property, plant and equipment amounting to US$411,744 to On Time Group, which was settled through the balance with the related company. There was no major non-cash transaction for the years ended 31 December 2004 and 2005.

25 Commitments

Operating lease commitments

On Time Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

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

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Not later than 1 year	326,744	564,554	605,215
Later than 1 year and not later than 5 years	297,891	359,717	219,848
	624,635	924,271	825,063

26 Related-party transactions

(a) Particulars of significant transactions between On Time Group and related parties are summarised as follows:

	As at 31 December		
	2004	**2005**	**2006**
	US$	*US$*	*US$*
Handling service fee paid/payable to PT. Best Indo	1,148,304	2,897,805	3,128,796
Property, plant and machinery acquired from PT. Best Indo and PT. Bestex	–	–	411,743

PT Best Indo and PT. Bestex are companies incorporated in Indonesia and owned by Mr. Frank Fleischer, director of On Time and his family member.

(b) On Time Group considered the Directors of On Time as key management. Other than those as set out in Note 20 (a), On Time Group has no other significant key management compensation paid/payable during the years ended 31 December 2004, 2005 and 2006.

27 Accounting adjustments under common control combination

The following is a reconciliation of the effect arising from the common control combination on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2006

	On Time	The Acquired Companies	Adjustments		Consolidated
	US$	*US$*	*US$*		*US$*
Investment in the Acquired Companies	515,881	–	(515,881)	*(i)*	–
Other assets (liabilities) – net	(2,448)	43,287	1,036,620	*(ii)*	1,077,459
Net assets	513,433	43,287			1,077,459
Share capital	500	515,881	(515,881)	*(i)*	500
Capital reserve	515,381	–			515,381
Other reserves	(2,448)	(472,594)	1,036,620	*(ii)*	561,578
	515,433	43,287			1,077,459

The consolidated balance sheet as at 31 December 2005

	The Acquired Companies	Adjustments		Consolidated
	US$	*US$*		*US$*
		(515,881)	*(i)*	
Investment in the Acquired Companies	–	515,881	*(iii)*	–
Other assets – net	4,884,326			4,884,326
Net assets	4,884,326			4,884,326
		(515,881)	*(i)*	
Share capital	515,881	500	*(iii)*	500
Capital reserve	–	515,381	*(iii)*	515,381
Other reserves	3,896,375			3,896,375
	4,412,256			4,412,256
Minority interests	472,070			472,070
	4,884,326			4,884,326

The consolidated balance sheet as at 31 December 2004

	The Acquired Companies	Adjustments		Consolidated
	US$	*US$*		*US$*
		(515,881)	*(i)*	
Investment in the Acquired Companies	–	515,881	*(iii)*	–
Other assets – net	7,047,890			7,047,890
Net assets	7,047,890			7,047,890
		(515,881)	*(i)*	
Share capital	515,881	500	*(iii)*	500
Capital reserve	–	515,381	*(iii)*	515,381
Other reserves	5,822,256			5,822,256
	6,338,137			6,338,137
Minority interests	709,753			709,753
	7,047,890			7,047,890

The above adjustments represent:

(i) an adjustment to eliminate the share capital of the combining entities against the investment cost;

(ii) to recognise the goodwill arisen from the acquisition of 18% interest of Best Uni Limited and Fine Sino Limited; and

(iii) an adjustment to eliminate the investment cost pushed back and the corresponding capital issued.

No other significant adjustments were made to the net assets and net profit of any entities as a result of the common control combination to achieve consistency of accounting policies.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of On Time Group, On Time or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2006 and save as disclosed in this report, no dividend or distribution has been declared, made or paid by On Time or any of its subsidiaries in respect of any period subsequent to 31 December 2006.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following are the illustrative and unaudited pro forma statements of assets and liabilities of the Enlarged Group which have been prepared based on the consolidated balance sheet of the Group as set out in the published annual report of the Group for the year ended 31 December 2006 after making pro forma adjustments as set out in note 2 below.

These unaudited pro forma statements of assets and liabilities of the Enlarged Group have been prepared to illustrate the effects of the Transaction, as if the Transaction had taken place on 31 December 2006 and on the assumption that the Option Price is either US$3,850,000 or US$6,600,000, representing the minimum and maximum amounts of the Option Price with reference to the Option Agreement. They have been presented in a manner consistent with both the format and accounting policies adopted by the Group. They have been prepared for illustrative purposes only and because of their hypothetical natures, they may not give a true picture of the financial position of the Enlarged Group had the Transaction been completed as at 31 December 2006 or at any future date.

I) Assuming the Option Price is US$3,850,000

	Unadjusted statement of assets and liabilities of the Group as at 31 December 2006	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	US$'000	*US$'000*	*US$'000*	*US$'000*
	Note 1	*Note 2 (i)*	*Note 2(ii)*	
ASSETS				
Non-current assets				
Leasehold land and land use rights	4,286	–	–	4,286
Property, plant and equipment	90,643	–	–	90,643
Intangible assets	52,857	–	1,511	54,368
Interests in associated companies	287	–	–	287
Interests in jointly controlled entities	2,045	–	–	2,045
Deferred income tax assets	311	–	–	311
Other non-current assets	3,627	–	–	3,627
	154,056	–	1,511	155,567
Current assets				
Inventories	65,332	–	–	65,332
Trade and bills receivable	93,852	–	–	93,852
Financial assets at fair value through profit or loss	122	–	–	122
Amounts due from related companies	2,397	–	–	2,397
Amounts due from jointly controlled entities and associated companies	6,778	–	–	6,778
Deposits, prepayments and other receivables	15,600	–	662	16,262
Pledged bank deposits	681	–	–	681
Cash and bank deposits	107,076	(3,850)	–	103,226
	291,838	(3,850)	662	288,650
Total assets	445,894	(3,850)	2,173	444,217

	Unadjusted statement of assets and liabilities of the Group as at 31 December 2006	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	US$'000	*US$'000*	*US$'000*	*US$'000*
	Note 1	*Note 2 (i)*	*Note 2(ii)*	
LIABILITIES				
Non-current liabilities				
Borrowings	38,250	–	–	38,250
Retirement benefit obligations	2,295	–	–	2,295
Deferred income tax liabilities	3,849	–	–	3,849
Other long-term liabilities	22,073	–	–	22,073
	66,467	–	–	66,467
Current liabilities				
Trade and bills payables	43,906	–	–	43,906
Borrowings	31,184	–	–	31,184
Current income tax liabilities	12,489	–	–	12,489
Amounts due to related companies	1,499	–	–	1,499
Amounts due to jointly controlled entities and associated companies	84	–	–	84
Other payables and accruals	76,032	–	–	76,032
	165,194	–	–	165,194
Total liabilities	231,661	–	–	231,661

II) Assuming the Option Price is US$6,600,000

	Unadjusted statement of assets and liabilities of the Group as at 31 December 2006	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	US$'000	*US$'000*	*US$'000*	*US$'000*
	Note 1	*Note 2 (i)*	*Note 2(ii)*	
ASSETS				
Non-current assets				
Leasehold land and land use rights	4,286	–	–	4,286
Property, plant and equipment	90,643	–	–	90,643
Intangible assets	52,857	–	4,261	57,118
Interests in associated companies	287	–	–	287
Interests in jointly controlled entities	2,045	–	–	2,045
Deferred income tax assets	311	–	–	311
Other non-current assets	3,627	–	–	3,627
	154,056	–	4,261	158,317
Current assets				
Inventories	65,332	–	–	65,332
Trade and bills receivable	93,852	–	–	93,852
Financial assets at fair value through profit or loss	122	–	–	122
Amounts due from related companies	2,397	–	–	2,397
Amounts due from jointly controlled entities and associated companies	6,778	–	–	6,778
Deposits, prepayments and other receivables	15,600	–	662	16,262
Pledged bank deposits	681	–	–	681
Cash and bank deposits	107,076	(3,850)	–	103,226
	291,838	(3,850)	662	288,650
Total assets	445,894	(3,850)	4,923	446,967

	Unadjusted statement of assets and liabilities of the Group as at 31 December 2006	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	US$'000	*US$'000*	*US$'000*	*US$'000*
	Note 1	*Note 2 (i)*	*Note 2(ii)*	
LIABILITIES				
Non-current liabilities				
Borrowings	38,250	–	–	38,250
Retirement benefit obligations	2,295	–	–	2,295
Deferred income tax liabilities	3,849	–	–	3,849
Other long-term liabilities	22,073	2,750	–	24,823
	66,467	2,750	–	69,217
Current liabilities				
Trade and bills payables	43,906	–	–	43,906
Borrowings	31,184	–	–	31,184
Current income tax liabilities	12,489	–	–	12,489
Amounts due to related companies	1,499	–	–	1,499
Amounts due to jointly controlled entities and associated companies	84	–	–	84
Other payables and accruals	76,032	–	–	76,032
	165,194	–	–	165,194
Total liabilities	231,661	2,750	–	234,411

1. The unadjusted statement of assets and liabilities of the Group as at 31 December 2006 are extracted from the consolidated balance sheet of the Group as at 31 December 2006 set out in the published annual report for the year ended 31 December 2006 which has incorporated the assets and liabilities of On Time Group as at 31 December 2006 set out in Appendix II to this Circular.

2. Details of the pro forma adjustments are set out as follows:

   (i) In accordance with the Option Agreement, the Option Price is the multiple of the average consolidated net profit after tax of On Time Group for the three years ending 31 December 2008, and the price-earnings multiple of 5.5, and pro-rated for the 10% interest being acquired.

   In addition, the Option Price is subject to a minimum of US$3,850,000 and a maximum of US$6,600,000.

   For the purpose of the preparation of the unaudited pro forma financial information, it is assumed that the Option Price is either US$3,850,000 or US$6,600,000, representing the minimum and maximum amounts of the Option Price with reference to the Option Agreement. In addition, estimated consideration payable of US$2,750,000 is recognised if the Option Price is US$6,600,000 after taking into account the upfront cash payment of US$3,850,000, which shall be paid upon Completion as stipulated in the Option Agreement.

(ii) This represents adjustment arising from the acquisition of 10% interest in On Time Group by the Group as if it had taken place on 31 December 2006, which includes:–

– the recognition of additional receivable amounting to US$662,000 in respect of the compensation receivable from the Vendor arising from the future acquisition of 10% interest in On Time Group by the Group as a result of an undertaking given by the Vendor to indemnify the Group for certain identifiable liabilities of On Time Group; and

– the recognition of goodwill of US$1,511,000 or US$4,261,000, representing the excess of consideration as set out in note 2(i) above over the 10% of the fair value of the net assets of On Time Group acquired and the compensation receivable of US$662,000 in connection with the Transaction, on the assumption that the Option Price is US$3,850,000 and US$6,600,000 respectively (see note 2 (i)).

Since the fair values of the identifiable assets and liabilities of On Time Group and the Option Price as at the date of completion of the Transaction may be different from the fair values and estimation used in the preparation of the unaudited pro forma statements of assets and liabilities above, the actual amount of the goodwill arising from the Transaction, if any, may be different from the estimated amount shown in this Appendix.

(iii) During the year ended 31 December 2006, the Group acquired 50% equity interest in On Time Group. In accordance with the Sale and Purchase Agreement, the consideration for such acquisition is the multiple of the average consolidated net profit after tax of On Time Group for the three years ending 31 December 2008, and the price-earnings multiple of 5.5, and pro-rated for the 50% interest being acquired.

In addition, the acquisition consideration is subject to a minimum of US$19,250,000 and a maximum of US$33,000,000.

Included in the unadjusted statements of assets and liabilities of the Group as at 31 December 2006 there was a consideration payable amounting to US$1,690,000, which represented the estimated balance of consideration payable for the acquisition as mentioned above and is subject to final adjustment. Should the consideration for such acquisition be either US$19,250,000 (minimum consideration amount) or US$33,000,000 (maximum consideration amount), the consideration payable balance would have been adjusted to US$ nil or US$13,750,000 (with a corresponding adjustment to goodwill), respectively. No adjustment has been made to the consideration payable for the purpose of the unaudited pro forma financial information.

(iv) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2006.

B. REPORT FROM ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group for the sole purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS
羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT FROM ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF LUEN THAI HOLDINGS LIMITED

We report on the unaudited pro forma financial information set out on pages 125 to 129 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 14 May 2007 (the "Circular") of Luen Thai Holdings Limited (the "Company"), in connection with the proposed acquisition of an additional 10% of the issued shares of On Time International Limited (the "Transaction") not yet held by Fortune Investment Overseas Limited, a wholly-owned subsidiary of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 125 to 129 of the Circular.

Respective responsibilities of the directors of the Company and the Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted statement of assets and liabilities of the Group as at 31 December 2006 with the consolidated balance sheet of the Group as at 31 December 2006 as set out in the published annual report of the Group for the year ended 31 December 2006, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 May 2007

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of Directors in the Company and its associated corporations

(a) As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares

Name of Director	Capacity	Number of shares	Approximate percentage of interest in Company
Tan Siu Lin	Trustee *(Note 1)*	675,998,000	68.11%
Tan Henry	Beneficiary of trust *(Notes 2 and 3)*	614,250,000	61.89%
	Beneficial owner *(Notes 7 and 8)*	650,000	0.07%
Tan Willie	Beneficiary of trust *(Notes 2 and 4)*	614,250,000	61.89%
	Beneficial owner *(Notes 7 and 9)*	1,100,000	0.11%
Tan Cho Lung, Raymond	Beneficiary of trust *(Notes 2 and 5)*	614,250,000	61.89%
	Beneficial owner *(Notes 7, 8 and 10)*	650,000	0.07%

Name of Director	Capacity	Number of shares	Approximate percentage of interest in Company
Mok Siu Wan, Anne	Beneficial owner *(Notes 7 and 8)*	1,450,000	0.15%
Tan Sunny	Beneficiary of Trust *(Notes 2 and 6)*	614,250,000	61.89%
	Beneficial owner *(Notes 7, 8 and 11)*	1,172,000	0.12%

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 and Helmsley Enterprises Limited ("Helmsley") held in the Company, representing approximately 68.11% of the issued share capital of the Company as at the date of this Circular.

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 the WR5C Trust in the Company.

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

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

7. Each of Mr. Tan Henry, Mr. Tan Willie, Mr. Tan Cho Lung, Raymond, Ms, Mok Siu Wan, Anne and Mr. Tan Sunny is a grantee of the respective share options granted by the Company on 28 December 2004 and 26 January 2006 respectively.

8. Each of Mr. Tan Henry, Mr. Tan Cho Lung, Raymond, Ms. Mok Siu Wan, Anne and Mr. Tan Sunny is a grantee of the share options granted by the Company on 10 November 2006.

9. A total of 600,000 shares of the Company were purchased by an associate of Mr. Tan Willie between 2005 and 2006. He is therefore deemed under Part XV of the SFO to be interested in all of the 600,000 shares acquired by his associate.

10. A total of 200,000 shares of the Company were acquired by an associate of Mr. Tan Cho Lung, Raymond in August 2006. He is therefore deemed under Part XV of the SFO to be interested in all of the 200,000 shares acquired by his associate.

11. Mr. Tan Sunny acquired a total of 322,000 shares of the Company in 2006.

Long positions in the shares of associated corporations of the Company (as defined in the SFO)

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate percentage of attributable interest in corporation
Tan Siu Lin	Helmsley *(Note 1)*	Trustee *(Note 4)*	5,000	100%
	Capital Glory Limited *(Note 2)*	Trustee *(Note 4)*	1	100%
	Justintime Development Limited *(Note 3)*	Trustee *(Note 4)*	1	100%
	Tripletrio International Limited *(Note 3)*	Trustee *(Note 4)*	42,500	100%
	Newtex International Limited *(Note 3)*	Trustee *(Note 4)*	2	100%
	Torpedo Management Limited *(Note 3)*	Trustee *(Note 4)*	1	100%
	Integrated Solutions Technology Inc. *(a Cayman Islands corporation)* *(Note 3)*	Trustee *(Note 4)*	1	100%
	Eldex Del Golfo, SA de CV *(Note 3)*	Trustee *(Note 4)*	11,819	100%
	Servicios Textiles Mexicanos, SA *(Note 3)*	Trustee *(Note 4)*	50	100%
	Hanium Industries Limited *(Note 3)*	Trustee *(Note 4)*	1	100%
	Integrated Solutions Technology Inc. *(a HK corporation)* *(Note 3)*	Trustee *(Note 4)*	2	100%
	Integrated Solutions Technology Inc. *(a BVI corporation)* *(Note 3)*	Trustee *(Note 4)*	1	100%
	Integrated Solutions Technology Inc. *(a Philippines corporation)* *(Note 3)*	Trustee *(Note 4)*	1	100%

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate percentage of attributable interest in corporation
Tan Henry	Helmsley *(Note 1)*	Beneficiary of trust *(Note 5)*	5,000	100%
	Capital Glory Limited *(Note 2)*	Beneficiary of trust *(Note 5)*	1	100%
	Justintime Development Limited *(Note 3)*	Beneficiary of trust *(Note 5)*	1	100%
	Tripletrio International Limited *(Note 3)*	Beneficiary of trust *(Note 5)*	42,500	100%
	Newtex International Limited *(Note 3)*	Beneficiary of trust *(Note 5)*	2	100%
	Torpedo Management Limited *(Note 3)*	Beneficiary of trust *(Note 5)*	1	100%
	Integrated Solutions Technology Inc. *(a Cayman Islands corporation)* *(Note 3)*	Beneficiary of trust *(Note 5)*	1	100%
	Eldex Del Golfo, SA de CV *(Note 3)*	Beneficiary of trust *(Note 5)*	11,819	100%
	Servicios Textiles Mexicanos, SA *(Note 3)*	Beneficiary of trust *(Note 5)*	50	100%
	Hanium Industries Limited *(Note 3)*	Beneficiary of trust *(Note 5)*	1	100%
	Integrated Solutions Technology Inc. *(a HK corporation)* *(Note 3)*	Beneficiary of trust *(Note 5)*	2	100%
	Integrated Solutions Technology Inc. *(a BVI corporation)* *(Note 3)*	Beneficiary of trust *(Note 5)*	1	100%
	Integrated Solutions Technology Inc. *(a Philippines corporation)* *(Note 3)*	Beneficiary of trust *(Note 5)*	1	100%

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate percentage of attributable interest in corporation
Tan Willie	Helmsley *(Note 1)*	Beneficiary of trust *(Note 6)*	5,000	100%
	Capital Glory Limited *(Note 2)*	Beneficiary of trust *(Note 6)*	1	100%
	Justintime Development Limited *(Note 3)*	Beneficiary of trust *(Note 6)*	1	100%
	Tripletrio International Limited *(Note 3)*	Beneficiary of trust *(Note 6)*	42,500	100%
	Newtex International Limited *(Note 3)*	Beneficiary of trust *(Note 6)*	2	100%
	Torpedo Management Limited *(Note 3)*	Beneficiary of trust *(Note 6)*	1	100%
	Integrated Solutions Technology Inc. *(a Cayman Islands corporation)* *(Note 3)*	Beneficiary of trust *(Note 6)*	1	100%
	Eldex Del Golfo, SA de CV *(Note 3)*	Beneficiary of trust *(Note 6)*	11,819	100%
	Servicios Textiles Mexicanos, SA *(Note 3)*	Beneficiary of trust *(Note 6)*	50	100%
	Hanium Industries Limited *(Note 3)*	Beneficiary of trust *(Note 6)*	1	100%
	Integrated Solutions Technology Inc. *(a HK corporation)* *(Note 3)*	Beneficiary of trust *(Note 6)*	2	100%
	Integrated Solutions Technology Inc. *(a BVI corporation)* *(Note 3)*	Beneficiary of trust *(Note 6)*	1	100%
	Integrated Solutions Technology Inc. *(a Philippines corporation)* *(Note 3)*	Beneficiary of trust *(Note 6)*	1	100%

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate percentage of attributable interest in corporation
Tan Cho Lung, Raymond	Helmsley *(Note 1)*	Beneficiary of trust *(Note 7)*	5,000	100%
	Capital Glory Limited *(Note 2)*	Beneficiary of trust *(Note 7)*	1	100%
	Justintime Development Limited *(Note 3)*	Beneficiary of trust *(Note 7)*	1	100%
	Tripletrio International Limited *(Note 3)*	Beneficiary of trust *(Note 7)*	42,500	100%
	Newtex International Limited *(Note 3)*	Beneficiary of trust *(Note 7)*	2	100%
	Torpedo Management Limited *(Note 3)*	Beneficiary of trust *(Note 7)*	1	100%
	Integrated Solutions Technology Inc. *(a Cayman Islands corporation)* *(Note 3)*	Beneficiary of trust *(Note 7)*	1	100%
	Eldex Del Golfo, SA de CV *(Note 3)*	Beneficiary of trust *(Note 7)*	11,819	100%
	Servicios Textiles Mexicanos, SA *(Note 3)*	Beneficiary of trust *(Note 7)*	50	100%
	Hanium Industries Limited *(Note 3)*	Beneficiary of trust *(Note 7)*	1	100%
	Integrated Solutions Technology Inc. *(a HK corporation)* *(Note 3)*	Beneficiary of trust *(Note 7)*	2	100%
	Integrated Solutions Technology Inc. *(a BVI corporation)* *(Note 3)*	Beneficiary of trust *(Note 7)*	1	100%
	Integrated Solutions Technology Inc. *(a Philippines corporation)* *(Note 3)*	Beneficiary of trust *(Note 7)*	1	100%

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate percentage of attributable interest in corporation
Tan Sunny	Helmsley *(Note 1)*	Beneficiary of trust *(Note 8)*	5,000	100%
	Capital Glory Limited *(Note 2)*	Beneficiary of trust *(Note 8)*	1	100%
	Justintime Development Limited *(Note 3)*	Beneficiary of trust *(Note 8)*	1	100%
	Tripletrio International Limited *(Note 3)*	Beneficiary of trust *(Note 8)*	42,500	100%
	Newtex International Limited *(Note 3)*	Beneficiary of trust *(Note 8)*	2	100%
	Torpedo Management Limited *(Note 3)*	Beneficiary of trust *(Note 8)*	1	100%
	Integrated Solutions Technology Inc. *(a Cayman Islands corporation)* *(Note 3)*	Beneficiary of trust *(Note 8)*	1	100%
	Eldex Del Golfo, SA de CV *(Note 3)*	Beneficiary of trust *(Note 8)*	11,819	100%
	Servicios Textiles Mexicanos, SA *(Note 3)*	Beneficiary of trust *(Note 8)*	50	100%
	Hanium Industries Limited *(Note 3)*	Beneficiary of trust *(Note 8)*	1	100%
	Integrated Solutions Technology Inc. *(a HK corporation)* *(Note 3)*	Beneficiary of trust *(Note 8)*	2	100%
	Integrated Solutions Technology Inc. *(a BVI corporation)* *(Note 3)*	Beneficiary of trust *(Note 8)*	1	100%
	Integrated Solutions Technology Inc. *(a Philippines corporation)* *(Note 3)*	Beneficiary of trust *(Note 8)*	1	100%

Notes:

1. Helmsley is the holding company of Capital Glory Limited, which is, in turn, the holding company of the Company. Helmsley is therefore an associated corporation of the Company as defined under Part XV of the SFO.

2. Capital Glory Limited is the holding company of the Company. It is therefore an associated corporation of the Company.

3. This is a subsidiary of Helmsley. It is therefore an associated corporation of the Company.

4. Mr. Tan Siu Lin is the settlor and trustee of each of 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 interests of the Trusts in each of Helmsley and its subsidiaries respectively.

5. Mr. Tan Henry is one of the beneficiaries of the HJ Trust, which is a revocable discretionary trust. By virtue of the shareholders' agreement dated 12 June, 2004 (as described above), he is therefore deemed under Part XV of the SFO to be interested in the aggregate interests of the Trusts in each of Helmsley and its subsidiaries respectively.

6. Mr. Tan Willie is one of the beneficiaries of the WR5C Trust, which is a revocable discretionary trust. By virtue of the shareholders' agreement dated 12 June, 2004 (as described above), he is therefore deemed under Part XV of the SFO to be interested in the aggregate interests of the Trusts in each of Helmsley and its subsidiaries respectively.

7. Mr. Tan Cho Lung, Raymond is one of the beneficiaries of the RC Trust, which is a revocable discretionary trust. By virtue of the shareholders' agreement dated 12 June, 2004 (as described above), he is therefore deemed under Part XV of the SFO to be interested in the aggregate interests of the Trusts in each of Helmsley and its subsidiaries respectively.

8. Mr. Tan Sunny is one of the beneficiaries of the ST Trust, which is a revocable discretionary trust. By virtue of the shareholders' agreement dated 12 June, 2004 (as described above), he is deemed under Part XV of the SFO to be interested in the aggregate interests of the Trusts in each of Helmsley and its subsidiaries respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and Stock Exchange.

(b) As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group which was not terminable by the employer within one year without payment of compensation other than statutory compensation.

(ii) Interests of Substantial Shareholders

(a) As at the Latest Practicable Date, so far as was known to the Directors, the following persons, not being Directors or chief executive of the Company had, or were deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or held any option in respect of such capital:

Name	Capacity	Number of shares	Approximate percentage of shareholding
Capital Glory Limited *(Notes 1 and 4)*	Beneficial owner	614,250,000	61.89%
Helmsley *(Notes 1 and 4)*	Interest of controlled corporation	614,250,000	61.89%
Tan Family Trust of 2004 *(Notes 2 and 3)*	Interest of controlled corporation	675,998,000	68.11%
Trusts (other than the Tan Family Trust of 2004) *(Note 3)*	Interest of controlled corporation	614,250,000	61.89%

Notes:

1. Capital Glory Limited is a wholly-owned subsidiary of Helmsley. Helmsley is therefore deemed to be interested in the interests of Capital Glory Limited held in the Company.

2. 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.

3. Pursuant to a shareholders' agreement dated 12 June, 2004 and entered into between Mr. Tan Siu Lin as trustee for each of the Trusts and Helmsley, each of the Trusts has agreed to enter into a pre-emptive arrangement 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 shareholding of Helmsley in the Company, representing 61.89% of the issued share capital of the Company as at the date of this Circular.

4. Both of Mr. Tan Siu Lin and Mr. Henry Tan are directors in each of Capital Glory Limited and Helmsley Enterprises Limited.

(b) Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person, other than the Directors and the chief executive of the Company, who had, or was deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or held any option in respect of such capital.

3. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or any of their respective associates had a controlling interest in a business which causes or may cause any significant direct or indirect competition with the business of the Group or any significant conflicts with the interests of the Group, save for Kardon International Worldwide Limited as disclosed in the section headed "Relationship with controlling shareholder" in the Company's prospectus dated 30 June 2004.

There are no contracts or arrangements subsisting as at the Latest Practicable Date in which a Director is materially interested or which is significant in relation to the business of the Group.

As at the Latest Practicable Date, no Director has any interest, direct or indirect, in any assets which have been, since 31 December 2006, acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to any member of the Group.

4. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within two years preceding the date of this Circular which are or may be material:–

(a) the Sale and Purchase Agreement;

(b) the Option Agreement; and

(c) the Second Option Agreement, details of which have been set out in the announcement of the Company dated 16 March 2006; and

(d) a sales and purchase agreement dated 3 May 2005 in relation to the acquisition of 71% equity interest of Partner Joy Group Limited, details of which have been set out in the announcement of the Company on 4 May 2005 and the corresponding circular issued on 25 May 2005.

5. SERVICE CONTRACT

Pursuant to the letter of appointment from the Company to each of Mr. Seing Nea Yie, Mr. Chan Henry and Mr. Cheung Siu Kee dated 27 January 2005, 4 April 2007 and 4 April 2007 respectively, the appointment or re-appointment (as the case may be) of each of these independent non-executive Directors was for a term of three years commencing from 28 January 2005, 16 April 2007 and 16 April 2007 respectively. Each of these independent non-executive Directors shall be entitled to an annual fee of HK$120,000 with effect from 1 January 2007.

The directorship of Mr. Tan Willie was re-designated from an executive Director to a non-executive Director on 26 May 2006 with an annual salary of US$150,000 pursuant to a service agreement dated 26 May 2006.

Save as disclosed in this Circular, Appendix VI to the Company's prospectus dated 30 June 2004 (the "Prospectus") and the renewal of the executive Directors' existing service agreements, details of which are disclosed in the Prospectus, upon their respective expiration, the Company has not entered into any service agreements of directors as at the date of this Circular.

6. LITIGATION

As at the Latest Practicable Date, the Group was 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.

7. PROCEDURE FOR DEMANDING A POLL

Under Article 66 of the Company's articles of association, at any general meeting on a show of hands every shareholder present in person (or being a corporation, is present by a duly authorized representative), or by proxy shall have one vote and on a poll every shareholder present in person or by proxy or, in the case of a shareholder being a corporation, by its duly authorized representative shall have one vote per every fully paid share of which he is the holder.

A resolution put to the vote shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(i) by the chairman of such meeting; or

(ii) by at least three shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by a shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at such meeting; or

(iv) by a shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

As noted above, the resolution to be proposed will, in any event, be taken on a poll as required under the Listing Rules.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

(a) The following are the qualifications of the experts who have given opinions or advice contained in this Circular:

Name	Qualification
Quam Capital Limited	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
PricewaterhouseCoopers	Certified public accountants

(b) As at the Latest Practicable Date, Quam Capital Limited and PricewaterhouseCoopers have no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member in the Group.

(c) Each of Quam Capital Limited and PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter and references to its name in the form and context in which they appear respectively.

(d) As at the Latest Practicable Date, none of Quam Capital Limited and PricewaterhouseCoopers have any interest, direct or indirect, in any assets which have been, since 31 December 2006, acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

9. MISCELLANEOUS

(a) The registered head office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-111, Cayman Islands.

(b) The principal share registrar and transfer office of the Company is Bank of Bermuda (Cayman) Limited at P.O. Box 513 G.T., Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands.

(c) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Mr. Chiu Chi Cheung, *Associate Member of The Hong Kong Institute of Certified Public Accountants*.

(e) The qualified accountant of the Company is Mr. Chiu Chi Cheung, *Associate Member of The Hong Kong Institute of Certified Public Accountants*.

(f) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 5/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong for a period of 14 days (except public holidays) from the date of this Circular:

(a) the letter from the Board, the text of which is set out on pages 4 to 16 of this Circular;

(b) the letter from the Independent Board Committee, the text of which is set out on page 17 of this Circular;

(c) the letter from Quam Capital Limited, the Independent Financial Adviser, the text of which is set out on pages 18 to 25 of this Circular;

(d) the written consents referred to in the paragraph headed "Qualifications and Consents of Experts" in this Appendix;

(e) the accountants' report on the Acquired Group, the text of which is set out in Appendix II;

(f) the report on the Unaudited Pro Forma Financial Information of the Enlarged Group, the text of which is set out in Appendix III;

(g) the memorandum and articles of association of the Company;

(h) the annual reports of the Company for the years ended 31 December 2006, 31 December 2005 and 31 December 2004;

(i) the interim report of the Company for the six months ended 30 June 2006;

(j) the material contracts referred to in paragraph 4 above;

(k) this Circular;

(l) the appointment letter of each of Mr. Henry Chan and Mr. Cheung Siu Kee;

(m) any contracts referred to in this Circular; and

(n) the following documents issued by the Company pursuant to the requirements set out under Chapter 14 and/or 14A of the Listing Rules since 31 December 2006 being the date of which the latest published audited consolidated financial statements of the Group were made up:

(i) a profit warning dated 22 January 2007 informing, inter alia, the Shareholders and investors that the Group's results for the year ended 31 December 2006 are expected to be unfavourable; and

(ii) an announcement dated 30 April 2007 in relation to delay in despatch of this Circular to the Shareholders.